

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Profile of Kerala

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area wise, Kerala is ranked 21st in the country with an area of 38,863 sq.km. The State has a population of 3.34 crore (12th in the country) and it is ranked as the third most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was five *per cent* (3.18 crore in 2001 to 3.34 crore in 2011), which is the lowest rate among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian states. Gross State Domestic Product (GSDP) in 2015-16 of the State at current prices was ₹5,85,467 crore. The per capita income (2015-16) of the State at current prices stands at ₹1,64,462. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognized final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trends in the annual growth of India's GDP at current prices are indicated below:

Table 1.1: Trends in annual growth of GDP and GSDP (at current prices)

Particulars	2011-12*	2012-13*	2013-14*	2014-15*	2015-16**
India's GDP (₹ in crore)	87,36,039	99,51,344	1,12,72,764	1,24,88,205	1,35,76,086
Growth rate of GDP (percentage)	..@	13.91	13.28	10.78	8.71
State's GSDP (₹ in crore)	3,64,048	4,12,313	4,62,916	5,19,896	5,85,467
Growth rate of GSDP (percentage)	..@	13.26	12.27	12.31	12.61

Source : Figures furnished by Economics and Statistics Department, Government of Kerala

*Consequent on the revision of the base year from 2004-05 to 2011-12 with effect from the current

financial year, the GDP and GSDP figures for the years 2011-12 to 2014-15 have been revised.

**GDP and GSDP figures for the year 2015-16 are also with reference to the base year 2011-12.

@Growth rate of GDP and GSDP not indicated, since comparison with the year 2010-11 could not be made as the base year has been revised to 2011-12.

Growth rate of GSDP had shown marginal increase during the last three years, but it was less than the growth rate shown in 2012-13

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the fiscal position of the Government of Kerala as on 31 March 2016. It

provides a broad perspective of the finances of the State during 2015-16 along with analysis of the critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government Accounts have been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is shown in **Appendix 1.2 Part B**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.3 Part A**. As per the Kerala Fiscal Responsibility Act, 2003 the State Government has to present a Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan, along with the budget document. The Medium Term Fiscal Plan for 2015-16 to 2017-18 was presented in the State Legislature in March 2015. It is included as **Appendix 1.3 Part B** of this report.

1.1.1 Summary of Fiscal Transactions during the current year

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2015-16) vis-à-vis the previous year (2014-15). **Appendix 1.4 (Part A and Part B)** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of fiscal operations in 2015-16

(₹ in crore)

Receipts	2014-15	2015-16	Disbursements	2014-15	2015-16		
					Non-plan	Plan	Total
Section –A:Revenue							
Revenue Receipts	57950.47	69032.66	Revenue Expenditure	71746.43	66610.98	12078.49	78689.47
Tax Revenue	35232.50	38995.15	General Services	31432.75	35967.70	116.98	36084.68
Non-tax Revenue	7283.69	8425.49	Social Services	23718.11	20011.73	7591.56	27603.29
Share of Union Taxes/Duties	7926.29	12690.67	Economic Services	10197.57	6728.47	4369.95	11098.42
Grants from Government of India	7507.99	8921.35	Grants-in-aid and Contribution	6398.00	3903.08		3903.08
Section-B : Capital and Others							
Miscellaneous Capital Receipts	28.17	28.08	Capital Outlay	4254.59	981.56	6518.48	7500.04
Recoveries of Loans and Advances	123.74	152.63	Loans and Advances Disbursed	743.09	434.64	407.61	842.25
Public Debt Receipts	18509.17	19658.74	Repayment of Public Debt	5842.77			6060.73
Contingency Fund	67.39	0.00	Contingency Fund
Public Account Receipts	141521.71	168623.44	Public Account Disbursements	136242.59			162824.67
Opening Cash Balance	2279.82	1651.00	Closing Cash Balance	1651.00			3229.39
Total	220480.47	259146.55	Total	220480.47			259146.55

Source : Finance Accounts for 2014-15 and 2015-16

Following are the significant changes noticed during 2015-16 compared to the previous year.

- Revenue receipt of the State increased by ₹11082.19 crore (increase of 19.12 *per cent* over the previous year), mainly due to the increase in State's share of union taxes and duties (₹4,764.38 crore) and State's own tax revenue (₹3,762.65 crore).
- Revenue expenditure of the State recorded an increase of ₹6,943.04 crore (increase of 9.68 *per cent* over the previous year), mainly due to the increase in expenditure on General Services by ₹4,651.93 crore and Social Services by ₹3885.18 crore. This increase was partly offset by the decrease in expenditure on Grant-in-aid and Contributions to Panchayati Raj Institutions by ₹2,494.92 crore.
- Substantial increase of 76.28 *per cent* was noticed in capital expenditure of the State, which increased from ₹4,254.59 crore in 2014-15 to ₹7,500.04 crore in 2015-16.
- Cash balance position of the State also improved from ₹1,651 crore at the end of 2014-15 to ₹3,229.39 crore at the end of 2015-16.

1.1.2 Accuracy of estimation in Budget documents

The estimated statement of receipts and expenditure for a financial year mentioned in the Constitution as the 'Annual Financial Statement', commonly known as 'Budget', is prepared according to Article 202 of the Constitution of India and placed before the State Legislature by the Government. The budget is Government's most important economic policy tool, that translates Government's policies, commitments, goals into decisions on plans to raise the estimated revenue and how to use these funds to meet the State's competing needs. A budget system that functions well is crucial in developing sustainable fiscal policies and economic growth.

Comparison of State's budget estimates vis-à-vis actuals for the year 2015-16 is detailed in **Table 1.3**.

Table 1.3: Budget estimates and actuals for 2015-16

(₹ in crore)

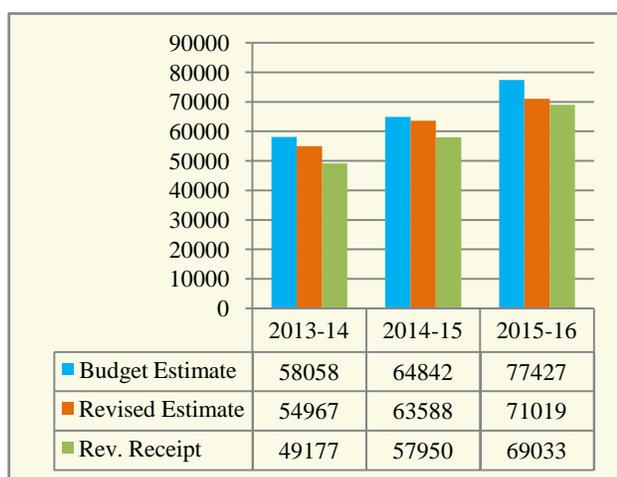
Particulars	Budget Estimate	Revised Estimate	Actual
Revenue Receipts	77427.20	71019.72	69032.66
Revenue Expenditure	85259.12	81834.21	78689.47
Revenue Deficit	7831.92	10814.49	9656.81
Capital Expenditure	9220.16	6206.21	7500.04
Loans and Advances (Net)	673.19	724.44	689.62
Public Debt (Net)	16509.49	14874.49	13598.01
Public Account (Net)	1207.06	2740.95	5798.77

Source : Budget in brief for 2016-17 and Finance Accounts for 2015-16

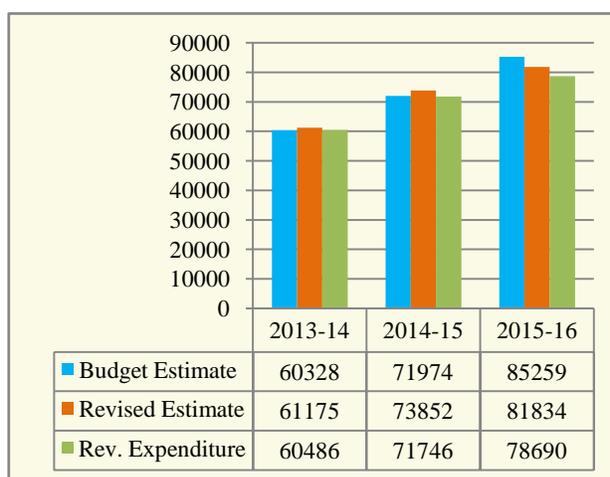
The revised estimation needs to be more accurate than the original budget estimation as it was done after analysing the receipts and expenditure of the first six months of the financial year. Though, there was variation in respect of actual revenue receipts and revenue expenditure (of about ₹2,000 crore and ₹3,000 crore respectively) against revised estimate, this variation was less than five *per cent*. However, variations in capital expenditure and net accretions in the Public Account with respect to the revised estimate were more than 20 *per cent* and 112 *per cent* respectively. The comparison of last three years budget estimate, revised estimate, actuals in respect of revenue receipt and revenue expenditure is given in **Chart 1.1**.

Chart 1.1 : Comparison of budget estimates and actuals

Revenue Receipts (₹ in crore)



Revenue Expenditure (₹ in crore)



1.1.3 Status of new schemes announced in the budget speech

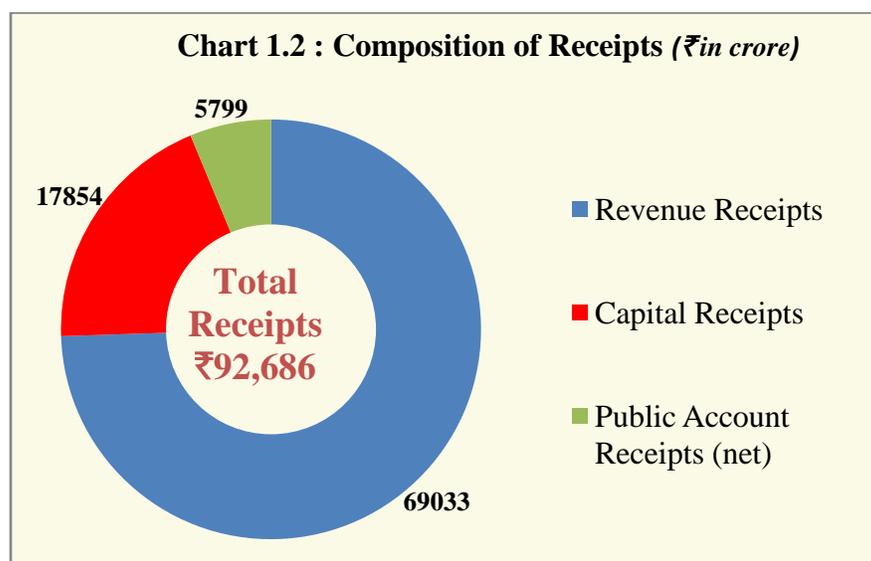
While presenting the budget, 82 new schemes were announced for implementation during the year 2015-16. However, budget allocations were made in 41 schemes and ₹1190.71 crore were incurred on the implementation of 23 schemes. Thus, majority of the schemes (59 schemes) announced in the budget speech remained in paper only at the end of the year.

1.2 Resources of the State

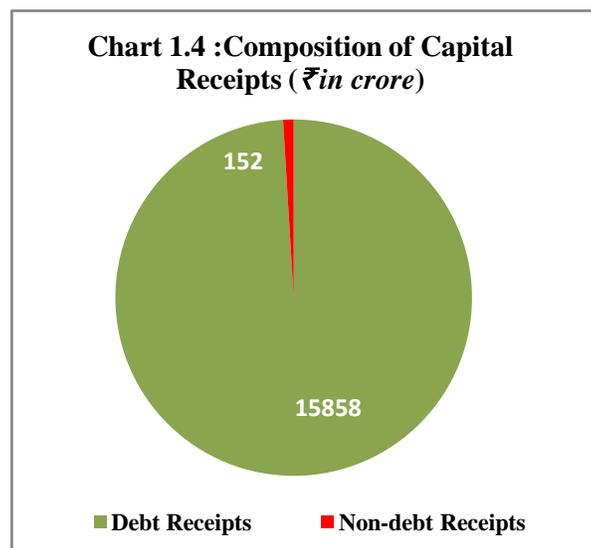
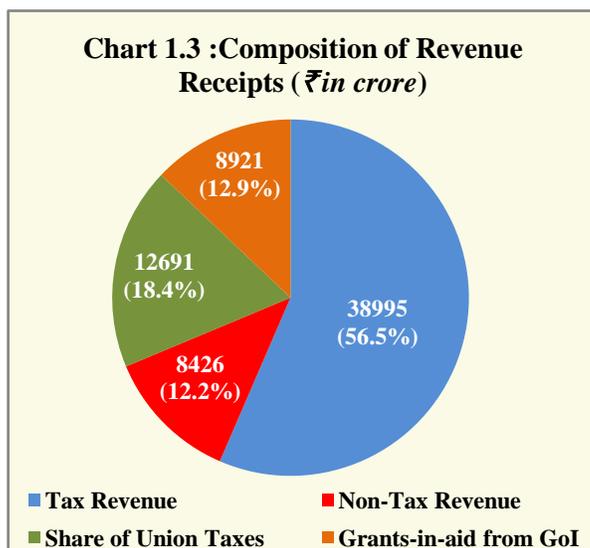
1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise of miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from other financial institutions/commercial banks) and loans and advances from GoI. The funds

available in the Public Accounts after disbursement are also utilised by the Government to finance its deficit. **Charts 1.2, 1.3 and 1.4** depict the composition of resources of the State during the current year.



Note: Under Capital Receipts, transactions under ‘Ways and Means advances’ was excluded and under Public Accounts only net receipts was considered.



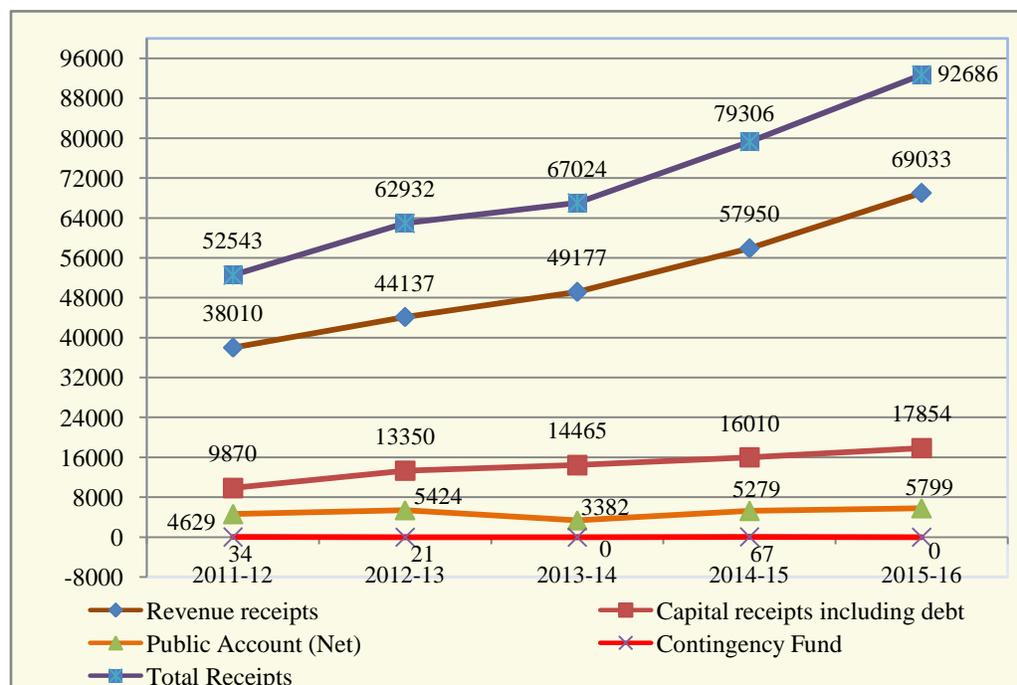
Capital Receipts of the State includes Debt Receipts and Non-debt receipts. Debt receipts consists of loans raised by the State from various sources (open market sources and financial institutions) and loans received from Government of India. Non-Debt receipts are receipts from Capital receipts (disinvestment of shares) and recovery of Loans and Advances disbursed by the State Government.

Total receipts¹ of the State Government increased from ₹52,543 crore in 2011-12

¹ Consists of Revenue receipts, Capital receipts (including Debt receipts but excluding Ways and Means advances) and Public Account receipts.

to ₹92,686 crore in 2015-16, showing an increase of 76.4 per cent during the last five years. Trend in total receipts and its components during the last five years is given in **Chart 1.5**.

Chart 1.5: Trends in total receipts during the last five years(₹ in crore)



1.2.2 Receipt and utilisation of GoI flagship programmes

State level implementing agencies are implementing flagship programmes of Government of India and sizeable amounts are passed on to them through State budget. Details of Central funds received and passed on to the implementing agencies along with the State shares during 2015-16 are given in **Appendix 1.6**. An amount of ₹3,450.16 crore (GoI share: ₹2,606.61 crore and State share: ₹843.55 crore) was released to the implementing agencies for 12 flagship programmes of GoI and at the end of March 2016 an amount of ₹677.86 crore remained unutilised with these agencies. The major portion of the unutilised balance belongs to Indira Awas Yojana (₹234.80 crore), Mahatma Gandhi National Rural Employment Guarantee Scheme (₹131.58 crore) and Sarva Shiksha Abhiyan (₹112.92 crore).

1.3 Revenue Receipts

Statement No. 14 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, share of central tax transfers and grants-in-aid from GoI.

During the last five years (2011-2016) revenue receipts of the State increased

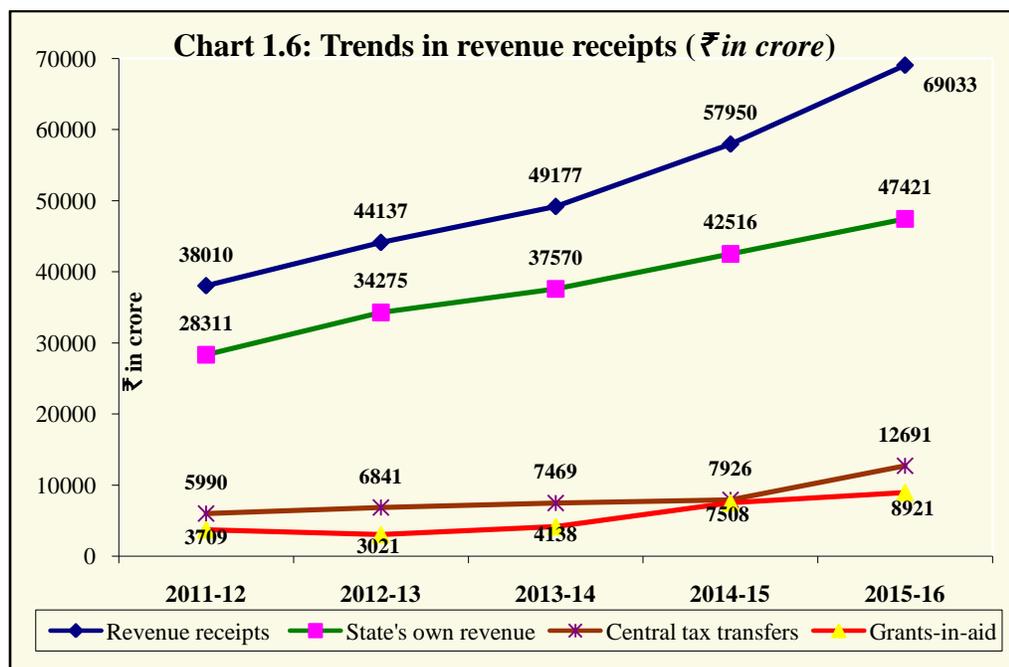
from ₹38,010 crore in 2011-12 to ₹69,033 crore in 2015-16, recording a growth of 82 per cent. Over these years State's own receipts (tax and non-tax) was the major component of the revenue receipts, but there was steady decline in its share in revenue receipts during the last four years from 78 per cent in 2012-13 to 69 per cent in 2015-16. This was mainly due to increase in the share of other components like central tax receipts and grants-in-aid from GoI and also due to reduced growth rate of State's own tax revenue, compared to the growth rate of revenue receipts. Share of own tax receipt in revenue receipt also showed decreasing trend during the last five years, decreasing from 68 per cent in 2011-12 to 57 per cent in 2015-16 (Table 1.5). The trend of revenue receipts over the period 2011-2016 is presented in Appendix 1.5 and also depicted in Chart 1.6.

As per Medium Term Fiscal Plan (MTFP) (Appendix 1.3 Part B), projected revenue receipts of the State during 2015-16 was ₹77,427 crore but the actual realisation was ₹69,033 crore. Variations in components of revenue receipts are shown in the table below;

Table 1.4 : Comparison of MTFP projections with amount realised
(₹ in crore)

Components	Own Tax Revenue	Non-tax Revenue	Resources from GoI
MTFP projection	45428	8931	23068
Amount realised	38995	8426	21612

Table 1.4 shows that major shortfall occurred in the realisation of State's own taxes.



Compounded annual growth rate of the State for the two periods, i.e. 2006-07 to 2014-15 and 2014-15 to 2015-16 in respect of revenue receipts was compared with General Category States and it was observed that in both periods State's average was better than that of General Category States. (Details are given in **Appendix 1.1**)

The trends in revenue receipts relative to GSDP are presented in **Table 1.5**.

Table 1.5: Trends in revenue receipts relative to GSDP during 2011-2016

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Receipts (RR) (<i>₹ in crore</i>)	38,010	44,137	49,177	57,950	69,033
Rate of growth of RR (<i>per cent</i>)	22.65	16.12	11.42	17.84	19.13
State's own tax revenue (<i>₹ in crore</i>)	25,719	30,077	31,995	35,232	38,995
Rate of growth of own tax revenue (<i>per cent</i>)	18.40	16.94	6.38	10.12	10.68
Percentage of own tax revenue in RR	68	68	65	61	57
RR/GSDP (<i>per cent</i>) *	10.44	10.70	10.62	11.15	11.79
Revenue buoyancy w.r.t GSDP*	0.60	1.22	0.93	1.45	1.52
State's Own Tax Buoyancy w.r.t GSDP*	0.48	1.28	0.52	0.82	0.85

Source : Finance Accounts and information furnished by the Economics and Statistics Department, Government of Kerala

*Change in ratio with respect to the previous Report was due to adoption of revised GSDP figures

- The above table shows that the State had better growth in revenue receipts (19.13 *per cent*) and in State's own taxes (10.68 *per cent*) when compared with the previous year. Also, an increasing trend in growth rate of revenue receipts and tax revenue was noticed during the last three years.
- Revenue receipts to GSDP ratio showed an increasing trend during the last three years, indicating consistent growth of revenue receipt with respect to GSDP.
- Buoyancy of revenue receipts with respect to GSDP indicates the growth of revenue receipts with respect to growth of GSDP. During the last two years buoyancy was more than one, indicating better growth rate of State's revenue receipts compared to the growth rate of GSDP. However, buoyancy ratio of State's own tax with respect to GSDP was less than one during the last three years, which indicated reduced growth of State's own tax compared to the growth of GSDP. However, an improving trend was noticed during the last two years.

1.3.1 Own resources of the State

As the State's share in central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in

mobilisation of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

Taxes collected and grants-in-aid received from GoI during the last five years are given in **Table 1.6**:

Table 1.6: Resources of the State during last five years

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Tax Revenue	25719	30077	31995	35232	38995
Non-tax Revenue	2592	4198	5575	7284	8426
Share of Union taxes /Duties	5990	6841	7469	7926	12691
Grants-in-aid from Government of India	3709	3021	4138	7508	8921
Total Revenue Receipts	38010	44137	49177	57950	69033

Source : Finance Accounts of respective years

The State's non-tax revenue receipts and grants-in-aid from GoI have increased substantially during the last five years. Increase in non-tax revenue was due to increase in receipts under State Lotteries during the last five years. Though, the tax revenue was the main source of revenue of the State, its increase was only 52 per cent as against an increase of 82 per cent in revenue receipts during the last five years.

1.3.1.1 Tax Revenue

The State's own tax revenue increased from ₹35,232 crore in 2014-15 to ₹38,995 crore in 2015-16. Marginal increase in its growth rate (10.7 per cent) was noticed during 2015-16, compared to the growth rate (10.1 per cent) shown in 2014-15. Various components of State's own tax revenue are given in **Table 1.7**.

Table 1.7: Components of own tax revenue

(₹ in crore)

Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16
Taxes on Sales, Trade etc.	18939	22511	24885	27908	30737
Stamps and Registration fees	2987	2938	2593	2659	2878
State Excise	1883	2314	1942	1777	1964
Taxes on Vehicles	1587	1925	2161	2365	2814
Land Revenue	61	122	89	139	182
Taxes on Agricultural income	43	19	22	9	2
Other Taxes	219	248	303	375	418
Total	25719	30077	31995	35232	38995

Source : Finance Accounts of respective years

Compared to 2014-15, all the major tax revenue sources of the State increased during 2015-16. As in the previous year, 'Taxes on Sales, Trade etc.' was the single largest source of the State's own tax revenue and it increased by ₹2,829

crore during 2015-16. This increase was mainly under 'Value Added Tax (VAT) Receipts' (₹1526 crore) and 'Receipts under the State Sales Tax Act' (₹1467 crore).

Tax revenue under 'Taxes on Vehicles' also recorded an increase of ₹449 crore during 2015-16 and this was under 'Receipts under the State Motor Vehicles Taxation Act' (₹246 crore), 'Other Receipts (₹175 crore) and 'Receipts under Indian Motor Vehicles Act' (₹28 crore)

1.3.1.2 Non-tax Revenue

Receipts under 'State Lotteries' has been the major source (74 per cent) of non-tax revenue of the State for the last five years and an increase of 389 per cent was noticed during 2011-2016. Major sources of non-tax revenue of the State are given in **Table 1.8**.

Table 1.8: Components of non-tax revenue

(₹ in crore)					
Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16
Interest receipts	136	172	149	102	105
Dividends and profits	67	48	101	74	90
State Lotteries	1283	2674	3796	5445	6271
Forestry and Wildlife	221	237	330	300	283
Other non-tax receipts	885	1067	1199	1363	1677
Total	2592	4198	5575	7284	8426

Source : Finance Accounts of respective years

Though the receipts under State Lotteries was ₹6,271 crore, an equally high expenditure of ₹5,123 crore on distribution of prizes, agent commission, etc. reduced the net yield to ₹1,148 crore during the year.

1.3.2 Grants-in-aid from Government of India

Grants-in-aid from the GoI increased by ₹1,413 crore (19 per cent) from ₹7,508 crore in 2014-15 to ₹8,921 crore in 2015-16 as detailed in **Table 1.9**.

Table 1.9: Status of Grants-in-aid received from Government of India

(₹ in crore)					
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Non-plan grants	1433	657	1679	1984	5178
Grants for State plan schemes	904	1163	1154	4929	3406
Grants for central plan schemes	74	60	87	158	170
Grants for Centrally sponsored schemes	1298	1141	1218	437	167
Total	3709	3021	4138	7508	8921

Source : Finance Accounts of respective years

Though the Grants-in-aid from GoI for 'Non-plan grants' increased from ₹1,984 crore to ₹5,178 crore, 'Grants for State plan schemes' reduced by ₹1,523 crore in

2015-16. This was mainly due to the reduced GoI assistance under Education, Health and Water supply programmes, compared to the previous year. Substantial increase (₹3,194 crore) under ‘Non-plan grants’ was on account of release of ₹4,640 crore as ‘Post Devolution Revenue Deficit Grant’ based on the recommendations of Fourteenth Finance Commission to the State Government. However, there was considerable reduction in release of grant-in-aid from GoI (as ‘Non-plan grants’) under ‘Grants under proviso to Article 275(1) of the Constitution’ based on the recommendations of Fourteenth Finance Commission. ‘Grants for Centrally sponsored plan schemes’ also decreased by ₹270 crore due to non-release of GoI grants for centrally sponsored plan scheme of Handloom Industries, Technical Education, Police, Social Security for unorganized, etc.

1.3.3 Grants-in-aid based on Finance Commission Award

State’s share in central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commissions. As per the recommendations of Thirteenth Finance Commission (ThFC) *inter se* shares of the State, on proceeds of Union Taxes was 2.34 *per cent* (2010-2015 period) and it was increased to 2.5 *per cent* in Fourteenth Finance Commission (FFC) recommendations. The first year of FFC award period was 2015-16 and variations in receipt of grant compared with the last year of Thirteenth Finance Commission award period is detailed in this section. Details of grants received, based on the recommendations of two Finance commissions are given in **Table 1.10**.

Table 1.10 : Comparison of ThFC and FFC award amounts

(₹ in crore)

Item of grant	Grant received as per ThFC award amount in 2014-15	Grant received as per FFC award amount in 2015-16	Increase/Decrease
Share of Union taxes and duties	7926.29	12690.67	4764.38
Basic Grant for LSGIs	447.39	392.71	-54.68
Performance Grant for LSGIs	319.32	0.00	-319.32
State specific needs	451.89	0.00	-451.89
State Disaster Response Fund	127.50	138.75	11.25
Grants for other programmes	347.67	0.00	-347.67
Post devolution Revenue deficit grant	0.00	4640.00	4640.00
Total	9620.06	17862.13	8242.07

There was a substantial increase of ₹8,242.07 crore in the overall Grant received during 2015-16, compared to the last year of ThFC (2014-15). This increase was mainly under share of union taxes and duties (₹4,764.38 crore) and post devolution revenue deficit grant (₹4,640 crore).

1.3.4 Efficiency in Tax collection

The average expenditure on tax collection in respect of four major revenue sources of the State compared with all India average, during the last five years, is given in **Appendix 1.7**. It shows that, during the period from 2012-13 to 2014-15, in respect of two revenue sources, viz. Tax on Sales, Trade, etc., and Taxes on vehicles the State had better average on the tax collection expenditure, compared to all India average. However, in respect of other two major revenue sources, viz. Stamps (Non-judicial) and Registration fees and State Excise, average tax collection expenditure of the State was much higher than the all India average in all the years from 2011-12 to 2014-15. Further, the gap between average expenditure of the State and all India average in respect of State Excise is widening.

1.4 Capital Receipts

Capital receipts comprise of Miscellaneous Capital Receipts, Recovery of Loans and Advances released to government institutions and Public Debt Receipts. Trends in receipts under capital sector are detailed in **Table 1.11**.

Table 1.11: Trends in growth and composition of capital receipts

(₹ in crore)

Sources of Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
Capital Receipts (CR)					
Miscellaneous Capital Receipts	16	15	19	28	28
Recovery of Loans and Advances	55	74	104	124	153
Public Debt Receipts²	9799	13261	14342	15858	17673
Internal Debt Receipts	9392	12709	13950	15106	17142
Loans and Advances from GoI	407	552	392	752	531
Total CR	9870	13350	14465	16010	17854
Rate of growth of debt capital receipts (per cent)	36.3	35.3	8.2	10.6	11.4
Rate of growth of CR (per cent)	36.0	35.3	8.4	10.7	11.5
Rate of Growth of GSDP(per cent) (*)	38.0	13.3	12.3	12.3	12.6
Buoyancy of Debt receipts w.r.t GSDP	1.0	2.7	0.7	0.9	0.9

Source : Finance Accounts of respective years

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

During the last three years capital receipts of the State Government increased steadily due to increase in Internal Debt receipts of the State Government and it was around 95 per cent of the capital receipts in all the last five years. However, during the last three years growth rate of debt receipts as well as capital receipts was less than the growth rate of GSDP which is a good indicator.

² Transactions under 'Ways and Means Advances' are excluded as they are not actual capital receipts.

1.4.1 Proceeds from disinvestment

As of March 2016, the State Government had invested ₹6,733.85 crore in Statutory Corporations, Government Companies, Joint Stock companies and Co-operatives and received ₹28.08 crore from retirement of capital/disinvestment of shares of co-operative societies/banks and accounted for under Miscellaneous Capital Receipts.

1.4.2 Recoveries of loans and advances

During the year, the State Government had released an amount of ₹842.25 crore as loans and advances to various institutions and an amount of ₹13,009.89 crore was outstanding under this head at the end of March 2016. Against this balance, principal amount recovered was ₹152.63 crore, which was only one *per cent* of the outstanding balance under loans and advances.

1.4.3 Public Debt receipts

Public Debt receipts of the State Government consist of funds raised from internal sources and loans and advances from GoI. As shown in **Table 1.11**, internal debt receipts was the main source of public debt receipts and it was around 95 *per cent* during the last five years. Internal Debt includes Open Market Borrowings, other borrowings from financial institutions like National Bank for Agriculture and Rural Development (NABARD), National Co-operative Development Corporation (NCDC), etc. and Special Securities issued to National Small Savings Fund (NSSF). Composition of Internal Debt during the last five years is given in **Table 1.12**.

Table 1.12: Composition of Internal Debt

(₹ in crore)

Sources of Internal Debt	2011-12	2012-13	2013-14	2014-15	2015-16
Open Market Borrowings	8880.00	11582.99	12800.00	13200.00	15000.00
NABARD	457.00	410.02	501.25	551.37	600.00
NCDC	0.00	0.00	0.00	222.16	39.13
NSSF	0.00	630.04	565.14	1132.10	1455.20
Others	54.81	85.84	83.85	0.00	47.25
Total	9391.81	12708.89	13950.24	15105.63	17141.58

During the last five years share of open market borrowings in internal debt varied between 87 *per cent* and 94 *per cent*. Also, State's open market borrowings increased from ₹8,880 crore to ₹15,000 crore, recording an increase of 69 *per cent* during the period. Consequently, internal debt steadily increased from ₹9,392 crore in 2011-12 to ₹17,142 crore in 2015-16.

During 2015-16, loans and advances from GoI decreased by ₹221 crore, compared to 2014-15. However, ₹50 crore availed (in 2014-15) by the State from GoI for construction of houses for houseless tribals was not reflected in the accounts as it was released directly to Director of Scheduled Tribes Development. This resulted in understatement of GoI loans to that extent.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution. Here, the Government acts as banker and the balance after disbursement is the fund available with the Government for use for various activities.

Table 1.13: Net receipts under Public Account heads

(₹ in crore)

Resources under various heads	2011-12	2012-13	2013-14	2014-15	2015-16
Public Account receipts					
a. Small Savings, Provident Fund etc.	3839.05	3685.54	4231.86	3764.77	8332.07
b. Reserve Fund	146.93	-145.58	78.02	66.00	64.90
c. Deposits and Advances	-51.47	1140.93	187.43	1364.50	-3280.29
d. Suspense and Miscellaneous	852.37	712.44	-946.60	57.90	774.28
e. Remittances	-157.40	30.49	-168.48	25.95	-92.19
Total	4629.48	5423.82	3382.23	5279.12	5798.77

Source : Finance Accounts of respective years

The above table shows that during 2015-16 an amount of ₹5,798.77 crore has been added to the existing balance of the Public Account. This was ₹519.65 crore more than additions (₹5,279.12 crore) during 2014-15. Substantial net addition of ₹8,332.07 crore under the sector 'Small Savings, Provident Fund, etc.', was mainly due to the accumulations of ₹5,615.38 crore occurred under '8031-102-State Savings Bank Deposits'. These accumulations under public account are utilised by the State Government for covering their fiscal deficit.

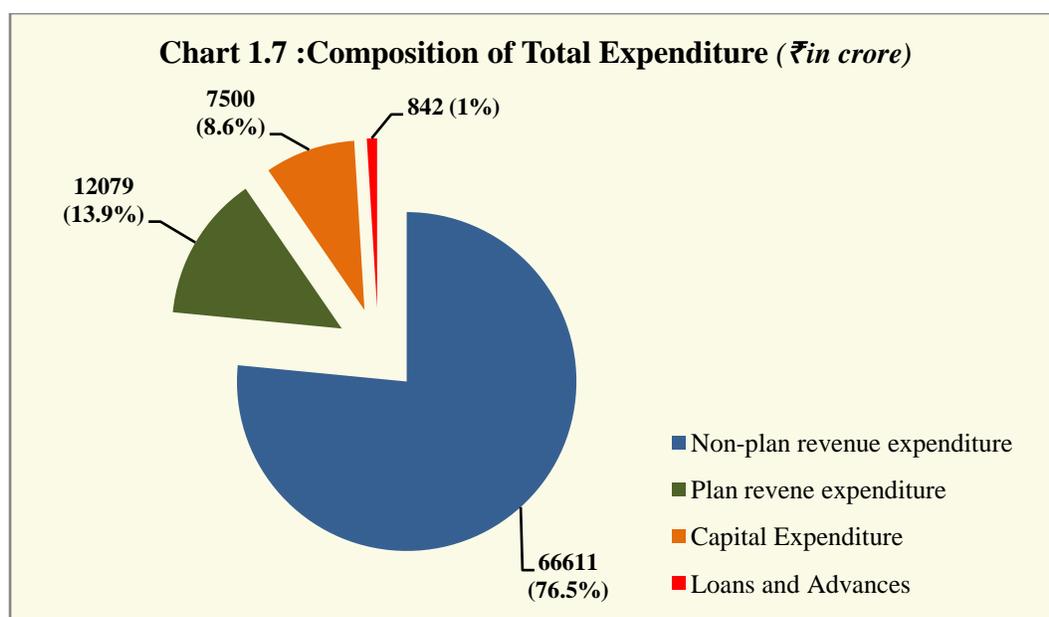
1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.6.1 Growth and Composition of Expenditure

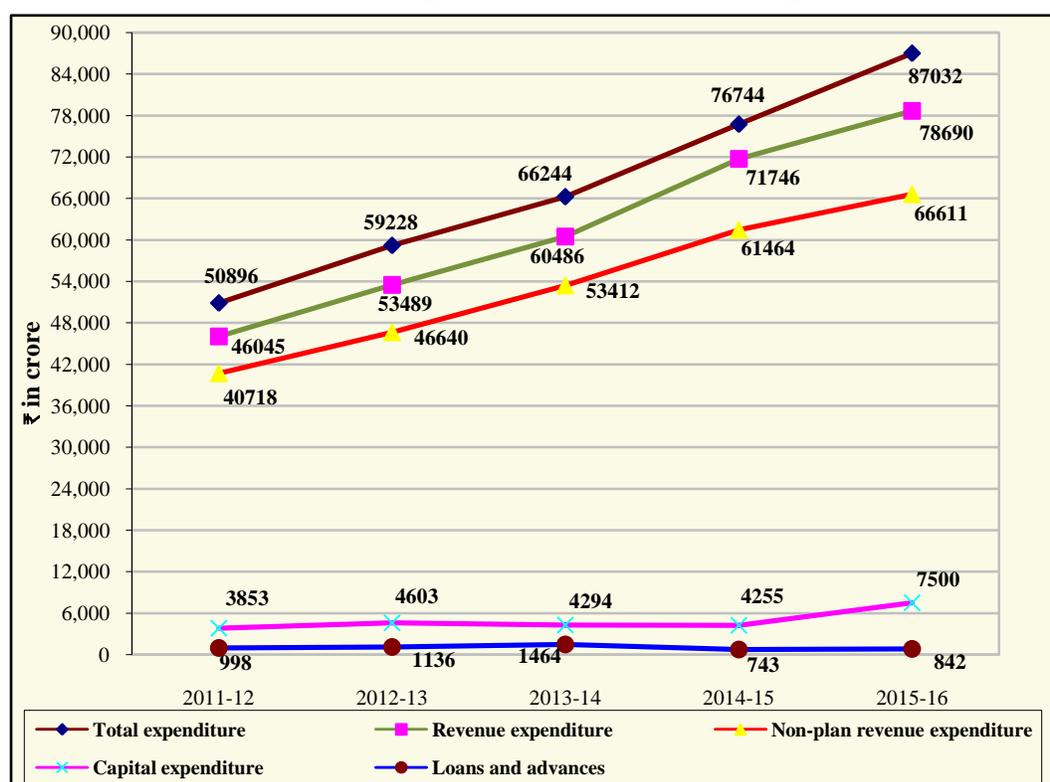
The trends in total expenditure (aggregate of revenue, capital and loans and advances expenditure) and various components of total expenditure-Plan and Non-Plan revenue expenditure, committed expenditure such as salaries and wages, interest payments, pension payments and subsidies, financial assistance to local bodies, etc., are discussed in the succeeding paragraphs. **Chart 1.8** presents the trends in total expenditure of the State Government over a period of five years (2011-12 to 2015-16).

Total expenditure of the State for 2015-16 was ₹87,032 crore, out of which ₹78,690 crore (90.4 *per cent*) was revenue expenditure. Composition of total expenditure during 2015-16 is given in **Chart 1.7** below.



During the last five years, the total expenditure of the State increased by 71 *per cent* from ₹50,896 crore in 2011-12 to ₹87,032 crore in 2015-16. Out of the three components of total expenditure, revenue expenditure showed a similar growth rate of 71 *per cent* but capital expenditure showed the growth rate of 95 *per cent* due to substantial increase in capital expenditure during 2015-16.

Chart 1.8: Total expenditure: trends and composition



The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are given in **Table 1.14**.

Table 1.14: Total expenditure – basic parameters

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Total expenditure (TE) (₹ in crore)	50896	59228	66244	76744	87032
Rate of growth (<i>per cent</i>)	31.2	16.4	11.8	15.9	13.4
TE/GSDP ratio (<i>per cent</i>) ^(*)	14.0	14.4	14.3	14.8	14.9
RR/TE ratio (<i>per cent</i>)	74.7	74.5	74.2	75.5	79.3
Buoyancy of TE with reference to:					
GSDP (ratio) ^(*)	0.8	1.2	1.0	1.3	1.1
RR (ratio)	1.4	1.0	1.0	0.9	0.7

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

Table 1.14 shows that

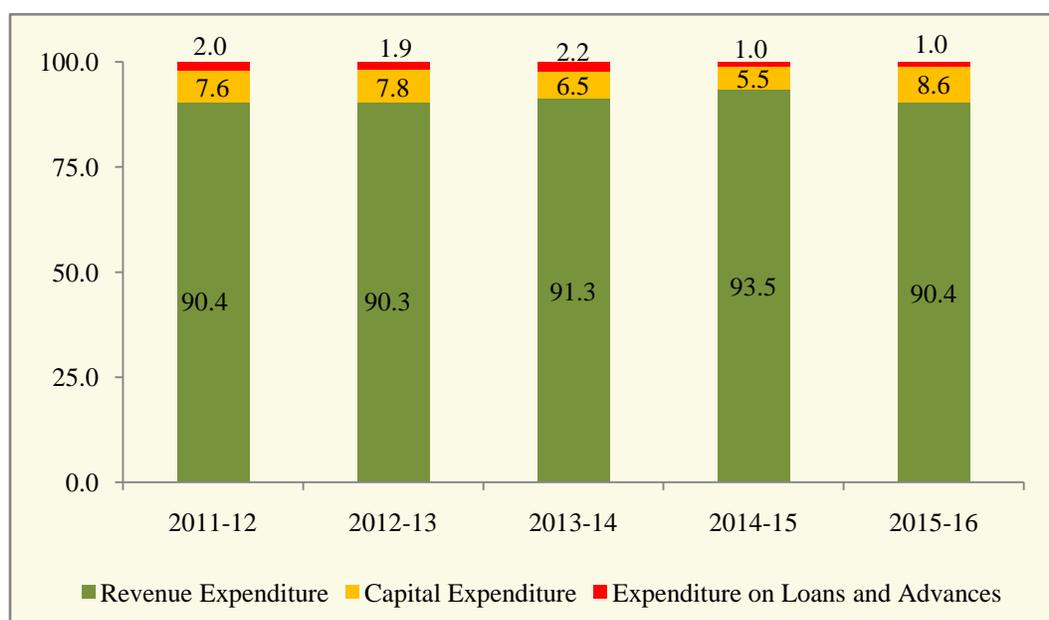
- During last five years (2011-2016) ratio of total expenditure to GSDP was steady and ranged between 14 to 15 *per cent*, but showed a slight increasing trend during the last two years, which indicated increased

growth of total expenditure compared to GSDP.

- Revenue receipts to total expenditure ratio also showed an increasing trend during the last two years, which indicate that revenue receipts had better growth than the total expenditure during the period.
- During the last two years, the Buoyancy of the total expenditure with respect to GSDP was more than one, which indicated higher growth rate of total expenditure compared to GSDP during 2014-2016.
- Buoyancy of total expenditure with revenue receipt showed declining trend during the last five years and it was less than one during last two years, which indicated better growth rate of revenue receipts compared to total expenditure.

Trend in share of various components of total expenditure is given in **Chart 1.9**.

Chart 1.9 : Share of various expenditure in total expenditure



Compounded annual growth rate of total expenditure of the State for the two periods, i.e. 2006-07 to 2014-15 and 2014-15 to 2015-16 was compared with General Category States and it was observed that in the first period State's average was slightly higher than General Category States but in the second period it was much less than General Category States. (Details are given in **Appendix 1.1**)

1.6.2 Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social

and Economic Services, grants-in-aid and loans and advances. Relative shares of different components of total expenditure are given in **Table 1.15**.

Table 1.15: Components of expenditure – relative shares

	<i>(in per cent)</i>				
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
General Services	40.2	38.7	40.4	41.1	41.8
<i>of which, Interest Payments</i>	12.4	12.2	12.5	12.7	12.8
Social Services	33.0	32.8	32.6	32.0	32.9
Economic Services	18.1	19.8	17.3	17.5	19.9
Grants-in-aid	6.7	6.8	7.5	8.4	4.4
Loans and Advances	2.0	1.9	2.2	1.0	1.0

Table 1.15 reveals that:

- Relative share of three components of total expenditure, viz. General Services, Social Services and Economic Services increased during 2015-16, compared to the previous year. Out of this share of General Services showed an increasing trend during the last four years.
- Share of interest payments in total expenditure also increased during the last four years indicating increasing burden of interest payment due to increase in borrowings.
- There was an increasing trend in State's devolution of funds (Grant-in-aid) to Panchayati Raj institutions for the period from 2011-12 to 2014-15, but decreased during the year 2015-16 due to State Government's decision to delay the transfer of funds till the utilisation of funds already released to the institutions in previous years.
- Relative share of loans and advances in total expenditure was only one *per cent* during the last two years, due to decrease in release of loans and advances by the State Government.

1.6.3 Revenue Expenditure

During 2015-16, revenue expenditure recorded an increase of ₹6,944 crore (9.7 *per cent*), compared to the previous year. However, this increase was lowest during the last five year period in terms of percentage as well as value. The increase in revenue expenditure was mainly due to increase in expenditure under the major heads 'Pension and Other Retirement Benefits' (₹1,810 crore), 'Interest Payments' (₹1,341 crore), 'Social Security and Welfare' (₹1,288 crore), 'General Education' (₹1,088 crore), 'Miscellaneous General Services'³ (₹876 crore), Special Programmes for Rural Development (₹561 crore), etc.

1.6.3.1 Incidence of revenue expenditure

During the last five years, the share of revenue expenditure to maintain the current

³ Includes ₹638 crore towards increase in expenditure under 'State Lotteries'

level of services and payment for past obligations was between 90 and 94 *per cent*. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.16**.

Table 1.16: Revenue expenditure – basic parameters

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue expenditure (RE)	46045	53489	60486	71746	78690
Non-plan revenue expenditure (NPRE)	40718	46640	53412	61464	66611
Plan revenue expenditure (PRE)	5327	6849	7074	10282	12079
Rate of Growth of					
RE (<i>per cent</i>)	32.8	16.2	13.1	18.6	9.7
NPRE (<i>per cent</i>)	33.6	14.5	14.5	15.1	8.4
PRE (<i>per cent</i>)	27.0	28.6	3.3	45.3	17.5
Revenue expenditure as percentage to TE	90.5	90.3	91.3	93.5	90.4
NPRE/GSDP (<i>per cent</i>) ^(*)	11.2	11.3	11.5	11.8	11.4
NPRE as percentage of TE	80.0	78.7	80.6	80.1	76.5
NPRE as percentage of RR	107.1	105.7	108.6	106.1	96.5
Buoyancy of revenue expenditure with					
GSDP (ratio) ^(*)	0.9	1.2	1.1	1.5	0.8
Revenue receipts (ratio)	1.4	1.0	1.1	1.0	0.5

Source : Finance Accounts of respective years

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

Table 1.16 reveals the following;

- During the last five years, RE and NPRE had shown a growth of 71 *per cent* and 64 *per cent* respectively. But PRE increased by 127 *per cent* which is a positive sign.
- NPRE as a percentage of GSDP was steady during the last five years, but NPRE as a percentage of TE showed a declining trend from 2014-15 and it was lowest during 2015-16, which is a positive sign.
- The buoyancy of RE with GSDP and RR was less than one which indicate that growth rate of revenue expenditure is less than the growth rate of GSDP and RR. This is also a positive sign on state finances.
- During the last five years NPRE as percentage of RR was more than 100 except during 2015-16 and this was due to increase in RR compared to increase of NPRE.

1.6.3.2 Expenditure on salaries, wages, interest payments, pension, etc.

The trends of the committed expenditure of the State Government during 2011-12 to 2015-16 is given in **Table 1.17**.

Table 1.17: Components of committed expenditure

(₹ in crore)

Components of committed expenditure	2011-12	2012-13	2013-14	2014-15	2015-16	
					BE	Actuals
Salaries* and Wages,	16229	17505	19554	21621	26873	23757
Non-plan head	15681	16939	18954	20977	25965	23075
Plan heads**	548	566	600	644	908	682
Interest payments (MH 2049)	6294	7205	8265	9770	10952	11111
Expenditure on pensions (MH 2071)	8700	8867	9971	11253	13172	13063
Subsidies	1014	1268	1279	1252	852	1372
Total	32237	34845	39069	43896	51849	49303
Revenue Expenditure	46045	53489	60486	71746	85259	78690
Revenue Receipts	38010	44137	49177	57950	77427	69033
Percentage of committed expenditure to Revenue expenditure	70	65	65	61	61	63
Percentage of committed expenditure to Revenue receipts	85	79	79	76	67	71
* Salaries include teaching grant paid to aided educational institutions like schools and colleges to meet the salaries of their teaching and non-teaching staff.						
**The plan heads also include the salaries and wages paid under Centrally Sponsored schemes						

Source : Finance Accounts of respective years

The share of committed expenditure in revenue expenditure has increased during 2015-16, compared to previous year. However, as a percentage of revenue receipts, it decreased steadily during the last five years which indicated better growth of revenue receipts compared to the committed expenditure.

During 2015-16, expenditure on interest payments and pensions showed growth rate of 14 per cent and 16 per cent respectively and this was more than the growth rate shown by revenue expenditure (10 per cent). However, growth rate of salaries was similar to that of revenue expenditure. Due to increase in borrowings (more than ₹10,000 crore every year), the burden of interest payments of the State also increased and it consumed more than 16 per cent of the revenue receipt during the last five years. Similarly, pension payments consumed more than 20 per cent of the revenue receipts during 2011-12 to 2013-14 and around 19 per cent during the last two years.

1.6.4 Subsidies

The subsidies (₹1,372 crore) given during 2015-16 were ₹120 crore more than subsidies (₹1,252 crore) given in the previous year. These mainly include amount given to Food Corporation of India in respect of reimbursement of price difference of ration rice and wheat (₹649 crore), for Paddy procurement through Kerala State Civil Supplies Corporation (₹358 crore), grant to Kerala State Civil

Supplies Corporation Limited for market intervention (₹99 crore) and subsidy to Co-operatives for conducting festival markets (₹60 crore).

1.6.5 Financial assistance to Local Bodies and Other Institutions

The assistance provided by the Government as grants and loans to local bodies, educational institutions, Government companies, Welfare Fund Boards, etc., during the current year relative to the previous years is presented in **Table 1.18**.

Table 1.18: Financial assistance to local bodies, educational institutions, etc.
(₹ in crore)

Financial Assistance to Institutions	2011-12	2012-13	2013-14	2014-15	2015-16
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	5605.77	6204.36	6934.56	7769.01	8409.89
Municipal Corporations and Municipalities	1073.78	1177.77	1358.09	1836.39	1405.77
Zilla Parishads and Other Panchayati Raj Institutions	4203.98	5279.31	6421.60	8423.74	7767.62
Development Agencies	5.50	5.15	6.42	6.23	5.91
Hospitals and Other Charitable Institutions	144.46	153.33	94.19	305.76	407.60
Other Institutions ⁴	1065.96	896.42	1323.46	1602.60	2104.35
Total	12099.45	13716.34	16138.32	19943.73	20101.14
Assistance as percentage of revenue expenditure	26	26	27	28	26

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased from ₹12,099.45 crore in 2011-12 to ₹20,101.14 crore in 2015-16. The table above shows that though the aggregate financial assistance increased during 2015-16 the percentage of assistance with reference to revenue expenditure decreased to 26 per cent from 28 per cent in 2014-15.

1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure involves whether adequate funds were provided for public expenditure (i.e. adequate provisions for providing public services) and whether the fund was spent efficiently and effectively to achieve the intended objectives.

⁴ Major institutions under 'Other institutions' are Kerala Water Authority (₹523.40 crore), Loans to Kerala State Road Transport Corporation (₹214.40 crore), IT-Cyber Park-Land acquisition (₹145.84 crore), Kerala Social Security Mission (₹124.58 crore), State Council for Science, Technology & Environment (₹106.65 crore), Kudumbasree (₹75 crore), Contribution to Fishermen Welfare Fund (₹54.63 crore), Kerala State Information Technology Mission (₹53.34 crore), Kerala Sports Council (₹49.60 crore) and Welfare fund for Cashew workers (₹40.56 crore).

1.7.1 Adequacy of public expenditure

Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure under a category to total expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.19** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2012-13 and 2015-16.

Table 1.19: Fiscal priority of the State in 2012-13 and 2015-16

<i>(in per cent)</i>						
Fiscal Priority by the State*	TE/ GSDP	DE[#]/ TE	SSE/ TE	CE/ TE	Education/ TE	Health/ TE
General Category States' Average, 2012-13	14.14	70.03	38.47	13.70	17.72	4.72
Kerala's Average, 2012-13	14.36	54.24	33.74	7.77	17.52	5.48
General Category States' Average, 2015-16	16.05	70.63	36.29	14.89	15.63	4.45
Kerala's Average, 2015-16	14.87	53.52	33.01	8.62	16.23	5.48
* As per cent to GSDP TE: Total Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure. # Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed (Social and Economic sector).						

Table 1.19 shows that;

- In 2015-16 State's share of expenditure on education and health in total expenditure is higher than General Category States (GCS), indicating State Government's priority in these services. But in respect of development expenditure, social sector expenditure and capital expenditure, State's performance was poor compared to GCS.
- In respect of development expenditure and capital expenditure, while GCS improved their position in 2015-16 compared to 2012-13, State could improve its position only in capital expenditure.

Drop in share of development expenditure and social sector expenditure in total expenditure needs to be addressed.

1.7.2 Efficiency of expenditure

It is important for the State to take appropriate expenditure rationalisation measures and incur public expenditure on development heads from the point of view of social and economic development. Development expenditure comprised of revenue expenditure, capital expenditure and loans and advances in socio-

economic services. **Table 1.20** presents the trends in development expenditure relative to the total expenditure of the State during last five years. **Chart 1.10** presents component-wise development expenditure during 2011-12 to 2015-16.

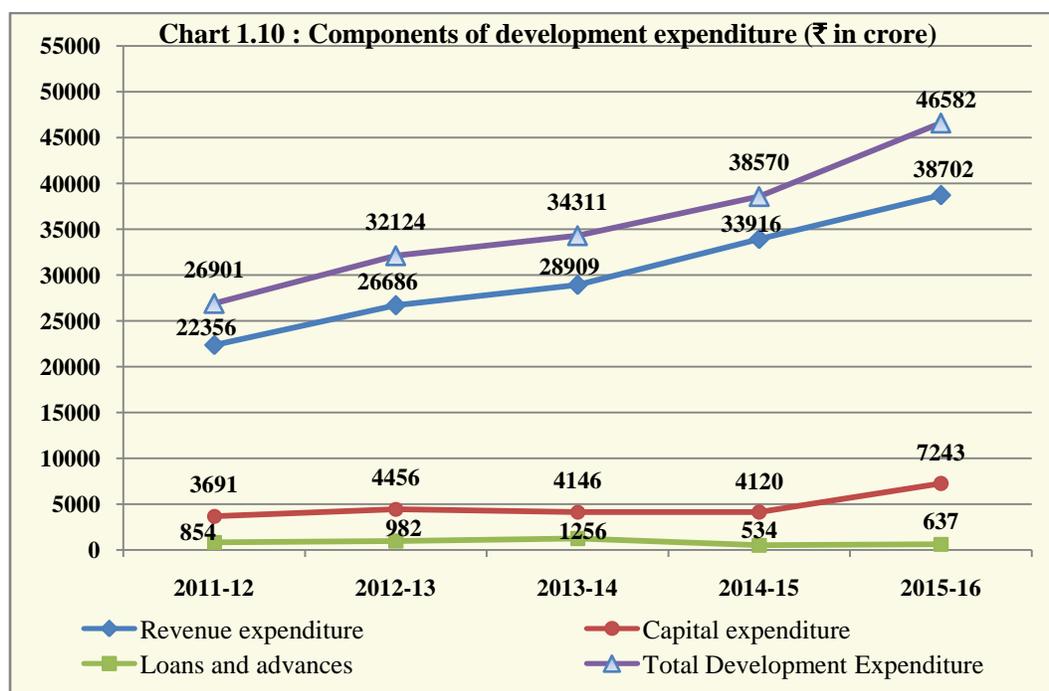
Table 1.20: Development expenditure

(₹ in crore)					
Components of Development Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
Development Expenditure (a to c)					
a. Revenue expenditure	22356 (43.9)	26686 (45.1)	28909 (43.6)	33916 (44.2)	38702 (44.5)
b. Capital expenditure	3691 (7.3)	4456 (7.5)	4146 (6.3)	4120 (5.4)	7243 (8.3)
c. Loans and advances	854 (1.7)	982 (1.7)	1256 (1.9)	534 (0.7)	637 (0.7)
Total Development Expenditure	26901 (52.9)	32124 (54.2)	34311 (51.8)	38570 (50.3)	46582 (53.5)
Total Expenditure	50896	59228	66244	76744	87032

Source: Finance Accounts of respective years

Figures in parenthesis are its share in total expenditure

During 2015-16 growth rate of total expenditure was 13.4 per cent but the growth rate of development expenditure was 20.8 per cent, which is encouraging. Though 53.5 per cent of total expenditure was utilised for development expenditure, major share (44.5 per cent) was that of revenue expenditure, which indicated predominance of revenue expenditure items in development expenditure. However, the share of capital expenditure in total development expenditure during 2015-16 was 8.3 per cent and it was the highest during the last five year period (**Table 1.20**).



Development expenditure increased from ₹26,901 crore in 2011-12 to ₹46,582 crore in 2015-16, recording an increase of 73 per cent in five years. Over the years share of revenue expenditure in development expenditure was around 83 per cent (except during 2014-15, when it was 88 per cent), indicating lower priority given to capital expenditure for development during the period.

Revenue expenditure on development also increased by 73 per cent (similar to that of development expenditure) during the last five years increasing from ₹22,356 crore in 2011-12 to ₹38,702 crore in 2015-16. In 2015-16 revenue expenditure on development increased by ₹4786 crore (14 per cent) due to increase in expenditure under Social Services (₹3,885 crore) and Economic Services (₹901 crore). Out of ₹38,702 crore expenditure under Social and Economic Services, ₹18,456 crore (48 per cent) was incurred on salaries and wages.

In Social Services, this increase was mainly under the sub-sectors ‘Social Welfare and Nutrition’ (₹1340 crore), ‘Education, Sports, Art and Culture’ (₹1330 crore) and ‘Health and Family Welfare’ (₹516 crore). In Economic Services, increase was mainly under ‘Agriculture and Allied Activities’ (₹477 crore) and ‘Transport’ (₹220 crore).

Capital expenditure on development increased by ₹3123 crore mainly due to increase of ₹2964 crore under Economic sector, during 2015-16. Increase in Economic Sector was mainly under the sub-sectors ‘Transport’ (₹1422 crore) and ‘Other General Economic Services’ (₹826 crore).

1.7.3 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹ one crore) as on 31 March 2016 is given in **Table 1.21**.

Table 1.21: Status of incomplete projects in the State

(₹ in crore)

Sl. No	Name of the department/project	No. of incomplete projects/works	Initial budgeted cost	Cumulative actual expenditure as on 31 March 2016
1.	Irrigation Department – (Irrigation and Minor Irrigation Works)	17	189.28	146.40
2.	Public Works Department – (Roads)	101	695.94	448.31
3.	Public Works Department – (Bridges)	64	470.87	303.60
4.	Public Works Department – (Buildings)	75	335.97	234.41
5.	Harbour Engineering Department	6	59.49	65.77
	Total	263	1751.55	1198.49

Source: Appendix IX of Finance Accounts 2015-16

As per the Finance Accounts 2015-16, there was a delay in completion of the 263 projects/works and this would result in time overrun and cost overrun, besides denying the desired benefit to the beneficiaries.

1.8 Financial Analysis of Government Investments, Loans and advances

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements from its own sources of revenue. In addition, in a transition to complete dependence on market-based resources, the State Government is required to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.8.1 Investment and returns

As of 31 March 2016, the State Government had invested ₹6,733.85 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (**Table 1.22**). The average return on these investments was 1.4 *per cent* in the last five years while the Government paid an average interest rate of 7.2 *per cent* on its borrowings during 2011-12 to 2015-16.

Table 1.22: Return on investments

Investment/Return/Cost of Borrowings	2011-12	2012-13	2013-14	2014-15	2015-16
Investment at the end of the year (₹ in crore)	4206.43	4511.03	5623.61	6085.13	6733.85
Return (₹ in crore)	67.44	48.15	100.58	74.18	90.23
Return (<i>per cent</i>)	1.6	1.1	1.8	1.2	1.3
Average rate of interest on Government borrowing (<i>per cent</i>)	7.2	7.1	7.1	7.3	7.3
Difference between interest rate and return (<i>per cent</i>)	5.6	6.0	5.3	6.1	6.0

Source: Finance Accounts of the State Government

During 2015-16, State Government had invested ₹26.14 crore in Statutory Corporations, ₹430.49 crore in Government Companies, ₹77.22 crore in Co-operative Banks and Societies and ₹126.74 crore in other Joint Stock Companies.

1.8.2 Government investment in PSUs, Joint Stock Companies, etc

The State Government has been making investment in Statutory Corporations, Government Companies, Joint Stock Companies, Co-operative Banks and

Societies, etc., in the form of share capital contribution and value of land assigned. At the end of March 2016 Government investment in these institutions stood at ₹6692.59 crore⁵. Institution-wise investments are given in **Table 1.23**.

Table 1.23 : Institution-wise Government investment
(₹ in crore)

Type of institutions	Investment at the end of March 2016
Statutory Corporations	977.87
Government Companies	4143.68
Joint Stock Companies	246.89
Co-operative Banks and Societies	1324.15
Total	6692.59

Source: Finance Accounts 2015-16

Though the investments are expected to give some financial return (in the form of dividends), returns from these investments were less than two *per cent* during the last five years as shown in **Table 1.22**.

A review was conducted on investment made by Government during the last five years. During the last five years share capital investment of the Government increased by ₹2,926.33 crore (from ₹3,807.52 crore in the beginning of 2011-12 to ₹6,733.85 crore at the end of 2015-16). Out of this direct cash investment was ₹2,788.34 crore⁶, the rest being value of loans (granted to the institutions) converted into share capital.

It was observed in audit that;

- (i) Out of the cash investment of ₹2,297.55 crore, ₹500.06 crore (22 *per cent*) was made in 18 loss making Government companies/Corporations and ₹1209.55 crore (53 *per cent*) in seven newly formed Companies/Corporations. Consequently, no benefit accrued to Government from these investments during the last five years.
- (ii) ₹96.70 crore invested in Kerala State Cashew Development Corporation (KSCDC) during the period 2013-14 to 2015-16 was for modernisation and partial mechanization of cashew factories of KSCDC. Later on Government permitted the company to utilise the fund for working capital, payment of onam bonus, urgent market operations, restarting functioning of the Corporation, etc. Thus the purpose of the investment was defeated.

⁵ Excludes ₹31.20 crore being the expenditure incurred for equity participation in Smart City Project, ₹0.01 crore being expenditure incurred for State institute for Hotel Management at Kottayam, ₹3.55 crore being expenditure incurred for setting up of Electronic Fabrication Laboratory, ₹1.50 crore being seed capital for NBCFDC and NMDFC schemes and ₹5 crore being capital assistance given to companies producing Neera.

⁶ ₹2,297.55 crore in Government Companies/Corporations, Joint stock companies and ₹490.79 crore in Co-operatives

- (iii) ₹59.18 crore invested in five⁷ companies between 2011-12 and 2015-16 were kept unutilized (August 2016) due to delay in land acquisition, procedural delays, etc. Hence, the benefits that would have been gained from their operations didn't materialize.
- (iv) An amount of ₹193.18 crore invested in two⁸ PSUs during 2011-12 to 2015-16 for various projects was not included as share capital investment of Government in their accounts. Non-treatment of the amount as investment may lead to non-transfer of benefits that may accrue to that PSUs in future to the Government.
- (v) During the period 2011-12 to 2015-16 Government had invested an amount of ₹79 crore in Kerala State Information Technology Infrastructure Limited. Besides this cash investment, ₹56.97 crore was treated as investment in-lieu of the land allotted to the PSU for creating IT infrastructure. Since lease rent collected from IT parks was the main source of income of the PSU, failure on the part of the PSU to collect lease rent by executing proper agreements with IT Parks denied any returns to Government.
- (vi) During 2011-12 to 2015-16, Government had permitted conversion of loan amount of ₹119.89 crore, disbursed (in earlier years) to five⁹ Government Companies, into share capital. This was done to revive sick companies on the assumption that the companies would make profit and Government would get some returns. However, the companies continued in loss.
- (vii) Sanction was accorded by the Government to convert loan amount of ₹2694.34 crore disbursed to seven¹⁰ PSUs in earlier years as investment. However, the same was yet to be adjusted in Government accounts.
- (viii) The investments of Government are classified under the minor heads '190' and '195' below the functional major/sub major heads concerned. But ₹72.32 crore was released to two¹¹ PSUs through the minor head '800 Other Expenditure' and revenue expenditure head. Though this amount has been treated as investment in PSUs account, wrong classification of investment amount caused non-exhibition of the same as investment in Government accounts. Similarly, loan amount of ₹38.96 crore released to

⁷ Kerala State Housing Development Finance Corporation Limited, Kerala Tourism Development Corporation Limited, Kerala State Information Technology Infrastructure Limited, Kerala Shipping and Inland Navigation Corporation Limited and Kerala State Industrial Development Corporation Limited.

⁸ Kerala State Industrial Development Corporation Limited and Kerala Tourism Infrastructure Limited.

⁹ Kerala Electrical and Allied Engineering Company Limited, Traco Cable Company Limited, Kerala Ceramics Limited, Kerala State Electronics Development Corporation Limited and Kerala State Textile Corporation Limited.

¹⁰ Kerala State Electricity Board Limited, Traco Cable Company Limited, Kerala Electrical and Allied Engineering Company Limited, Kerala State Film Development Corporation Limited, Meat Products of India Limited, The Travancore Cements Limited and Kerala State Road Transport Corporation.

¹¹ Kerala State Road Transport Corporation and Infrastructure Kerala (INKEL) Limited

two¹² PSUs was erroneously released through investment head, but not reclassified till date.

It was ascertained (June 2016) from State Government whether the Government has any policy for making share capital investments in PSUs, Government Companies, etc., but no reply had been furnished till date (November 2016).

1.8.3 Loans and advances by the State

In addition to investments in Co-operative Societies, Statutory Corporations and Government Companies, the Government has also been providing loans and advances to many institutions. **Table 1.24** presents the outstanding loans and advances as on 31 March 2016 and interest receipts during the last five years.

Table 1.24: Details of loans and advances during the last five years

(₹ in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2011-12	2012-13	2013-14	2014-15	2015-16
Opening balance	8461 ¹³	9394 ¹⁴	10360 ¹⁵	11713 ¹⁶	12320 ¹⁷
Amount advanced during the year	998	1136	1464	743	842
Amount repaid during the year	55	74	103	124	152
Closing balance	9404	10456	11721	12332	13010
Net addition	943	1062	1361	619	690
Interest receipts	23	19	21	27	32

Source: Finance Accounts of the State Government.

The total outstanding loans and advances as on 31 March 2016 increased by ₹690 crore compared to those of the previous year. The major disbursement of loans and advances during the current year was to the Kerala State Road Transport Corporation (₹214 crore), Kerala Water Authority for implementing the Water Supply Project assisted by the Japan International Co-operation Agency (₹81 crore), Kerala Co-operative Textile Federation (₹68 crore) and House building advance to State Service Officers (₹195 crore). Interest received against these loans remained less than one *per cent* during the period 2011-12 to 2015-16 and was 0.2 *per cent* during 2015-16 as against the average cost of borrowing of 7.3 *per cent* during the year.

¹² Kerala State Industrial Development Corporation Limited ₹25 crore in 2010-11 and Kerala State Textile Corporation Limited ₹13.96 crore in 2012-13.

¹³ Difference of ₹ six crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (Z) of Statement no.16 of Finance Accounts 2011-12.

¹⁴ Difference of ₹10 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (q) of Statement no.16 of Finance Accounts 2012-13.

¹⁵ Difference of ₹96 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (p) of Statement no.16 of Finance Accounts 2013-14.

¹⁶ Difference of ₹eight crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (o) of Statement no.18 of Finance Accounts 2014-15.

¹⁷ Difference of ₹12 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (q) of Statement no.18 of Finance Accounts 2015-16.

1.8.3.1 Defaulters on loan repayment

Government has been providing loan assistance to Statutory Corporations, Government Companies, Autonomous Bodies and Authorities etc., and the same was treated as assets in the Government accounts. As per Finance Accounts, an amount of ₹13,010 crore was outstanding as loan at the end of March 2016. Also, at the end of March 2016, 76 institutions defaulted in repayment of loans advanced to them and arrears in respect of this were ₹9,328 crore (Principal: ₹5,809 crore and Interest: ₹3,519 crore). About 89 per cent of the above arrears pertain to five institutions viz., Kerala Water Authority (₹3,890 crore), Kerala State Electricity Board Limited (₹1,760 crore), Kerala State Road Transport Corporation (₹1280 crore), Kerala State Housing Board (₹1180 crore) and Kerala State Cashew Development Corporation (₹199 crore). During the year State Government also released loans to 16 institutions amounting to ₹408 crore whose previous loan repayments are in arrears.

It was also observed that State Government released 79 loans to 19 institutions amounting to ₹83.96 crore, during the period from 1991-92 to 2005-06, without specifying the terms and conditions for repayment. In order to provide a true and fair status in the balance sheet of the State Government, Government needs to take effective steps to reduce these non-performing assets.

1.8.4 Cash balances and Investment of cash balances

The cash balances and investments made by the State Government out of the cash balances during the year are shown in **Table 1.25**.

Table 1.25: Cash balances and Investment of cash balances

(₹ in crore)			
Particulars	As on 31 March 2015	As on 31 March 2016	Increase(+)/ Decrease(-)
(a) General Cash balances			
Cash in Treasuries and other banks	4.47	5.43	0.96
Deposit with Reserve Bank	(-)11.07	(-)45.88	(-)34.81
Remittances in transit -Local	1.02	1.07	0.05
Total(a)	(-)5.58	(-)39.38	(-)33.80
(b)Investments from cash balances			
GoI Treasury Bills	141.90	1631.60	(+1489.70)
GoI Securities	5.15	5.15	-
Total (b)	147.05	1636.75	(+)1489.70
(c) Investments in earmarked funds			
Reserve funds not bearing interest	1507.44	1630.37	(+122.93)
Total (c)	1507.44	1630.37	(+)122.93
(d) Departmental cash balances including Permanent advances	2.09	1.65	(-)0.44
Total Cash Balance - (a) to (d)	1651.00	3229.39	(+)1578.39
Interest realised during the year on investment of cash balances	44.16	40.85	(-)3.31

Source: Finance Accounts of the State Government

Table 1.25 shows that cash balance of the State, at the end of March 2016, increased by ₹1,578.39 crore compared to the closing balance at the end of March 2015. This was due to the increase in investments under GoI Treasury Bills (₹1,489.70 crore) and investments in earmarked funds (₹122.93 crore). However, interest received on investment of cash balance decreased by ₹3.31 crore, compared to the previous year.

1.8.4.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial recording of transactions which are to be cleared eventually. As per accounting rules, when a cheque is issued, the functional head is debited and the Major Head-8670-Cheques and Bills is credited. On clearance of the cheque by the bank, the minus credit is given to Major Head 8670-Cheques and Bills by crediting the Major Head- 8675-Deposits with Reserve Bank and thereby reducing the cash balance of the Government. Thus, the outstanding balance under the Major Head 8670-Cheques and Bills represents the amount of un-encashed cheques.

As on 31 March 2016, there was an outstanding balance (cumulative) of ₹1,873.99 crore. This represents expenditure originally booked under different major heads of Consolidated Fund, which has not resulted in any cash outflow till the end of March 2016.

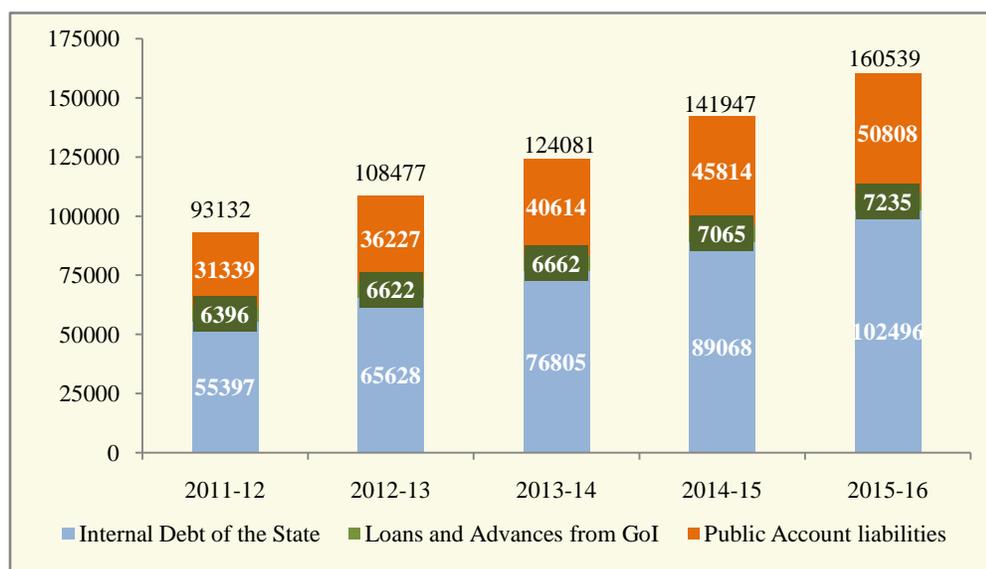
1.9 Assets and Liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4 Part B** gives an abstract of such liabilities and assets as on 31 March 2016, compared with the corresponding position as on 31 March 2015. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GoI, receipts from the Public Account and Reserve Funds, the assets mainly comprise of the capital outlay and loans and advances given by the State Government and its cash balances.

1.9.2 Fiscal liabilities

The trends of outstanding fiscal liabilities of the State are presented in **Appendix 1.5**. The composition of fiscal liabilities during the last five years are presented in **Chart 1.11**.

Chart 1.11 : Composition of Fiscal Liabilities (₹in crore)

The overall fiscal liabilities of the State increased from ₹93,132 crore in 2011-12 to ₹1,60,539 crore in 2015-16, thus recording an increase of 72 per cent during the five year period. During the last four years, growth rate of fiscal liabilities of the State declined from 16.5 per cent in 2012-13 to 13.1 per cent in 2015-16. However, growth rate of fiscal liabilities in 2015-16 was higher than the growth rate of GSDP (12.6 per cent).

Fiscal liabilities of the State comprised of Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liabilities (₹1,09,731 crore) comprised of Market Loans (₹84,846 crore), Loans from the Government of India (₹7,235 crore) and Other Loans (₹17,650 crore). The Public Account liabilities (₹50,808 crore) comprised of Small Savings, Provident Funds, etc., (₹47,640 crore)¹⁸, interest bearing obligations (₹73 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹3,095 crore).

The overall liabilities of the State include balance under Reserve Funds amounting to ₹2,012.06 crore (as on 31 March 2016). The details in respect of two of the reserve funds are given in succeeding paragraphs:

(a) State Disaster Response Fund

The State Disaster Response Fund (SDRF) was set up on 1 April 2010 replacing the existing Calamity Relief Fund. At the beginning of the year, there was ₹21.91 crore as opening balance in the Fund. The size of the Fund for Kerala for the year 2015-16 (fixed by the Fourteenth Finance Commission) was ₹184.75 crore, 75 per cent (₹138.75 crore) of which was to be contributed by the Central

¹⁸ This includes liabilities from the Treasury Savings Bank Account (₹10,552 crore) and Treasury Fixed Deposits (₹10,962 crore).

Government and 25 per cent (₹46 crore) by the State Government. During the year an amount of ₹184.75 crore was credited to the Fund. After setting off the expenditure for disaster relief operations to the extent of ₹134.14 crore, the balance in SDRF as on 31 March 2016 was ₹72.52 crore.

According to the guidelines issued by the Government of India, balances lying in the fund are required to be invested by the State Executive Committee constituted for the management of the Fund and this was not done. The interest payable on the un-invested balances of the earlier years has not been estimated by the Government (October 2016).

(b) Consolidated Sinking Fund

The State Government had set up a Consolidated Sinking Fund with effect from the financial year 2007-08, according to which the Fund was to be utilised as an Amortisation Fund for redemption of all outstanding liabilities of the Government commencing from the financial year 2012-13. The Fund was to be credited with contributions from revenue at the prescribed rate and interest accrued on investments made out of the Fund. Only the interest accrued and credited in the Fund was to be utilised for redemption of the outstanding liabilities of the Government. As per paragraph 5 of revised model scheme for the constitution and administration of Consolidated Sinking Fund of Kerala, the rate of contribution to the Consolidated Sinking Fund was 0.5 per cent of the outstanding liabilities at the end of the previous year. According to this, the State Government had to contribute ₹709.73 crore during 2015-16 to the Consolidated Sinking Fund. However, the State Government did not contribute any amount to the Fund, during the current year.

As per the guidelines of the fund, the balance at credit of the Fund is required to be invested in the Government of India Securities. During the year, an amount of ₹122.94 crore was received as interest from the investment made out of the fund. At the beginning of the year ₹1,610.37 crore was available and with the interest received on investment and an amount of ₹117.50 crore adjusted for repayment of market loans, the outstanding balance at the end of year was ₹1,615.81 crore.

1.9.3 Review of Kerala Forest Development Fund

Kerala Forest Development Fund (KFDF) was constituted under Section 75 B of Kerala Forest Act, 1961 for crediting the proceeds of Forest Development Tax (5 per cent) introduced from 1 September 1984. According to Kerala Forest Development Fund Rules (Rule 4) 1989, 60 per cent of the KFDF shall be utilised for planting and maintaining softwood and other species of trees which form raw materials for industries and 40 per cent for forest research. The objective of the compliance audit was to examine the utilisation of KFDF by Forest and Wildlife department for the intended purpose.

Detailed audit was conducted by covering the period 2011-12 to 2015-16 in

Forest Headquarters (Head of the Department), Thiruvananthapuram and five Divisional Forest Offices of Thiruvananthapuram, Punalur, Thenmala, Wayand (South) and Wayanad (North).

Audit observations

1.9.3.1 Availability of funds and its utilisation

Kerala Forest Development Fund had ₹131.47 crore as opening balance at the end of March 2011. During the period from 2011-12 to 2015-16 an amount of ₹68.02 crore was credited to the fund and against this utilisation was only ₹10.77 crore (₹8.31 crore for plantations and ₹2.46 crore for research), resulting in an unutilised balance of ₹188.72 crore in the fund account at the end of March 2016. Audit analysed the reason for this accumulation of funds and observed the following;

(i) Availability of funds under other budget heads for same purpose

As per Rule 3 (7) of KFDF Rules 1989, the Administrator¹⁹ of the fund has to make proposals for budget allocation under the expenditure heads for utilisation in plantation and research activities, against the balance under the Fund. To facilitate this, divisional offices should propose the funds required for plantation in area under their control. However, the budget proposals for the last five years were less than three *per cent* of accumulated balance for the preceding years. Further, audit observed that the department has been providing funds under two other heads of account ‘4406-01-105-85-Industrial Raw Materials’ and ‘2406-01-101-89-Pulpwood revolving fund²⁰’ for planting pulpwood trees for industries and during the last five years an amount of ₹58.28 crore (₹27.3 crore and ₹30.98 crore respectively) has been incurred from these heads. Since a specific fund has been created for the purpose of planting and maintenance of softwood and other species of trees, providing of funds in other heads from state plan could have been avoided and funds could have been utilised from the fund created specifically for the purpose. In reply, department stated (November 2016) that KFDF cannot be resorted to as a criterion for raising and maintenance of species which form raw materials for wood based industries. However, the fact remains that as per the Act KFDF can be utilised for other species of trees apart from pulpwood plantations.

Regarding the low budgeting under KFDF, department stated that making proposal for whole amount available under KFDF was not feasible as the requirements were assessed based on the working/management plan of the divisions. This reply is not tenable, as the percentage of allocation of the fund was only to the range of 1.4 *per cent* to 2.6 *per cent* of the total fund available during the last five years. Audit noticed that though, the Western India Plywoods limited approached the forest department for additional pulpwood requirement of 60000

¹⁹ Chief Conservator of Forests (Development)

²⁰ Revolving fund constituted under the Kerala Forest Revolving Fund for teak and pulpwood Rules 1999.

MT, the request was not met during the period 2011-16. Department stated (November 2016) that due to shift in National Forest Policy (production forestry to protection forestry) more and more of state forest areas are declared as protected areas and planting in new areas are not possible.

(ii) Failure in timely felling and re-plantation

Funds provided in the budget are to be utilised for the maintenance of pulpwood trees already planted as well as for planting new areas for increasing the production and productivity of the pulpwood plantations. However, department failed in timely felling and replanting in an area of 4807.79 ha due to reasons such as surrender of plantations by industrial units²¹, non-inclusion of the plantations which were due for felling in the approved working plan²², reduction in plantation area due to public protest²³ and conversion of plantations to natural forest²⁴.

Thus, effective utilisation of KFDF for increasing the plantation area and also for increasing the quantum of pulpwood was absent during the last five years. Department stated (November 2016) that efforts will be taken to prepare a detailed action plan for utilisation of the KFDF.

1.9.3.2 Utilisation of funds for Forest Research

The funds (40 per cent) meant for research activities are to be utilised for the projects approved by Kerala Forest Development Fund Research Committee (Committee) and the Committee has been sanctioning research projects to various institutions like Kerala Forest Research Institute, Jawaharlal Nehru Tropical Botanical Garden and Research Institute, Rajiv Gandhi Centre for Biotechnology, Kerala Agricultural University, Institution of Foresters Kerala and Research Wing of Forest Headquarters. Audit scrutiny of the records of the department revealed that, department is not ensuring timely completion of research projects and utilisation of the research results for improvement of pulpwood plantations in the State. Department stated (November 2016) that audit observations are noted for future guidance.

(i) Non-submission of Research Reports

During the last two decades (1996-16) 85 projects (59 projects for ₹3.46 crore during 1996-2010 and 26 projects for ₹1.77 crore during 2011-16) were sanctioned and reports of 74 projects (reports of 11 projects sanctioned during 2011-16 are due after April 2016) were due for submission before March 2016. However, final report submission in respect of 55 projects (out of these 55 projects, 44 are sanctioned way back during 1996-2010 and 11 during 2011-16)

²¹ Thiruvananthapuram - 504.82 ha, Thenmala - 393.23 ha, Punalur - 314.496 ha and Wayanad (South) - 199 ha.

²² Thiruvananthapuram - 530.51ha, Wayanad (South) -283.33ha and Wayanad (North)- 558.49ha

²³ 723.31ha in Wayanad (South) and Wayanad (North) divisions

²⁴ Punalur - 45.9 ha, Wayanad (South)-1247.69 ha and Wayanad (North) – 7 ha

was not evident from the records furnished to Audit or not seen discussed in the Kerala Forest Development Research Committee meeting held during the last ten year period. Additional Principal Chief Conservator of Forests stated that the timely completion of Research projects would be ensured in future and the audit observations were discussed in the last KFDF Research Committee meeting held on 27.6.2016.

(ii) Poor follow-up and non-utilisation of research results

In the case of completed projects, it was stated that the final reports were forwarded to the Central Library for reference. But Audit noticed that these reports were not available either from the Library or from the department. Also the department is not maintaining any records showing the details of projects sanctioned, to whom sanctioned, amount sanctioned and paid and progress of the project. In the absence of these details the utilisation of results of research activities could not be ascertained.

Department replied (September 2016) that the matter will be taken up in the next KFD Research Committee and as far as possible a copy of the reports would be made available to the library for necessary cross reference.

(iii) Utilisation of Funds for unintended purposes

An amount of ₹0.36 crore was diverted from the funds earmarked for Forest Research activities for the purchase of vehicles (non-research activities) without the approval of the Committee. Though, the Chief Conservator of Forests (Forest Management) had replied that this was done with the prior approval from Government, no approval was available on record.

Thus, despite sufficient demand from the industrial units for softwood for industrial use, department's efforts to utilise research activities for improving plantation area or increasing the production of pulpwood were not evident from the records.

1.9.3.3 Deficiencies in internal control

Plantation journals are permanent records maintained by Forest Range offices and separate pages are provided in plantation journals for recording all the activities of a plantation from the initial stage to the final felling. Audit scrutiny revealed that the entries in journals are incomplete and all the details such as various expenditure incurred, activities conducted, details of inspections conducted etc., were not recorded. Hence audit could not ascertain the actual amount expended for raising and maintenance of each plantation.

As per Rule 3(5) of KFD Fund Rules 1989, the Administrator of the Development Fund shall furnish to Government every year a report on the receipt and expenditure of the Fund and Schemes and programmes implemented during the year under review. Department has not complied with this provision so far.

1.9.4 Status of guarantees – contingent liabilities

Guarantees are contingent liabilities on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees have been extended. Section 3 of the Kerala Ceiling on Government Guarantees (Amendment) Act, 2015²⁵ which came into effect on 5 December 2003 stipulates that the total outstanding Government Guarantees as on the first day of April every year shall not exceed ₹21,000 crore. The maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2011-12 are given in **Table 1.26**.

Table 1.26: Guarantees given by the Government of Kerala

Guarantees	2011-12	2012-13	2013-14	2014-15	2015-16
Maximum amount guaranteed	11,332.11	11,482.25	12,275.21	13,123.30	13712.77
Outstanding amount of guarantees	8,277.44	9,099.50	9,763.36	11,126.87	12438.52
Percentage of maximum amount guaranteed to total revenue receipts	30	26	25	23	20
Criteria as per Kerala Ceiling on Government Guarantees Act, 2003 (Outstanding amount of guarantees as on the first day of April)	14,000	14,000	14,000	14,000	21,000

Source: Finance Accounts of the State Government

The above table shows that there was steady increase in the outstanding guarantees at the end of each of last five years and it increased from ₹8,277.44 crore in 2011-12 to ₹12,438.52 crore in 2015-16. However, as a percentage of revenue receipts, the guaranteed amount showed steady decline from 30 per cent in 2011-12 to 20 per cent in 2015-16, which is a good indicator.

As per Section 6 of the Act, the Government has to constitute a Guarantee Redemption Fund. The guarantee commission charged under Section 5 of the Act was to form the corpus of the Fund. However, the Fund had not been constituted and consequently, guarantee commission of ₹752.78 crore collected during 2003-04 to 2015-16 had not been credited to the Fund but was treated as non-tax revenue in the relevant years and used for meeting the revenue expenditure of the Government.

During the year, an amount of ₹88.83 crore was received as guarantee commission and as of March 2016, ₹96.96 crore was due as arrears in this regard.

²⁵ Kerala Ceiling on Government Guarantees Act, 2003 has been amended in 2015 and ceiling on outstanding Government guarantee at the end of the year has been revised from ₹14000 crore to ₹21000 crore

1.10 Debt Management

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section analyses sustainability of overall debt liability of the State Government in terms of growth rate of debt and GSDP, Debt-GSDP ratio, Debt-RR ratio, impact of growing debt on interest payments, etc. These indicators for the last five years are given in **Table 1.27**.

Table 1.27: Debt sustainability: indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2011-12	2012-13	2013-14	2014-15	2015-16
Outstanding Debt of the State	93132	108477	124081	141947	160539
Growth rate of Debt	13.0	16.5	14.4	14.4	13.1
Gross State Domestic Product(GSDP)	364048	412313	462916	519896	585467
Growth rate of GSDP	38.0	13.3	12.3	12.3	12.6
Debt-GSDP ratio (<i>per cent</i>)	25.6	26.3	26.8	27.3	27.4
Debt-Revenue Receipt ratio	2.5	2.5	2.5	2.4	2.3
Average interest ²⁶ paid on outstanding debt	7.2	7.1	7.1	7.3	7.3
Percentage of interest paid on revenue Receipt	16.6	16.3	16.8	16.9	16.1
Per capita debt of the State	27,884	32,478	37,150	42,499	45,095

Source: Finance Accounts of respective years

Table 1.27 showed a decreasing trend in growth rate of debt from 2012-13 onwards. However, during the last five years Debt-GSDP ratio had showed an increasing trend and it increased from 25.6 *per cent* in 2011-12 to 27.4 *per cent* in 2015-16. This was due to higher growth rate of debt, compared to GSDP.

Interest payments as a percentage of revenue receipt was between 16 to 17 *per cent* which indicated the steady growth of revenue receipt compared to the ever increasing liability on interest payments.

1.10.1 Public Debt management

Public debt of the State comprises of debt raised from internal sources as well as loans and advances received from Government of India. Over the years loans raised from open market has been the main source for the State Government to meet its fiscal needs. Loans raised by the State Government during the last five years, repayments made with interest and net amount available from the resources are given in **Table 1.28**.

²⁶ Average interest rate = Interest paid/average of opening and closing balance of debt for the year

Table 1.28 : Net resources available in Public Debt

(₹ in crore)

Description	2011-12	2012-13	2013-14	2014-15	2015-16
Public Debt					
Internal Debt					
Open Market Borrowings	8880	11583	12800	13200	15000
Loans from Financial Institutions	457	410	501	552	600
Special securities issued to NSSF	0	630	565	1132	1455
Others	55	86	84	222	87
Total Internal Debt	9392	12709	13950	15106	17142
Loans and Advances from GOI	407	552	392	752	531
Total Public Debt Receipts	9799	13261	14342	15858	17673
Total Public Debt Payments	2893	2804	3126	3191	4075
Total interest paid on Public Debt	4532	5255	6151	7301	8358
Net Debt available	2374	5202	5065	5366	5240

Source: Finance Accounts of respective years

Table 1.28 shows that though the total public debt receipt increased from ₹13,261 crore in 2012-13 to ₹17,673 crore in 2015-16, there was not much increase in the net debt available with the State for its development activities. Also, during 2015-16, almost 70 per cent of the loans raised by the State Government has been utilised for servicing debt, since the State had no surplus revenue to meet this liability. Status of State's non-debt receipt against total expenditure in last five years is given in Table 1.29.

Table 1.29 : Incremental non-debt receipts and total expenditure

(₹ in crore)

Year	Non-Debt Receipt	Growth compared to last year	Total Expenditure	Growth compared to last year	Resource Gap
2011-12	38081	7021	50896	12105	-5084
2012-13	44226	6145	59228	8332	-2187
2013-14	49300	5074	66244	7016	-1942
2014-15	58102	8802	76744	10500	-1698
2015-16	69214	11112	87032	10288	824

Source: Finance Accounts of respective years

The resource gap (gap between incremental non-debt receipts and incremental total expenditure) was negative from 2011-12 to 2014-15, which indicated that incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden. However, resource gap reduced from 2011-12 and it became positive in 2015-16, which is a positive indicator.

Table 1.30 : Maturity profile of Public Debt*(₹ in crore)*

Debt maturing	2011-12	2012-13	2013-14	2014-15	2015-16
Up to one year	2154.64 (3.5)	2569.25 (3.6)	2674.90 (3.2)	3289.26 (3.4)	3751.61 (3.4)
One to three years	8401.13 (13.6)	5791.05 (8.0)	6829.83 (8.2)	9139.85 (9.5)	12243.13 (11.1)
Three to five years	9100.09 (14.7)	9100.72 (12.6)	12058.34 (14.4)	13265.26 (13.8)	13284.34 (12.1)
Five to seven years	13156.00 (21.3)	13181.39 (18.2)	13165.08 (15.8)	16667.64 (17.4)	22808.05 (20.8)
Seven years and above	24240.81 (39.2)	36932.83 (51.1)	44048.78 (52.8)	48958.69 (50.9)	52857.95 (48.2)
Maturity profile details not furnished by State Government	4740.42 (7.7)	4674.95 (6.5)	4689.63 (5.6)	4812.26 (5.0)	4785.90 (4.4)

Source: Finance Accounts of respective years

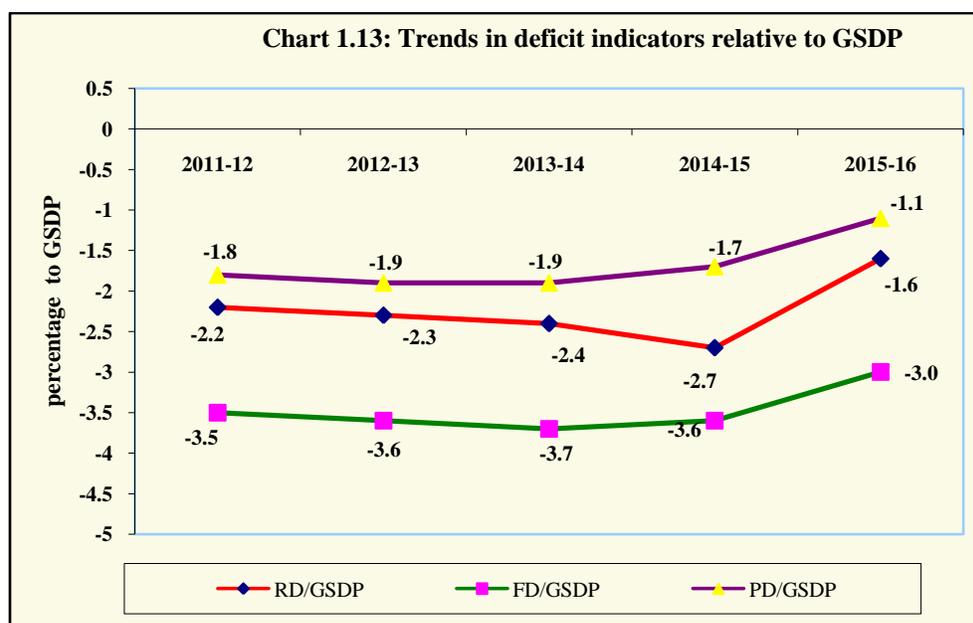
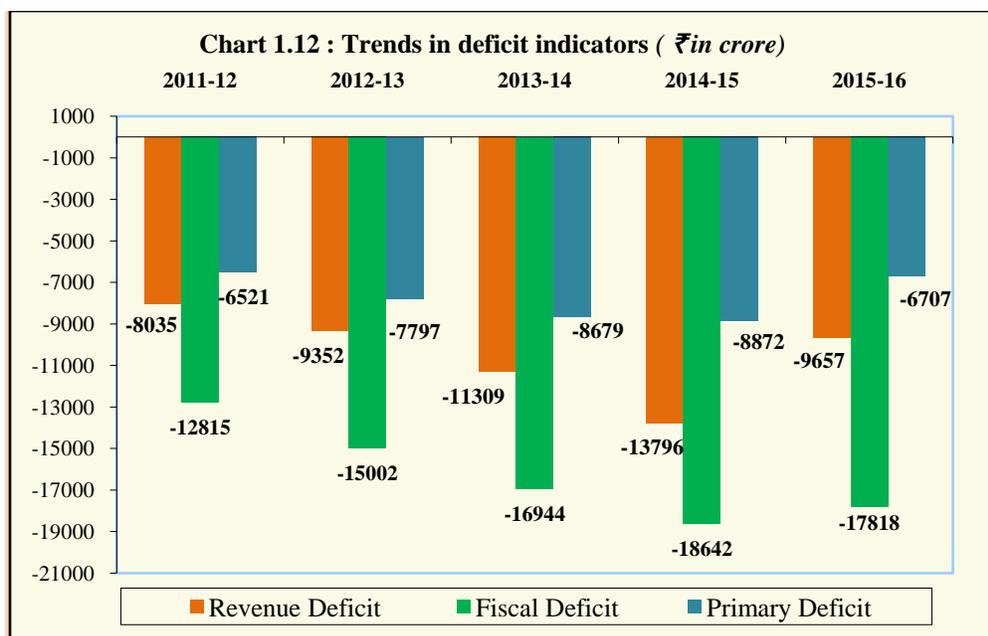
The debt maturity profile of the State given in the **Table 1.30** shows that 26.6 per cent of the debt amounting to ₹29,279.08 crore has to be repaid within five years. Also 47.4 per cent (₹52,087.13 crore) of the debt has to be repaid by March 2023 (within seven years). Steep increase in State Government's open market borrowings occurred from 2007-08 onwards and this will have adverse impact on State finances from 2017-18 onwards. State Government has to ensure additional revenue resources to meet this debt burden.

1.11 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources are raised and applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under the Fiscal Responsibility Act/Rules for the financial year 2015-16.

1.11.1 Trends in deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2011-2016.



The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts, increased steadily since 2011-12 indicating disproportionate growth of revenue expenditure or low growth rate of revenue receipts. However, the State Government could reduce the revenue deficit during 2015-16 due to the receipt of Post Devolution Revenue Deficit Grant (₹4,640 crore) from Government of India, based on the recommendations of Fourteenth Finance Commission.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap also increased steadily during the last five years. It has been increasing from 2011-12 and there was decrease in the year 2015-16 due to

receipt of Finance Commission grant as stated above.

Similarly, primary deficit also decreased during 2015-16, compared to 2014-15 due to the receipt of Finance Commission grant.

As a proportion of GSDP, primary, revenue and fiscal deficits were lowest during 2015-16 which was mainly attributed to the receipt of ₹4,640 crore received as Post Devolution Revenue Deficit Grant.

1.11.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.31**. Receipts and disbursements under the components of financing the fiscal deficit during 2015-16 are given in **Table 1.32**.

Table 1.31: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2011-12	2012-13	2013-14	2014-15	2015-16
Decomposition of fiscal deficit						
1.	Revenue deficit	8035	9352	11309	13796	9657
2.	Net capital expenditure	3837	4588	4275	4227	7472
3.	Net loans and advances	943	1062	1360	619	689
Total fiscal deficit		12815	15002	16944	18642	17818
Financing pattern of fiscal deficit*						
1.	Market borrowings	7496	10571	11373	11777	12886
2.	Loans from Government of India	36	226	40	402	169
3.	Special Securities Issued to National Small Savings Fund	(-491)	32	(-42)	525	731
4.	Loans from Financial Institutions	(-7)	(-118)	(-77)	(-69)	(-64)
5.	Small Savings, PF, etc.	3839	3686	4231	3765	8332
6.	Deposits and Advances	(-52)	1141	188	1365	(-3280)
7.	Suspense and Miscellaneous	852	712	(-946)	58	774
8.	Remittances	(-157)	31	(-168)	26	(-93)
9.	Others	32	(-379)	(-68)	164	(-59)
10.	Total (1 to 9)	11548	15902	14531	18013	19396
11.	Increase (-)/Decrease (+) in Cash Balance	1267	(-900)	2413	629	(-1578)
12.	Overall deficit	12815	15002	16944	18642	17818

*All these figures are net of disbursements/outflows during the year.

Source: Finance Accounts of respective years

Table 1.32: Receipts and disbursements under components financing the fiscal deficit during 2015-16

(₹ in crore)

Sl. No.	Particulars	Receipt	Disbursement	Net
1.	Market borrowings	15000	2114	12886
2.	Loans from Government of India	531	362	169
3.	Special Securities Issued to National Small Savings Fund	1455	724	731
4.	Loans from Financial Institutions	600	664	(-)64
5.	Small Savings, PF, etc.	50248	41916	8332
6.	Deposits and Advances	4547	7827	(-)3280
7.	Suspense and Miscellaneous	103331	102557	774
8.	Remittances	10175	10268	(-)93
9.	Others	409	468	(-)59
10.	Total (1 to 9)	186296	166900	19396
11.	Increase (-)/Decrease (+) in Cash Balance	1651	3229	(-)1578
12.	Overall deficit			17818

Source: Finance Accounts of the State Government

Table 1.31 reveals that during the last five years, market borrowings and net accretions in Public Account (especially in Small Savings, PF, etc.) are the main source of the State Government to finance the fiscal deficit. During 2015-16 also, net market borrowings (₹12,886 crore) and net accretions in Small savings, PF, etc (₹8,332 crore) were used for bridging the fiscal deficit of the State.

During 2015-16, the State Government raised ₹15,000 crore as market loans at a weighted average interest rate of 8.25 per cent, loans amounting to ₹600 crore from NABARD at an interest rate of 6.25 per cent to 7 per cent, ₹1,455.20 crore from National Small Savings Fund at an interest rate of 9.5 per cent and ₹31.02 crore from NCDC at an interest rate of 11.45 per cent. The State Government also received loans amounting to ₹531 crore from the Government of India during the year for which the details of interest rate on all loans were not available.

The State Government has been mobilising deposits from its employees, pensioners, institutions and general public through treasuries. During 2015-16, the State Government received ₹33,053.82 crore as deposits through Treasury Saving Bank accounts at an average interest rate of five per cent and ₹9522.18 crore as Treasury Fixed Deposits at interest rates ranging between 7.5 per cent and 9.5 per cent. The balance of such deposits as on 31 March 2016 was ₹21,515.04 crore. This is ₹5,615.38 crore more than the previous year's balance

1.11.3 Quality of deficit

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds

were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.33**) indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.33: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts (NDR)	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2011-12	38081	39751	3853	998	44602	(-) 1670	(-) 6521
2012-13	44226	46284	4603	1136	52023	(-) 2058	(-) 7797
2013-14	49300	52221	4294	1464	57979	(-) 2921	(-) 8679
2014-15	58102	61976	4255	743	66974	(-) 3874	(-) 8872
2015-16	69214	67579	7500	842	75921	1635	(-) 6707

Source: Finance Accounts of respective years

The bifurcation of the factors leading to primary deficit of the State reveals that during 2011-12 to 2015-16, non-debt receipts (NDR) of the State were not enough to meet the primary revenue expenditure²⁷ of the State. However, the position has improved and there was primary revenue surplus of ₹1635 crore during 2015-16. Though the Government had to depend on borrowed funds even for meeting primary expenditure till 2014-15, the situation improved in 2015-16 due to increased revenue collection of the State as well as receipt of Post Devolution Revenue Deficit Grant.

1.12 Conclusion

Fiscal position of the State

As in the previous year, revenue resources of the State were insufficient to meet its revenue expenditure and the State had a revenue deficit of ₹9,657 crore in 2015-16. But due to receipt of Post Devolution Revenue Deficit Grant of ₹4,640 crore from Government of India, based on the recommendations of Fourteenth Finance Commission, the State could reduce revenue deficit considerably, compared to 2014-15. However, fiscal deficit (₹17,818 crore) continued to be high and it was 3 per cent of the GSDP against 3.6 per cent in 2014-15. Share of revenue deficit in fiscal deficit also came down to 54.2 per cent in 2015-16 against 74 per cent in 2014-15.

²⁷ Primary revenue expenditure represents revenue expenditure less expenditure on interest.

Revenue resources of the State

Revenue receipts (₹69,033 crore) of the State increased by ₹11,082 crore, compared to the previous year, recording an increase of 19 *per cent*. More than 50 *per cent* (₹6,178 crore) of this increase was contributed by share of union taxes and grants-in-aid from Government of India. Though, State's own tax revenue increased by ₹3,763 crore, its growth rate (11 *per cent*) was much less than the growth rate of revenue receipts (19 *per cent*) and also less than the growth rate of GSDP (13 *per cent*). Substantial increase was noticed in the receipt of non-tax revenue due to increased receipts under State Lotteries. But net yield from the sale of lotteries was less due to increased expenditure on distribution of prizes, agent commission, etc.

Revenue Expenditure of the State

During the last five years, lowest growth rate (9.7 *per cent*) of revenue expenditure was in 2015-16. As in the previous year, plan revenue expenditure recorded a better growth rate (17.5 *per cent*) than non-plan revenue expenditure (8.4 *per cent*) during 2015-16. Though interest payments and pensions recorded an increase of 14 *per cent* and 16 *per cent* respectively during 2015-16, growth rate of payment of salary and wages was less than 10 *per cent*. During the year committed expenditure of the State consumed about 71 *per cent* of the revenue receipts, but this was lowest during the last five year period.

Quality of expenditure

State's share of expenditure on education and health in total expenditure was higher than General Category States, but in respect of development expenditure, social sector expenditure and capital expenditure, State's performance was poor comparing to General Category States. State's expenditure on share capital investments and release of loans advances to Government companies, Public Sector Undertakings, etc. continued without any improvement in the return on these expenditures.

Reserve Funds and liabilities

Consolidated Sinking Fund was constituted with the aim to amortize the outstanding liabilities of Government, but Government did not contribute to the fund during 2015-16. Non-contribution of required amount to the fund would reduce the debt redemption options of the Government in future.

Kerala Forest Development Fund was constituted for planting and maintaining softwood and other species of trees which form raw materials for industries, but due to non-utilisation of accruals in the fund as envisaged in the Act, funds accumulated in the Reserve Fund.

Debt management

Though growth rate of debt liability showed a declining trend during the last four years, debt-GSDP ratio showed a steady increasing trend during the last five years indicating increased growth rate of debt compared to GSDP. Public Debt receipt of the State increased by 80 *per cent* during the last five years, but during 2015-16 more than 70 *per cent* of the receipt was utilised for redemption of debt liability during the year. Debt maturity profile shows that 47.4 *per cent* (₹52,087.13 crore) of the debt has to be repaid by March 2023.

1.13 Recommendations

- Government may take necessary steps to improve the growth rate of State's own tax revenue to meet the increasing burden of interest payments and pensions.
- State may improve its Capital expenditure and Development expenditure so that it can match those of General Category States.
- Measures may be taken to improve the utilisation of Kerala Forest Development Fund to achieve its objectives.