

## EXECUTIVE SUMMARY

### Background

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area wise, Kerala is ranked 21<sup>st</sup> in the country with an area of 38,863 sq.km. The State has a population of 3.34 crore (12<sup>th</sup> 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.

### About the Report

This Report of the Finances of the Government of Kerala is being brought out with a view to assess objectively, the financial performance of the State during 2015-16 and to provide the State Government and the State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in the budget estimates of 2015-16. Based on the audited accounts of the Government of Kerala for the year ended March 2016, this Report provides an analytical review of the Annual Accounts of the State Government. This Report is structured in three Chapters.

**Chapter 1** is based on the audit of Finance Accounts and makes an assessment of the Kerala Government's fiscal position as on 31 March 2016. It provides an insight into trends in committed expenditure, borrowing pattern and quality of expenditure, besides giving comparison on State's expenditure with other General Category States.

**Chapter 2** is based on the audit of Appropriation Accounts and gives a Grant-by-Grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

**Chapter 3** is an inventory of the Kerala Government's compliance with various reporting requirements and financial rules. The report also compiles the data compiled from various Government departments/organizations in support of the findings.

## **Audit findings and recommendations**

### **Chapter I : Finances of the State Government**

#### **Overall financial status**

For the last few years, State's revenue resources were insufficient to meet its revenue expenditure and hence the State was in revenue deficit during the period. However, during 2015-16 revenue deficit (₹9,657 crore) reduced compared to 2014-15 (₹13,796 crore) due to 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 (₹17,818 crore) also decreased compared to last year (₹18,642 crore) 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. As a proportion of GSDP, primary, revenue and fiscal deficit were the lowest during 2015-16 due to the effect of post devolution revenue deficit grant.

#### **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. During the last two years revenue receipts of the State showed an increasing trend of 18 *per cent* and 19 *per cent* respectively. 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. There was considerable reduction in release of grants-in-aid from GoI as 'Non-plan Grants' under proviso to Article 275(1) of the Constitution. Grants for State plan schemes and Grants for centrally sponsored schemes also reduced considerably during 2015-16.

#### **Revenue expenditure of the State**

Revenue expenditure increased by 9.7 *per cent* during 2015-16. But it was the lowest growth rate shown during the last five years. 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* only. During the year committed expenditure of the State consumed about 71 *per cent* of the revenue receipt, but this was lowest during the last five year period. Non-Plan Revenue Expenditure (NPRE) as a percentage of GSDP was steady

during the last five years, but NPRE as a percentage of total expenditure showed a declining trend from 2014-15 and it was lowest during 2015-16, which is a positive sign.

### **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 and advances to Government companies, Public Sector Undertakings, etc., continued to be worthless as there was no 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 owing to lack of sufficient revenue resources, 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 material for industries, but utilisation of accruals in the fund as envisaged in the Act was non-evident consequently funds got 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.

## **Chapter II**

### **Financial Management and Budgetary Control**

Against the total budget allocation of ₹1,18,890.79 crore, total expenditure was ₹94,377.17 crore, which resulted in under-utilisation of 21 *per cent* (₹24,513.62 crore) of the budget allocation during 2015-16. This was one *per cent* more than the under-utilisation during 2014-15. In nine Grants and one Appropriation persistent savings of ₹100 crore or more of the provision was noticed for the last three years. Excess expenditure of ₹230.77 crore under three appropriations and

one Grant is to be regularized under Article 205 of the Constitution. Supplementary provisions aggregating to ₹781.10 crore, obtained in 20 Grants/Appropriations (₹one crore or more in each case) during the year, proved unnecessary as the expenditure did not come up to the level of even the original provisions. Augmentation of funds through re-appropriation was proved wholly unnecessary in some sub-heads as the final expenditure was less than the budget allocation received through original and supplementary demands for grants. In 16 Grants/Appropriations, against the actual savings of ₹13,593.88 crore, the amount surrendered was ₹14,170.56 crore, resulting in excess surrender of ₹576.68 crore, indicated the injudicious management of budget allocation by departmental officers. Failures in appropriation control on the part of departmental officers of Social Justice Department was noticed in the Grant selected for review. Irregular maintenance of Personal Deposit Accounts and Treasury Savings Bank accounts was noticed during the audit of treasuries.

### **Chapter III**

#### **Financial Reporting**

The audit of accounts of autonomous bodies, which has been entrusted to the Comptroller and Auditor General of India under Sections 19 (2), 19 (3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 are long pending in respect of 13 bodies due to delay in submission of accounts.

Scrutiny of records of 13 Public Works Divisions (eight Roads Divisions and five Buildings Divisions) revealed substantial accumulation of ₹606.02 crore under the deposit head of the divisions at the end of March 2016, due to delay in execution of work as well as non-transfer of balance fund after execution. In respect of roads divisions, deposits received for road restoration charges are rarely utilised and in respect of buildings divisions there was inordinate delay in execution of work.

During the period from 2006-07 to 2015-16, out of ₹3640.17 crore withdrawn from the Consolidated Fund of the State, ₹496.28 crore remained blocked under the head of account '8443-117-99, due to non-utilisation of funds for the earmarked purpose as well as non-refund of balance fund after payment of compensation. None of the LAOs (17 test-checked in Audit) were maintaining registers as prescribed in Land Acquisition (Kerala) Rules, 1990, which led to shortfall in monitoring the utilization of funds entrusted to them.