

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 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.60 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 6.0 *per cent* (3.40 crore in 2008 to 3.60 crore in 2017), which is the second 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) of the State in 2017-18 at current prices was ₹6,86,116 crore.

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 2017-18 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 is made to compare the achievements with the targets envisaged by the State Government in the budget estimates of 2017-18. Based on the audited accounts of the Government of Kerala for the year ended March 2018, 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 2018. 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

Revenue deficit increased from ₹15,484 crore in 2016-17 to ₹16,928 crore in 2017-18 and fiscal deficit increased from ₹26,448 crore in 2016-17 to ₹26,838 crore in 2017-18. The ratio of fiscal deficit to GSDP improved from 4.3 *per*

cent in 2016-17 to 3.9 per cent in 2017-18. State did not achieve any of the targets fixed in its Medium Term Fiscal Plan or Kerala Fiscal Responsibility Act during 2017-18. As per the recommendation of the Fourteenth Finance Commission, Fiscal deficit to GSDP ratio was to be anchored at 3 per cent but it was 3.9 per cent during 2017-18.

Revenue resources of the State

Revenue receipts of the State increased from ₹49,177 crore in 2013-14 to ₹83,020 crore in 2017-18 recording a growth rate of 69 per cent during last five years. Share of State's own tax revenue being the main source of revenue in revenue receipts decreased from 65 per cent in 2013-14 to 56 per cent in 2017-18 indicating low growth rate of tax revenue when compared to other components of revenue receipts. Though the receipts under State Lotteries was ₹9,034 crore (81 per cent of Non-tax revenue) an equally high expenditure of ₹7,628 crore on distribution of prizes, agent commission, etc. reduced the net yield to ₹1,406 crore during the year.

Revenue expenditure of the State

Revenue Expenditure of the State increased from ₹91,096 crore in 2016-17 to ₹99,948 crore in 2017-18 recording a growth of 9.72 per cent over the previous year. Revenue expenditure as a percentage of total expenditure increased during 2017-18 indicating low priority of Government towards capital expenditure. Share of committed expenditure in revenue expenditure increased from 63 per cent in 2016-17 to 69 per cent in 2017-18. Interest payments and pension payments consumed 18 per cent and 24 per cent respectively of revenue receipts and is a matter of concern for the State Government.

Quality of expenditure

Capital expenditure decreased by ₹1,377 crore during the year and its share in total expenditure decreased from 10 per cent in 2016-17 to 8 per cent in 2017-18. State's share of expenditure on health and education sector in total expenditure was more than General Category States, but the share of capital expenditure and development expenditure in total expenditure was less than that of General Category States. The average return on investment made by State Government was 1.44 per cent in the last five years while the Government paid an average interest rate of 7.24 per cent on its borrowings during the same period. The interest receipt on loans and advances given by State Government was 0.25 per cent during 2017-18 against the average cost of borrowing of 7.48 per cent.

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 2017-18. Similarly, Government has to constitute a Guarantee Redemption Fund for crediting guarantee commission collected for meeting future liability arising out of guarantees given by the Government. This fund

has not been constituted so far. The accumulated balance in State Disaster Response Fund, at the end of March 2018 was ₹287.08 crore. As per the guidelines, Government has to credit interest to the fund equal to the amount of interest rate applicable to overdraft under overdraft regulation scheme of Reserve Bank of India. However, this was not done. Interest payable on the un-invested balances of the fund of earlier years was also not estimated by the Government.

Debt management

Open market borrowings have a major share (54 *per cent*) in total fiscal liabilities of the State. The net debt available with State for development activities was only ₹6164 crore (26 *per cent* of public debt receipts) during 2017-18. Maturity profile of the State shows that about 50.14 *per cent* of the debt (₹71,698.62 crore) is to be repaid by March 2025.

Implementation of National Pension System

State Government implemented National Pension System (NPS) for the All India Service Officers (July 2009) recruited to Kerala cadre on or after 1.1.2004 and for the State Government employees (January 2013) appointed on or after 1.4.2013. Deficiencies like non providing of interest by State Government towards the matching Government share for the backlog contribution in respect of State Government employees, delay ranging from 27 to 41 months in transfer of NPS backlog contribution in respect of AIS officers to NSDL, non-deduction of NPS subscription from the pay revision arrears disbursed to employees etc were noticed in the implementation of the NPS.

Receipt and utilisation of Fourteenth Finance Commission Award for the first three years of award period (2015-2018)

State received ₹13,308.28 crore out of the award amount of ₹13,560.08 crore during 2015-16 to 2017-18 resulting in short receipt of ₹251.80 crore from Government of India. The short release was noticed under 'Grants to local bodies'.

Chapter II: Financial Management and Budgetary Control

The overall savings of ₹11,424.97 crore (7.89 *per cent*) in 2017-18 against the total budget allocation of ₹1,44,881.94 crore was 7.60 *per cent* less than the savings noticed during 2016-17 (15.49 *per cent*). Persistent savings exceeding ₹100 crore were noticed in eight Grants under revenue section and five Grants and one Appropriation under capital section. Excess expenditure of ₹3,545.44 crore occurred during 2017-18 under six Grants and three Appropriations is to be regularized under Article 205 of the Constitution along with excess expenditure of ₹1,189.56 crore relating to previous years (2011-12 to 2016-17). Supplementary provisions aggregating to ₹2,417.30 crore obtained in 12 Grants/Appropriations proved unnecessary as the expenditure did not come up to the level of even the original provisions. During 2017-18, 11 *per cent* of the total budget allocation was surrendered at the end of the financial year, which includes five grants having surrender more than ₹1,000 crore.

Unnecessary and injudicious re-appropriations indicated that departmental officers failed in assessing actual requirement of funds in heads of account under their control. Excess payment of pension and non-settlement of advances by drawing and disbursing officers were noticed in Inspection of Treasuries.

Chapter III: Financial Reporting

The audit of accounts of District Legal Services Authorities, Ernakulam and Kasaragod, which was 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, were pending for five years (from 2012-13).

Long pending recovery in respect of cases of defalcation/misappropriation, theft, losses, etc.

There were delays in initiating departmental action, fixing liability, issuing orders of recovery, etc., in respect of cases of misappropriation/loss of public money.