

# EXECUTIVE SUMMARY

## Background

Kerala is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area-wise, the State is ranked 22<sup>nd</sup> in the country with an area of 38,863 sq.km. The State has a population of 3.63 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 6.23 *per cent* (3.42 crore in 2009 to 3.63 crore in 2019), 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 2018-19 at current prices was ₹7,81,653 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 2018-19 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 2018-19. Based on the audited accounts of the Government of Kerala for the year ended March 2019, 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 2019. 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 brings together 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 ₹13,796 crore in 2014-15 to ₹17,462 crore in 2018-19 and fiscal deficit increased from ₹18,642 crore in 2014-15 to ₹26,958

crore in 2018-19. The ratio of fiscal deficit to GSDP improved from 3.6 *per cent* in 2014-15 to 3.4 *per cent* in 2018-19. State did not achieve any of the targets fixed in its Medium Term Fiscal Plan or Kerala Fiscal Responsibility Act during 2018-19. 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 3.4 *per cent* during 2018-19.

### **Revenue resources of the State**

Revenue receipts of the State increased from ₹57,950 crore in 2014-15 to ₹92,854 crore in 2018-19 recording a growth rate of 60 *per cent* during last five years. Share of State's own tax revenue being the main source of revenue in revenue receipts, decreased from 61 *per cent* in 2014-15 to 55 *per cent* in 2018-19 indicating low growth rate of tax revenue during the period. Receipts under State Lotteries was the main source of non-tax revenue and it constituted 74 to 81 *per cent* of non-tax revenue during the period.

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

Revenue Expenditure of the State increased from ₹71,746 crore in 2014-15 to ₹1,10,316 crore in 2018-19 recording a growth rate of 54 *per cent* during the period. Revenue expenditure as a percentage of total expenditure ranged between 89 to 93 *per cent* during the period showing predominance of revenue expenditure. Share of committed expenditure in revenue expenditure was 63 *per cent* during 2018-19 and it consumed 75 *per cent* of revenue receipts during the year. Interest payments consumed 18 *per cent* of revenue receipts and is a matter of concern for the State Government.

### **Quality of expenditure**

Capital expenditure increased from ₹4,255 crore in 2014-15 to ₹7,431 crore in 2018-19 recording a growth of 75 *per cent* during the period. However, capital expenditure is showing a declining trend during 2017-18 and 2018-19. It decreased by ₹1,377 crore during 2017-18 and further decreased by ₹1,318 crore in 2018-19 showing low priority of Government towards capital expenditure during last two years. 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 1.40 *per cent* in the last five years while the Government paid an average interest rate of 7.29 *per cent* on its borrowings during the same period. The interest receipt on loans and advances given by State Government was 0.24 *per cent* during 2018-19 against the average cost of borrowing of 7.34 *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 2018-19. 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 (SDRF) at the end of March 2019 was ₹2,113.98 crore. As per the guidelines issued by Government of India, the accretions to SDRF were to be invested in GoI Securities/Treasury Bills by State Executive Committee constituted for the management of the Fund. However, this has not been done till date.

### **Off-Budget Borrowing**

KIIFB borrowed / raised funds amounting to ₹3,106.57 crore from financial institutions till 2018-19 by issue of bonds etc., which were to be re-paid from the petroleum cess and part of motor vehicle tax set apart by the Government of Kerala from its own revenue resources for transfer to KIIFB. This included an amount of ₹ 2,150 crore raised through Masala Bonds in foreign countries.

Since KIIFB has no source of income, the borrowings by KIIFB for which State Government stood as a guarantor, may ultimately turn out to be a direct liability of the State Government. Any servicing of these debts by the State Government would entail surpassing the FFC and KFR fiscal deficit target of 3 *per cent* (in the current year it already stands at 3.45 *per cent*) and the debt-GSDP ratio of 30 *per cent* (in the current year it stands at 30.91 *per cent*). Further, such off-budget borrowings are not in accordance with Article 293 (1) of the Constitution of India.

### **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 ₹3,168 crore (13 *per cent* of public debt receipts) during 2018-19. Maturity profile of the State shows that about 51.22 *per cent* (₹81,056.92 crore) of the debt is to be repaid by March 2026.

## **Chapter II: Financial Management and Budgetary Control**

The overall savings of ₹16,653.31 crore (10.38 *per cent*) in 2018-19 against the total budget allocation of ₹1,60,374.90 crore was 2.49 *per cent* more than the savings noticed during 2017-18 (7.89 *per cent*). Persistent savings exceeding ₹100 crore were noticed in nine Grants under revenue section and five Grants under capital section. Excess expenditure of ₹4,463.15 crore occurred during 2018-19 under two Grants and four Appropriations is to be regularized under Article 205 of the Constitution along with excess expenditure of ₹4,735.00 crore relating to previous years (2011-12 to 2017-18). Supplementary provisions aggregating to ₹6,107.21 crore obtained in 30 Grants/Appropriations proved unnecessary as the expenditure did not come up to the level of even the original provisions. During 2018-19, 12.90 *per cent* of the total budget allocation was surrendered at the end of the financial year, which includes six 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 accounts of District Legal Services Authorities, Ernakulam, Kollam, Wayanad and Kasaragod, the audit of 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 due for four years (from 2014-15).