

CHAPTER II FINANCES OF THE STATE

This Chapter is based on the audit of the Finance Accounts of the State and makes an assessment of the State's fiscal position as on 31 March 2021. It provides a broad perspective of the finances of the State during 2020-21 and analyses critical changes observed in the major fiscal aggregates in relation to the previous year, keeping in view the overall trend during the last five years period.

2.1 Major changes in Key fiscal aggregates *vis-à-vis* 2019-20

The major changes in key fiscal aggregates of the State during the year 2020-21, compared to the previous year are given in **Table 2.1**

Table 2.1: Changes in key fiscal aggregates in 2020-21 compared to 2019-20

| | |
|----------------------------|--|
| Revenue Receipts | <ul style="list-style-type: none"> ✓ Revenue receipts of the State increased by 8.19 <i>per cent</i> ✓ Own Tax receipts of the State decreased by 5.29 <i>per cent</i> ✓ Own Non-tax receipts decreased by 40.26 <i>per cent</i> ✓ State's Share of Union Taxes and Duties decreased by 29.51 <i>per cent</i> ✓ Grants-in-Aid from Government of India increased by 176.52 <i>per cent</i> |
| Revenue Expenditure | <ul style="list-style-type: none"> ✓ Revenue expenditure increased by 17.88 <i>per cent</i> ✓ Revenue expenditure on General Services decreased by 9.27 <i>per cent</i> ✓ Revenue expenditure on Social Services increased by 31.69 <i>per cent</i> ✓ Revenue expenditure on Economic Services increased by 106 <i>per cent</i> ✓ Expenditure on Grants-in-Aid increased by 56.54 <i>per cent</i> |
| Capital Expenditure | <ul style="list-style-type: none"> ✓ Capital expenditure increased by 52.45 <i>per cent</i> ✓ Capital expenditure on General Services increased by 65.06 <i>per cent</i> ✓ Capital expenditure on Social Services increased by 108.86 <i>per cent</i> ✓ Capital expenditure on Economic Services increased by 43.64 <i>per cent</i> |
| Loans and Advances | <ul style="list-style-type: none"> ✓ Disbursement of Loans and Advances increased by 110.58 <i>per cent</i> ✓ Recoveries of Loans and Advances decreased by 10.67 <i>per cent</i> |
| Public Debt | <ul style="list-style-type: none"> ✓ Public Debt Receipts increased by 15.44 <i>per cent</i> (<i>Effective increase would be 5.90 per cent considering the exclusion of the back to back loan received in lieu of GST compensation from GoI</i>) ✓ Repayment of Public Debt decreased by 11.53 <i>per cent</i> |
| Public Account | <ul style="list-style-type: none"> ✓ Public Account Receipts increased by 34.05 <i>per cent</i> ✓ Disbursement of Public Account increased by 33.97 <i>per cent</i> |
| Cash Balance | <ul style="list-style-type: none"> ✓ Cash balance increased by ₹2,957.76 crore (147.14 <i>per cent</i>) during 2020-21 compared to previous year |

2.2 Sources and Application of Funds

The components of the sources and application of funds of the State during the financial year compared to the previous year is given below in **Table 2.2**.

Table 2.2: Details of Sources and Application of funds during 2019-20 and 2020-21

(₹ in crore)

| Particulars | | 2019-20 | 2020-21 | Increase (+)/ Decrease (-) in (per cent) |
|-------------|------------------------------------|------------------|------------------|--|
| Sources | Opening Cash Balance | 2203.15 | 2010.22 | (-)8.76 |
| | Revenue Receipts | 90224.67 | 97616.83 | 8.19 |
| | Capital Receipts | 27.48 | 34.15 | 24.27 |
| | Recoveries of Loans and Advances | 295.32 | 263.82 | (-)10.67 |
| | Public Debt Receipts (Net) | 16405.77 | 30807.51* | 87.78 |
| | Public Account Receipts (Net) | 7313.77 | 13044.94 | 78.36 |
| | Contingency fund | 0.00 | 75.00 | 0.00 |
| | Total | 116470.16 | 143852.47 | 23.51 |
| Application | Revenue Expenditure | 104719.92 | 123446.33 | 17.88 |
| | Capital Expenditure | 8454.80 | 12889.65 | 52.45 |
| | Disbursement of Loans and Advances | 1210.22 | 2548.51 | 110.58 |
| | Closing Cash Balance | 2010.22 | 4967.98 | 147.14 |
| | Contingency fund | 75.00 | 0.00 | |
| | Total | 116470.16 | 143852.47 | 23.51 |

Source: Finance Accounts for 2019-20 and 2020-21

* Effective Public Debt Receipts (Net) would be ₹25,041.51 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

The composition and application of the resources are shown in the **Charts 2.1 and 2.2.**

Chart 2.1: Composition of Resources
(in per cent)

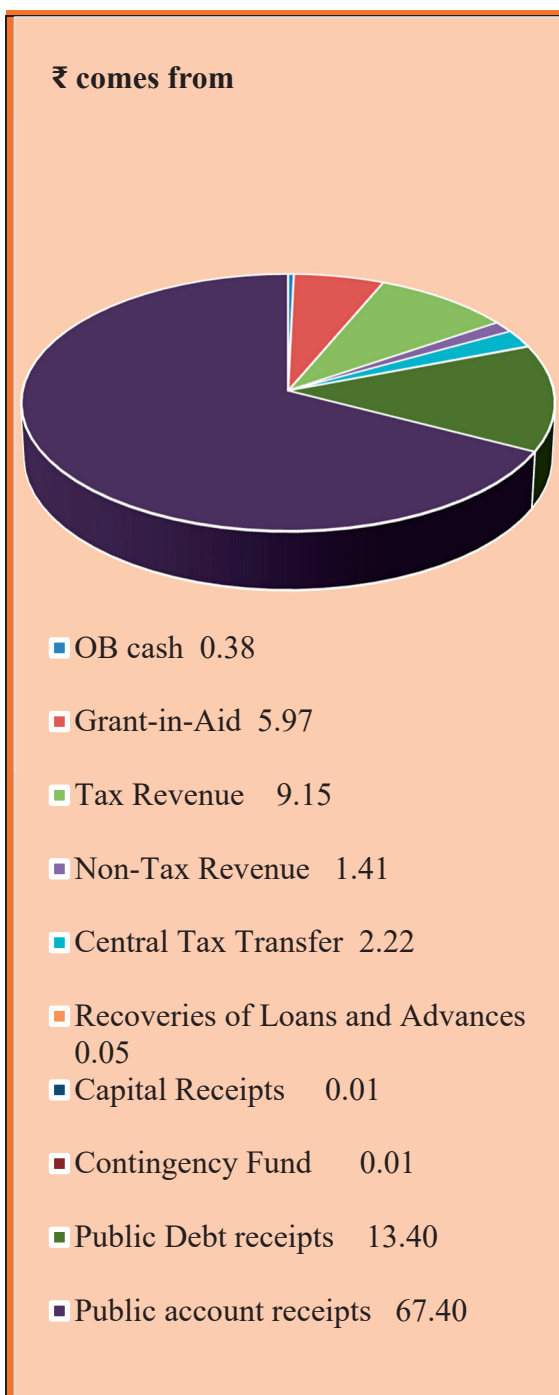
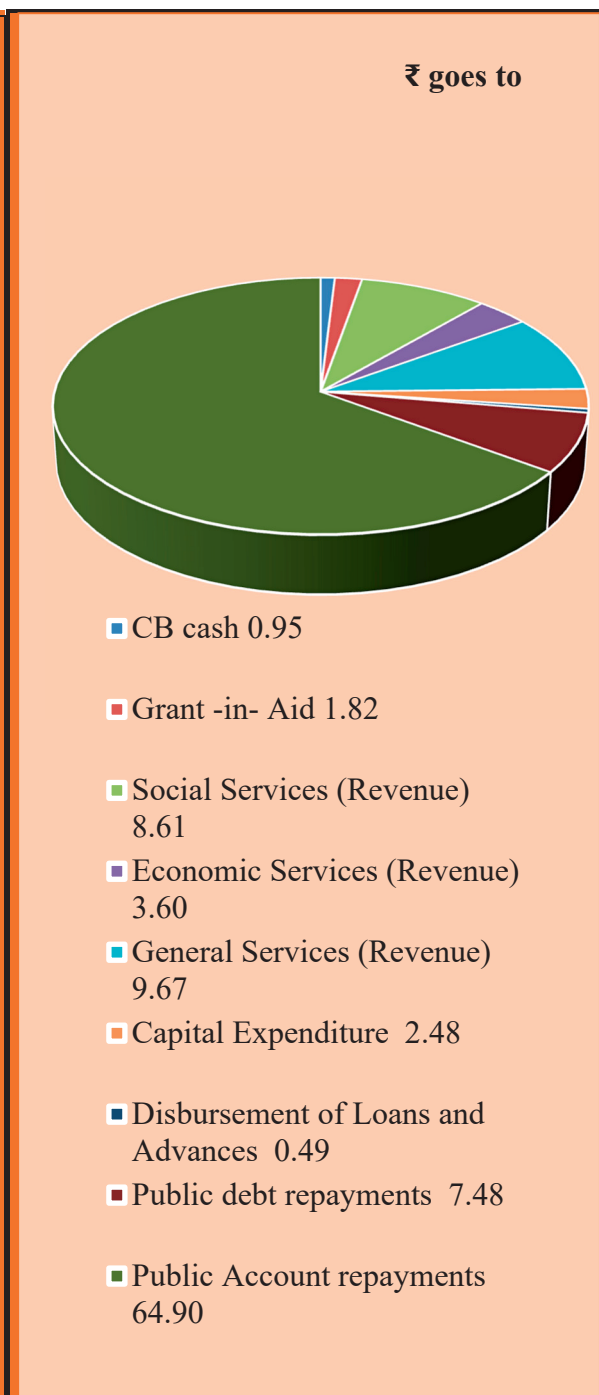


Chart 2.2: Application of Resources
(in per cent)



2.3 Resources of the State

The resources of the State are described below:

1. **Revenue receipts** consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India(GoI).
2. **Capital receipts** comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Both revenue and capital receipts form part of the Consolidated Fund of the State.

3. **Net Public Accounts receipts:** There are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund.

These are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for use.

2.3.1 Receipts of the State

The composition of the overall receipts of the government is given in **Chart 2.3** below. Besides, the Capital and Revenue Receipts, funds available in the Public Account (net of disbursement made from it) are also utilised by the Government to finance its deficit.

Chart 2.3: Composition of receipts of the State during 2020-21 (₹ in crore)

Total Receipts ₹1,41,767.25

| Revenue Receipts ₹97,616.83 | | Capital Receipts ₹31,105.48 | | Net Public Account Receipts ₹13,044.94 | |
|--|-----------------|---|------------------|---|----------|
| Grant in Aid | 31068.28 | Non Debt Receipts | 297.97 | Small Savings PF etc | 11547.96 |
| Share of Union Taxes and Duties | 11560.40 | Recoveries of Loans and Advances | 263.82 | Reserve Funds | 344.05 |
| Non-Tax Revenue | 7327.31 | Miscellaneous Capital Receipts | 34.15 | Deposit/advances | 494.88 |
| Own Tax Revenue | 47660.84 | Public Debt Receipts (Net) | 30807.51* | Suspensense and Miscellaneous | 618.64 |
| State Goods and Service Tax | 20028.31 | Internal debt excluding ways and means advances | 25043.88 | Remittances | 39.41 |
| Land Revenue | 493.35 | Net transactions under ways and means advances | (-)529.82 | | |
| Stamps and Registration Fees etc | 3489.59 | Loans & Advances From GoI | 6293.45** | | |
| State Excise | 2329.22 | | | | |
| Taxes on Vehicles | 3386.28 | | | | |
| Taxes on Sales, trade etc | 17689.17 | | | | |
| Other Taxes and duties on Commodities and Services | 48.80 | | | | |
| Others | 196.12 | | | | |

* Effective Public Debt Receipts (Net) would be ₹25,041.51 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

** Effective Loans & Advances from GoI would be ₹527.45 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts (6004-Loans and Advances from GoI) would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

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

The trends in total revenue receipts and its components, followed by trends in the receipts bifurcated into receipts from the central government and State's own receipts etc. are discussed in the succeeding paragraphs.

2.3.1.1 Trends and growth of Revenue Receipts

The trends and growth of Revenue Receipts as well as revenue buoyancy with respect to GSDP over the five-year period 2016-17 to 2020-21 are given in **Table 2.3**. Further, trends in Revenue Receipts relative to GSDP and composition of revenue receipts are given in **Charts 2.4** and **2.5** respectively.

Table 2.3: Trend in Revenue Receipts

| Parameters | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue Receipts (RR) (₹ in crore) | 75611.72 | 83020.14 | 92854.47 | 90224.67 | 97616.83 |
| Rate of growth of RR (per cent) | 9.53 | 9.80 | 11.85 | (-)2.83 | 8.19 |
| Own Tax Revenue | 42176.37 | 46459.61 | 50644.10 | 50323.14 | 47660.84 |
| Non-Tax Revenue | 9699.98 | 11199.61 | 11783.24 | 12265.22 | 7327.31 |
| Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) (per cent) | 9.40 | 11.15 | 8.27 | 0.26 | (-)12.14 |
| Gross State Domestic Product (₹ in crore) | 634886.00 | 701588.00 | 790302.00 | 854689.00 | 758942.00 |
| Rate of growth of GSDP (per cent) | 12.97 | 10.51 | 12.64 | 8.15 | (-)11.20 |
| RR/GSDP (per cent) | 11.91 | 11.83 | 11.75 | 10.56 | 12.86 |
| Buoyancy Ratios⁵ | | | | | |
| Revenue Buoyancy w.r.t GSDP | 0.73 | 0.93 | 0.94 | (-)0.35 | (-)0.73 |
| State's Own Revenue Buoyancy w.r.t GSDP | 0.72 | 1.06 | 0.65 | 0.03 | 1.08 |

Source: Finance Accounts of respective years; for GSDP MoSPI site as on 02 August 2021 and information from Directorate of Economics and Statistics, Kerala

⁵ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable.

Chart 2.4 Trend of Revenue Receipts

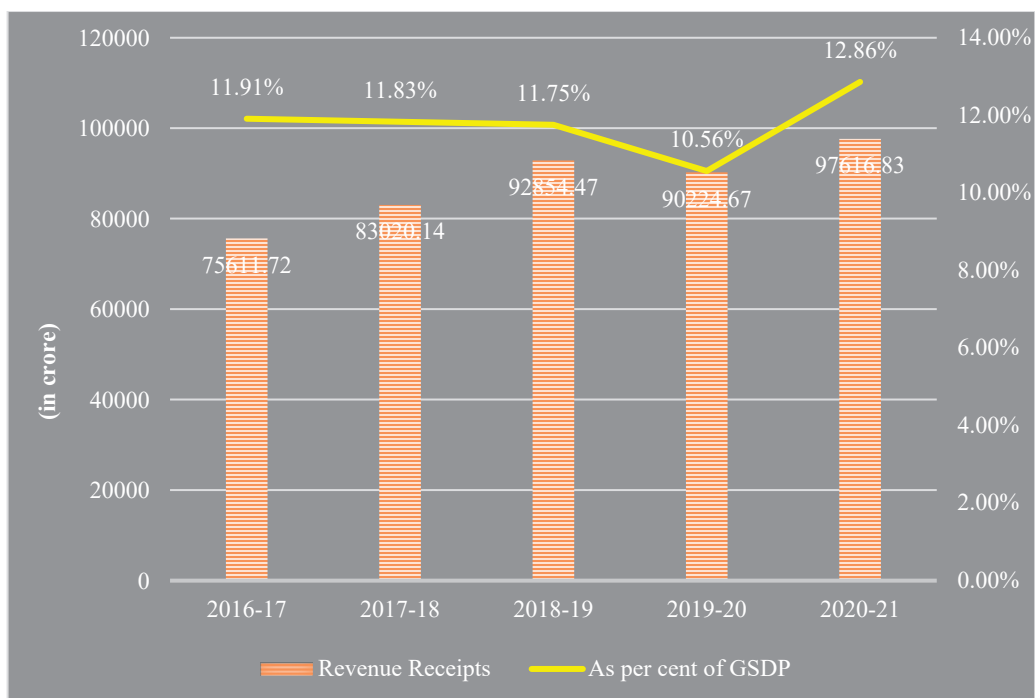
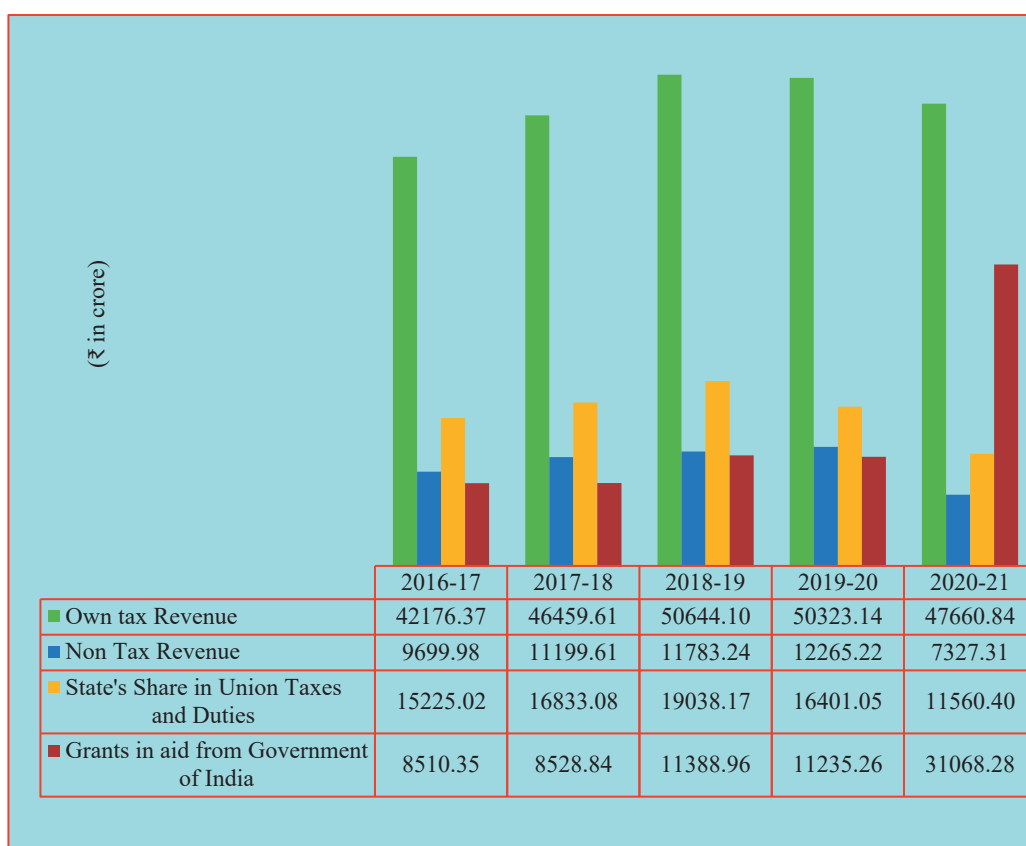


Chart 2.5 : Trend of components of Revenue Receipts



General trends relating to Revenue Receipts of the State are as follows:

- The revenue receipts of the State increased by 8.19 *per cent* from ₹90,224.67 crore in 2019-20 to ₹97,616.83 crore in 2020-21. This was mainly due to a significant increase of 54.25 *per cent* (₹14,992.37 crore) in central transfer to the State, from ₹27,636.31 crore in 2019-20 to ₹42,628.68 crore in 2020-21. This was partly offset by decrease in own revenue of the Government.
- State's own resources contributed to 56.33 *per cent* of the revenue receipts during 2020-21, while union taxes and grant-in-aid together contributed 43.67 *per cent*.
- During 2020-21, own revenue (tax *plus* non-tax) of the State decreased by ₹7,600.21 crore as compared to 2019-20. The rate of growth of States own revenue recorded a negative growth rate at (-)12.14 *per cent*.
- The revenue receipts as a percentage of GSDP increased from 10.56 *per cent* in 2019-20 to 12.86 *per cent* in 2020-21.
- The buoyancy of revenue receipts with GSDP during 2020-21 was recorded at (-)0.73, indicating less than optimum growth in revenue receipts when compared to the growth in GSDP.
- Buoyancy of own revenue with GSDP was more than one (1.08) during the year indicating higher growth rate of own revenue when compared to the growth in GSDP.

2.3.1.2 State's Own Resources

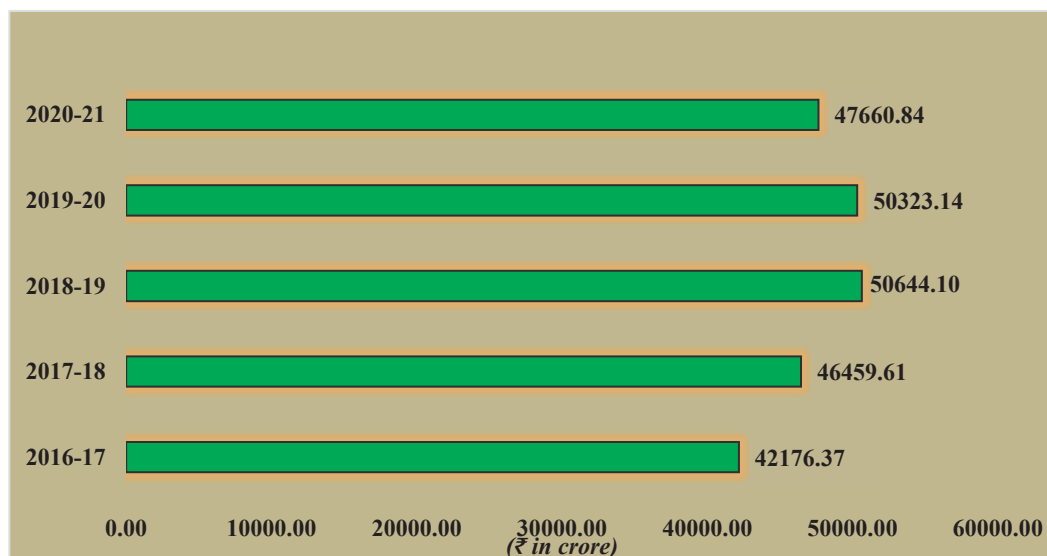
State's share in Central taxes is determined on the basis of recommendations of the Finance Commission. Grants-in-aid from Central Government are determined by the quantum of collection of Central tax receipts and anticipated Central assistance for schemes. State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Own Tax Revenue

Own tax revenue of the State consists of State GST, State Excise, Taxes on Vehicles, Stamp duty and Registration fees, Land Revenue, Taxes on Goods and Passengers etc.

The details of Own Tax Revenue of the State during the five-year period 2016-17 to 2020-21 is given in **Chart 2.6** below:

Chart 2.6: Growth of Own Tax revenue during 2016-17 to 2020-21



The State's own tax revenue showed an increasing trend from 2016-17 to 2018-19 however it shows a decreasing trend from 2019-20 onwards. Own tax revenue decreased by ₹2,662.30 crore, from ₹50,323.14 crore in 2019-20 to ₹47,660.84 crore in 2020-21. The component wise Own Tax Revenue collected during the five-year period 2016-17 to 2020-21 is given in **Table 2.4**.

Table 2.4 Components of States' own tax revenue (₹ in crore)

| Revenue Head | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Sparkline |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------|
| State Goods and Services tax | 0.00 | 12007.69 | 21014.71 | 20446.95 | 20028.31 | |
| Land Revenue | 124.15 | 162.17 | 202.78 | 332.42 | 493.35 | |
| Stamps and Registration Fees | 3006.58 | 3452.56 | 3693.17 | 3615.01 | 3489.59 | |
| State Excise | 2019.30 | 2240.42 | 2521.40 | 2255.28 | 2329.22 | |
| Taxes on Sales, Trade etc. | 33453.49 | 24577.82 | 19225.75 | 19649.64 | 17689.17 | |
| Taxes on Vehicles | 3107.23 | 3662.85 | 3708.61 | 3721.14 | 3386.28 | |
| Other Taxes and Duties on Commodities and Services | 240.75 | 99.58 | 37.57 | 39.31 | 48.80 | |
| Others | 224.87 | 256.52 | 240.11 | 263.39 | 196.12 | |
| Total | 42176.37 | 46459.61 | 50644.10 | 50323.14 | 47660.84 | |

Source: Finance Accounts of respective years

State goods and services tax contributed 42.02 per cent of the own tax revenue followed by Taxes on sales, Trade etc. 37.11 per cent. State Excise and Land Revenue are the only revenue heads which recorded an increase in revenue collection during 2020-21. The tax collection of four major revenue sources of

the State compared with all India average, during the last five years, is given in **Appendix 2.1**.

State Goods and Service Tax (SGST)

Kerala implemented GST with effect from 01 July 2017. GST is levied on *intra-State* supply of goods or services (except alcohol for human consumption and five specified petroleum products⁶) and its components are shared by the Centre (CGST) and the State (SGST). Further, IGST is levied and collected by the Central Government on *inter-State* supply of goods and services. The IGST so collected is apportioned between the Centre and the concerned State where the goods and services are consumed.

The GoI enacted the Goods and Services Tax (Compensation to States) Act, 2017 to compensate the States on account of loss of revenue which may arise due to implementation of the GST for a period of five years. The compensation was to be given by considering the base figure of revenue of a State for the year 2015-16, escalated by 14 *per cent per annum* for the next five years commencing from 01 July 2017.

For the State of Kerala, the base year (2015-16) revenue to be subsumed by the GST regime was fixed by GoI at ₹16,821.37 crore. Thus, the projected revenue for Kerala worked out to ₹32,388.11 crore for the period 2020-21.

Actual collection of revenue under State Goods and Services Tax (SGST) for the period 2017-18 to 2020-21 is given in the **Table 2.5** below.

Table 2.5: SGST receipts of the State

| <i>(₹ in crore)</i> | | | | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Particulars | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Tax | 10927.61 | 17780.46 | 18966.81 | 16375.25 |
| Apportionment of taxes from IGST | 1075.51 | 3231.79 | 814.41 | 2613.92 |
| Others | 4.57 | 2.46 | 665.74 | 1039.14* |
| SGST Collection | 12007.69 | 21014.71 | 20446.96 | 20028.31 |
| Pre GST-Tax collected ⁷ | 2460.31 | 457.81 | 654.07 | 613.51 |

*Includes ₹1,038.71 crore towards Kerala flood cess.

During 2020-21, the State GST collection was ₹20,028.31 crore compared to ₹20,446.96 crore in 2019-20, registering a decrease of ₹418.64 crore (2.05 *per cent*).

⁶ Five petroleum products are: Crude, High speed diesel, Petrol, Aviation turbine fuel and Natural gas

⁷ Taxes that have been subsumed under GST are: Value Added Tax, Central Sales Tax, Entertainment Tax, Luxury Tax, Entry tax, Cesses & Surcharges, Duties on Excise on medicinal and toilet preparations excluding KGST and CST on alcohol for human consumption and five specified petroleum products.

Against the projected revenue of ₹32,388.11 crore, the State Government earned a revenue of ₹19,603.11 crore {SGST: ₹18,989.60 crore (excluding flood cess of ₹1,038.71 crore) + subsumed Pre GST-Tax: ₹613.51 crore} during 2020-21 and therefore, entitled to a compensation of ₹12,785 crore.

The State received total compensation of ₹12,487.38 crore on account of loss of revenue arising out of the implementation of GST during 2020-21. Out of this, ₹6,721.38 crore was received by the State as grants under revenue receipts. However, due to inadequate balance in GST compensation fund during the year 2020-21, the State also received back to back loan of ₹5,766 crore under debt receipts of the State Government with repayment obligations from the cess collected in GST compensation Fund and not from any other resources of the State. Due to this arrangement, the revenue deficit of ₹25,829.50 crore and the fiscal deficit of ₹40,969.69 crore during the year 2020-21 may be read in conjunction with debt receipt of ₹5,766 crore in lieu of GST compensation.

The State received ₹3,325.63 crore as its share of net proceeds assigned to the State under Central Goods and Services Tax.

Analysis of arrears of revenue

The arrears of revenue as on 31 March 2021 on some principal heads of revenue amounted to ₹6,881.72 crore of which ₹2,078.13 crore was outstanding for more than five years, as detailed in **Appendix 2.2**. Information called for from Forest, Port, SGST and Land Revenue Departments were not furnished.

Non-reporting /untimely reporting of arrears to the Revenue Department, improper follow up by the departments in realising the arrears were the main reason for outstanding arrears of revenue.

Non-Tax Revenue

Non-Tax revenue consists of interest receipts, dividends and profits, mining receipts, departmental receipts, etc. Major sources of Non-tax revenue of the State are given in **Table 2.6**.

Table 2.6: Components of non-tax revenue (₹ in crore)

| Revenue Head | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Sparkline |
|------------------------|----------------|-----------------|-----------------|-----------------|----------------|-----------|
| Interest receipts | 143.51 | 144.50 | 132.38 | 84.95 | 246.64 | |
| Dividends and profits | 96.37 | 126.48 | 132.12 | 100.33 | 110.19 | |
| State Lotteries | 7283.29 | 9034.17 | 9264.66 | 9973.67 | 4873.01 | |
| Forestry and Wildlife | 296.85 | 245.42 | 287.21 | 255.85 | 236.61 | |
| Other non-tax receipts | 1879.96 | 1649.04 | 1966.87 | 1850.42 | 1860.86 | |
| Total | 9699.98 | 11199.61 | 11783.24 | 12265.22 | 7327.31 | |

Source: Finance Accounts of respective years

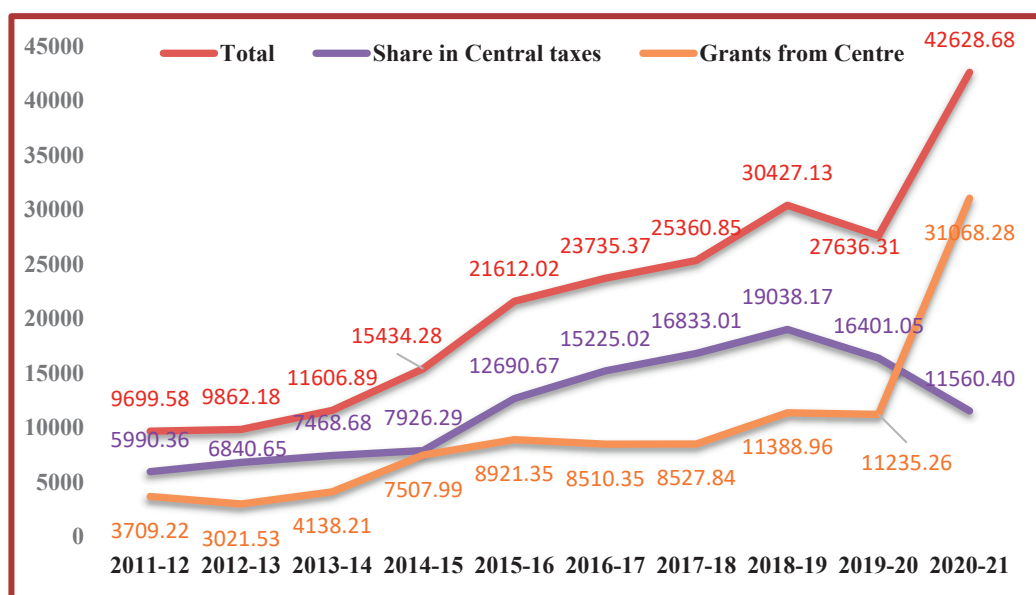
Non-tax revenue contributed to 7.51 per cent of the total revenue receipts of the State during 2020-21. When compared to 2019-20, the non-tax revenue of the State decreased by ₹4,937.91 crore (40.26 per cent) during the year. The decrease is mainly due to a significant decrease in receipts under State Lotteries

by ₹5,100.66 crore (51.14 per cent). Receipts under State Lotteries is the major non-tax revenue of the State and its share in non-tax revenue during the year was 66.50 per cent which was the lowest during the five-year period 2016-17 to 2020-21.

2.3.1.3 Transfers from the Centre

Transfers from Government of India including State's share of Union taxes and Grants-in-aid from Government of India during the period from 2011-12 to 2020-21 are shown in **Chart 2.7**.

Chart 2.7: Transfers from the Centre (₹ in crore)



State's share in Union taxes and duties: Actual devolution *vis-à-vis* Finance Commission projections are given in **Table 2.7**.

Table 2.7: State's share in Union taxes and duties: Actual devolution *vis-à-vis* Finance Commission projections (₹ in crore)

| Year | Finance Commission projections | Projections in FCR | Actual tax devolution | Difference |
|---------|--|--------------------|-----------------------|------------|
| 2015-16 | 42 per cent of net proceeds of all shareable taxes excluding service tax and 2.526 per cent of net proceeds of sharable service tax (As per recommendations of XIV FC) | 14482 | 12691 | 1791 |
| 2016-17 | | 16711 | 15225 | 1486 |
| 2017-18 | | 19308 | 16833 | 2475 |
| 2018-19 | | 22336 | 19038 | 3298 |
| 2019-20 | | 25869 | 16401 | 9468 |
| 2020-21 | 41 per cent of net proceeds of union taxes(As per recommendations of XV FC) | 16616.07 | 11560.40 | 5055.67 |

Source: Reports of the XIV-FC, XV-FC and Finance Accounts

Central Tax Transfer

The XV Finance Commission recommend an aggregate share of 41 *per cent* of the net proceeds of Union taxes (divisible pool) to be devolved to States' in the year 2020-21. *Inter se* share of Kerala in the net proceeds of the taxes (divisible pool) as recommended by the Commission is 1.943 *per cent*. The XIV Finance Commission (FC) had recommended the States' share of Central taxes as 42 *per cent* and Kerala's share in the net proceeds of Central tax and Service tax was fixed at 2.500 *per cent* and 2.526 *per cent* respectively by the XIV FC for the award period 2015-20. Further Details of Central tax transfers to the State during 2016-17 to 2020-21 are given in **Table 2.8**.

Table 2.8 : Central Tax Transfers

(₹ in crore)

| Head | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Direct taxes | | | | | |
| Corporation Tax | 4885.98 | 5156.64 | 6621.02 | 5592.06 | 3546.02 |
| Taxes on Income other than Corporation Tax | 3395.77 | 4354.40 | 4876.10 | 4381.76 | 3642.70 |
| Taxes on Wealth | 11.18 | 0.00 | 2.44 | 0.25 | 0.00 |
| Total of Direct Taxes (A) | 8292.93 | 9511.04 | 11499.56 | 9973.82 | 7188.72 |
| Indirect taxes | | | | | |
| Central Goods and Services Tax (CGST) | 0.00 | 239.98 | 4699.14 | 4654.19 | 3325.63 |
| Integrated Goods and Services Tax (IGST) | 0.00 | 1699.96 | 375.00 | 0.00 | 0.00 |
| Customs | 2101.76 | 1699.40 | 1349.57 | 1039.60 | 591.59 |
| Union Excise Duties | 2400.03 | 1776.40 | 897.00 | 722.80 | 380.78 |
| Service Tax | 2430.25 | 1906.55 | 174.00 | 0.00 | 62.54 |
| Other Taxes ⁸ | 0.05 | 0.00 | 44.31 | 10.39 | 11.14 |
| Total of Indirect Taxes (B) | 6932.09 | 7322.19 | 7538.61 | 6426.98 | 4371.68 |
| Central Tax transfers (A+B) | 15225.02 | 16833.23 | 19038.17 | 16401.05 | 11560.40 |
| Percentage of increase over previous year | 20.00 | 10.56 | 13.10 | (-)13.85 | (-)29.51 |
| Percentage of Central tax transfers to Revenue Receipts | 20.14 | 20.28 | 20.50 | 18.18 | 11.84 |

Source: Finance Accounts of respective years

The Central tax transfers stood at ₹11,560.40 crore in 2020-21, registering a decrease of 29.51 *per cent* (₹4,840.65 crore) over the previous year. Of the total

⁸ Include Other Taxes on Income and Expenditure, Other Taxes and Duties on Commodities and Services

Central tax transfers, the direct tax transfers was ₹7,188.72 crore and indirect tax transfers was ₹4,371.68 crore which included the Central Goods and Services Tax of ₹3,325.63 crore. The components received under the GST regime, decreased by 28.55 *per cent* over the previous year.

Grants-in-aid from GoI

Grant-in-aid (GIA) received from the Government of India contributed to 31.83 *per cent* of the revenue receipts of the State during 2020-21. Details of GIA received by the State Government from GoI during 2016-21 is given in **Table 2.9**.

Table 2.9 Grants-in-aid from Government of India

| | (₹ in crore) | | | | |
|---|----------------|----------------|-----------------|-----------------|-----------------|
| Head | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Non-Plan Grants | 5250.37 | -- | -- | -- | -- |
| Grants for State Plan Schemes | 2726.92 | -- | -- | -- | -- |
| Grants for Central Plan Schemes* | 71.31 | -- | -- | -- | -- |
| Grants for Centrally Sponsored Plan Schemes | 461.75 | (-)0.47 | (-)0.97 | -- | -- |
| Grants for Special Plan Schemes | -- | -- | -- | -- | -- |
| Grants for Centrally Sponsored Schemes | -- | 3213.58 | 3771.07 | 3262.65 | 5141.92 |
| Finance Commission Grants | -- | 3182.04 | 1646.22 | 2343.01 | 18048.80 |
| Other transfers/Grants to States/Union Territories with Legislature | -- | 2133.69 | 5972.64 | 5629.60 | 7877.56 |
| Total | 8510.35 | 8527.84 | 11388.96 | 11235.26 | 31068.28 |
| Percentage of increase over the previous year | (-)4.61 | 0.21 | 33.65 | (-)1.35 | 176.52 |
| Percentage of GIA to Revenue Receipts | 11.25 | 10.27 | 12.27 | 12.45 | 31.83 |

Source: Finance Accounts of respective years

* There are no figures since the nomenclature of plan and non-plan grants was removed with effect from the year 2017-18 and replaced by Grants for CSS, Finance Commission grants and Other Grants to States

During the year 2020-21 the grants-in-aid from GoI increased by ₹19,833.02 crore (176.52 *per cent*) over the previous year. The increase was mainly due to increase in the XV-FC Grants by ₹15,705.79 crore which included the post devolution deficit grant of ₹15,322.80 crore, increase under the component 'Other transfers Grants to State' by ₹2,247.96 crore and increase under 'Centrally Sponsored Schemes' by ₹1,879.27 crore.

2.3.2 Fifteenth Finance Commission award amount for the award period 2020-21

The Fifteenth Finance Commission (XV-FC, henceforth) was constituted by the President of India under Article 280 of the Constitution of India and was mandated to make recommendations on, i) the distribution of net proceeds of taxes between the Union and the States, ii) the Principles which should govern the Grants-in-aid of the revenues of the States and iii) the measures needed to augment the Consolidated Fund of the State to supplement the resources of Local Bodies.

Later, the XV-FC was mandated to submit two reports, one for the year 2020-21 and the final Report for the period 2021-22 to 2025-26. The XV-FC submitted its first Report covering the financial year 2020-21 to the President on 5th December 2019.

The Grants-in-aid for the State of Kerala recommended by the XV-FC under Article 275 of the Constitution of India for 2020-21 amounted to ₹18,049 crore.

The Grants-in-aid recommended by XV-FC for the State of Kerala is shown in **Table 2.10**.

Table 2.10: Grants recommended by XV-FC for the State of Kerala in 2020-21

(₹ in crore)

| SI No. | Particulars | Award amount for 2020-21 |
|--------|----------------------------|--------------------------|
| 1 | Revenue deficit grant | 15323 |
| 2 | Grants to Local Bodies | 2412 |
| 3 | Disaster Management Grants | 314 |
| | Total | 18049 |

Source: First report of XV-FC for the year 2020-21

During the award period 2020-21, the State received the entire amount of ₹18,049 crore recommended by the XV-FC.

2.3.3. Capital Receipts

Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. **Table 2.11** shows the trends in growth and composition of net Capital Receipts.

Table 2.11: Trends in growth and composition of Capital Receipts

(₹ in crore)

| Sources of State's Receipts | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------------------|
| Capital Receipts | 24180.37 | 30614.03 | 33702.96 | 60729.85 | 70033.33 |
| Miscellaneous Capital Receipts | 30.24 | 29.28 | 46.50 | 27.48 | 34.15 |
| Recovery of Loans and Advances | 292.24 | 350.98 | 210.54 | 295.32 | 263.82 |
| Public Debt Receipts | 23857.89 | 30233.77 | 33445.92 | 60407.05 | 69735.36[^] |

| Sources of State's Receipts | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|-----------|-----------|-----------|-----------|-----------------------|
| Internal Debt * | 23005.75 | 29789.00 | 32993.75 | 58256.36 | 62716.62 |
| Loans and advances from GoI | 852.14 | 444.77 | 452.17 | 2150.69 | 7018.74 ^{^^} |
| Rate of growth of debt Capital Receipts (in per cent) | 21.36 | 26.72 | 10.62 | 80.61 | 15.44 |
| Rate of growth of non-debt capital receipts (in per cent) | 78.47 | 17.92 | (-32.40) | 25.58 | (-7.69) |
| GSDP | 634886.00 | 701588.00 | 790302.00 | 854689.00 | 758942.00 |
| Rate of growth of GSDP (in per cent) | 12.97 | 10.51 | 12.64 | 8.15 | (-11.20) |
| Rate of growth of Capital Receipts (in per cent) | 21.88 | 26.61 | 10.09 | 80.19 | 15.32 |

Source: Finance Accounts of respective years; for GSDP MoSPI site as on 02 August 2021 and information from Directorate of Economics and Statistics, Kerala

* Including gross figure under Ways and Means Advances

[^] Effective Public Debt Receipts would be ₹63,969.36 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

^{^^} Effective Loans & Advances from GoI would be ₹1,252.74 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts (6004-Loans and Advances from GoI) would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

During the year 2020-21, the capital receipts (₹70,033.33 crore) increased by ₹9,303.48 crore as compared to the previous year (₹60,729.85 crore). During 2020-21, capital receipts increased by 15.32 per cent over the previous year primarily due to increase of 15.44 per cent in public debt receipts. The share of public debt receipts to capital receipts stood at 99.57 per cent in 2020-21.

The Internal debt (₹62,716.62 crore) includes open market borrowings (₹28,566 crore), other borrowings from financial institutions like National Bank for Agriculture and Rural Development (₹521.51 crore), National Co-operative Development Corporation (₹132.38 crore), Special Securities issued to National Small Savings Fund (₹4,273.98 crore) and ways and means advance from RBI (₹29,222.75 crore).

Loans and advances from GoI fluctuated widely during 2016-17 to 2020-21 and were highest at ₹7,018.74 crore in 2020-21. The loans mainly included non-plan block loans of ₹251.63 crore and plan block loans of ₹6,765.58 crore⁹, for various externally aided projects. Effective Loans & Advances from GoI would be ₹1,252.74 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts (6004-Loans and Advances from GoI) would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

⁹ Includes GST compensation of ₹5,766.00 crore.

2.3.4 State’s performance in mobilisation of resources

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 is assessed in term of its own resources comprising own tax and non-tax sources. The State’s actual tax and non-tax revenue for the year 2020-21 *vis-à-vis* assessments made by XV-FC and Budget Estimate are presented in **Table 2.12** below.

Table 2.12: Tax and Non-Tax receipts *vis-à-vis* projections for the year 2020-21

(₹ in crore)

| Particulars | FC Projections | Budget Estimates | Actual | Percentage variation of actual over | |
|-----------------|-----------------|------------------|-----------------|-------------------------------------|-----------------|
| | | | | Budget Estimates | FC Projections |
| Own Tax Revenue | 72665.00 | 67420.01 | 47660.84 | (-)29.31 | (-)34.41 |
| Non-Tax Revenue | 4486.00 | 14587.00 | 7327.31 | (-)49.77 | 63.34 |
| Total | 77151.00 | 82008.01 | 54988.15 | (-)32.95 | (-)28.73 |

Source: XV-FC report, Annual financial Statement and Finance Accounts of 2020-21

The actual tax revenue of the State in 2020-21 stood significantly lower than the projections made in the XV- FC, and Budget estimates. The actual tax revenue was lower than budget estimates mainly due to less collection of State Goods and Service Tax (₹12,359.80 crore), Taxes on Sales, Trade, etc. (₹5,573.99 crore), Stamps and registration fees (₹816.65 crore), Taxes on Vehicles (₹581.94 crore) State Excise(₹471.45 crore) Actual non-tax revenue was lower than the budget estimates but higher than XV FC projections.

2.4 Application of resources

The State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not at the cost of expenditure directed towards development of capital infrastructure and social sector.

2.4.1 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.

Overall expenditure and its components along with their percentage of GSDP are given in the **Table 2.13**.

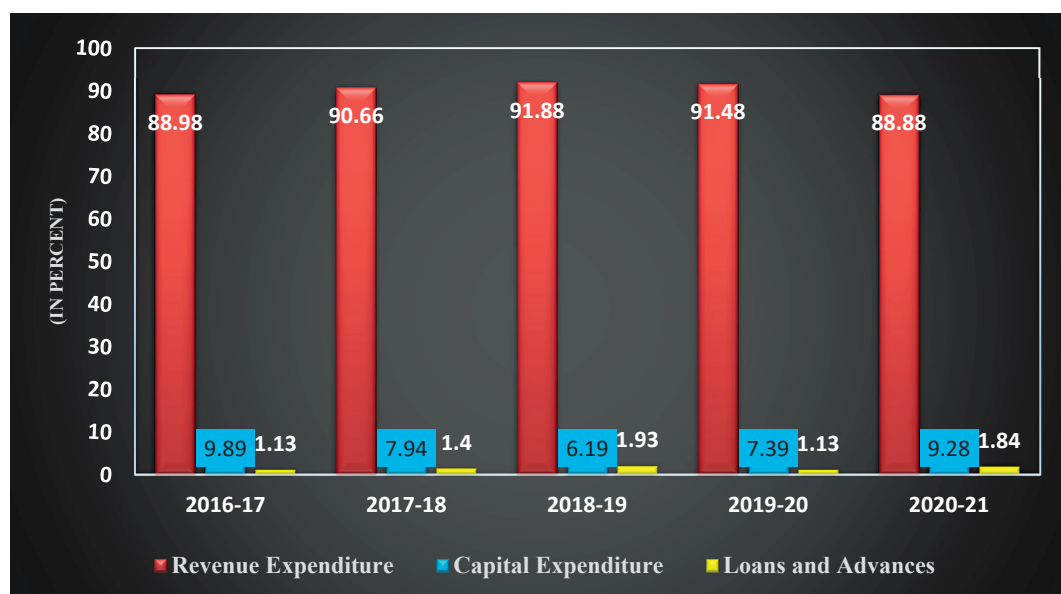
Table 2.13: Total expenditure and its composition

| (₹ in crore) | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Parameters | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Total Expenditure (TE) | 102382.55 | 110237.81 | 120069.82 | 114384.94 | 138884.49 |
| Revenue Expenditure (RE) | 91096.31 | 99948.35 | 110316.39 | 104719.92 | 123446.33 |
| Capital Expenditure (CE) | 10125.95 | 8748.87 | 7430.54 | 8454.80 | 12889.65 |
| Loans and Advances | 1160.29 | 1540.59 | 2322.89 | 1210.22 | 2548.51 |
| GSDP | 634886.00 | 701588.00 | 790302.00 | 854689.00 | 758942.00 |
| As a percentage of GSDP | | | | | |
| TE/GSDP | 16.13 | 15.71 | 15.19 | 13.38 | 18.30 |
| RE/GSDP | 14.35 | 14.25 | 13.96 | 12.25 | 16.27 |
| CE/GSDP | 1.59 | 1.25 | 0.94 | 0.99 | 1.70 |
| Loans and advances/ GSDP | 0.18 | 0.22 | 0.29 | 0.14 | 0.34 |

Source: Finance Accounts of respective years; for GSDP MoSPI site as on 02 August 2021 and information from Directorate of Economics and Statistics, Kerala

The total expenditure of the State increased by 35.65 per cent from ₹1,02,382.55 crore in 2016-17 to ₹1,38,884.49 crore in 2020-21. During the year, it increased by 21.42 per cent over the previous year. As a percentage of GSDP, the Total Expenditure stood at 18.30 per cent during 2020-21.

During the period 2016-17 to 2020-21, a major share of the total expenditure was on revenue account and ranged between 89 and 92 per cent. During 2020-21 it was 89 per cent and the share of capital expenditure (including loans and advances) was 11 per cent. The share of revenue expenditure, capital expenditure and loans and advances for the years 2016-17 to 2020-21 are given in Chart 2.8.

Chart 2.8: Total Expenditure: Trends in share of its components

In terms of activities, the Total Expenditure is composed of expenditure on General Services including Interest Payments, Social Services, Economic Services and Others. Relative share of these components in the Total Expenditure of ₹1,38,884.49 crore during 2020-21 is given in **Table 2.14**.

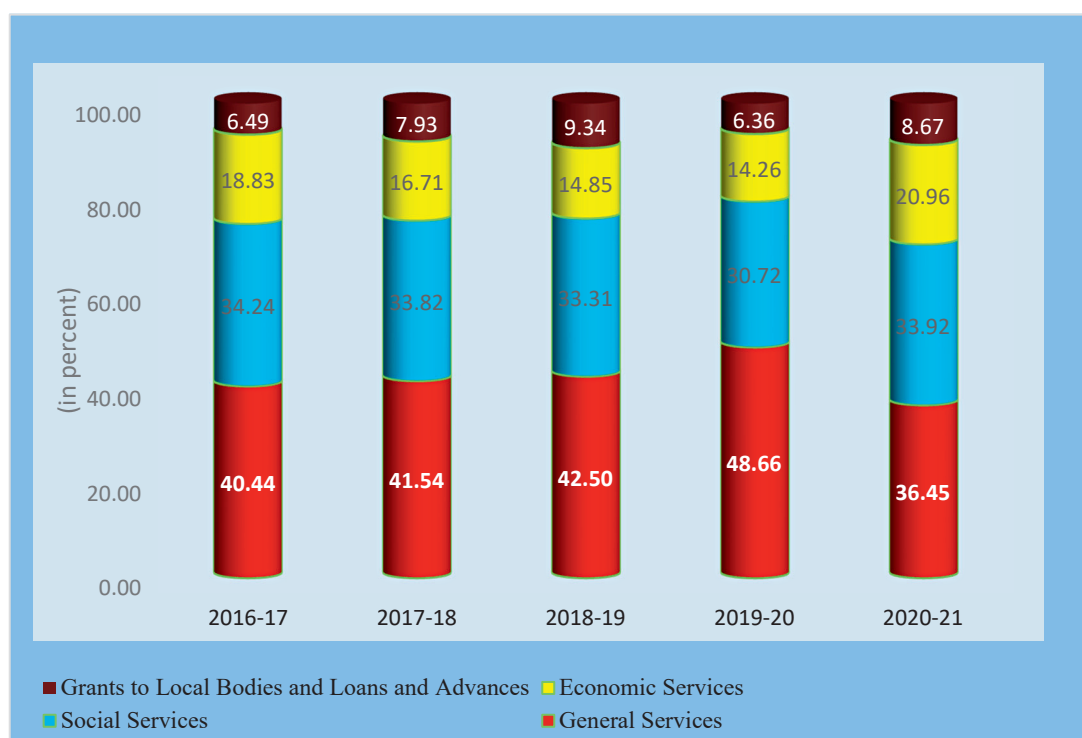
Table 2.14 : Relative share of various sectors of expenditure

(in per cent)

| Parameters | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---------|---------|---------|---------|---------|
| General Services | 40.44 | 41.54 | 42.50 | 48.66 | 36.45 |
| Social Services | 34.24 | 33.82 | 33.31 | 30.72 | 33.92 |
| Economic Services | 18.83 | 16.71 | 14.85 | 14.26 | 20.96 |
| Others(Grants to Local Bodies and Loans and Advances) | 6.49 | 7.93 | 9.34 | 6.36 | 8.67 |

Source: Finance Accounts of respective years

Chart 2.9 : Total Expenditure: Expenditure by activities

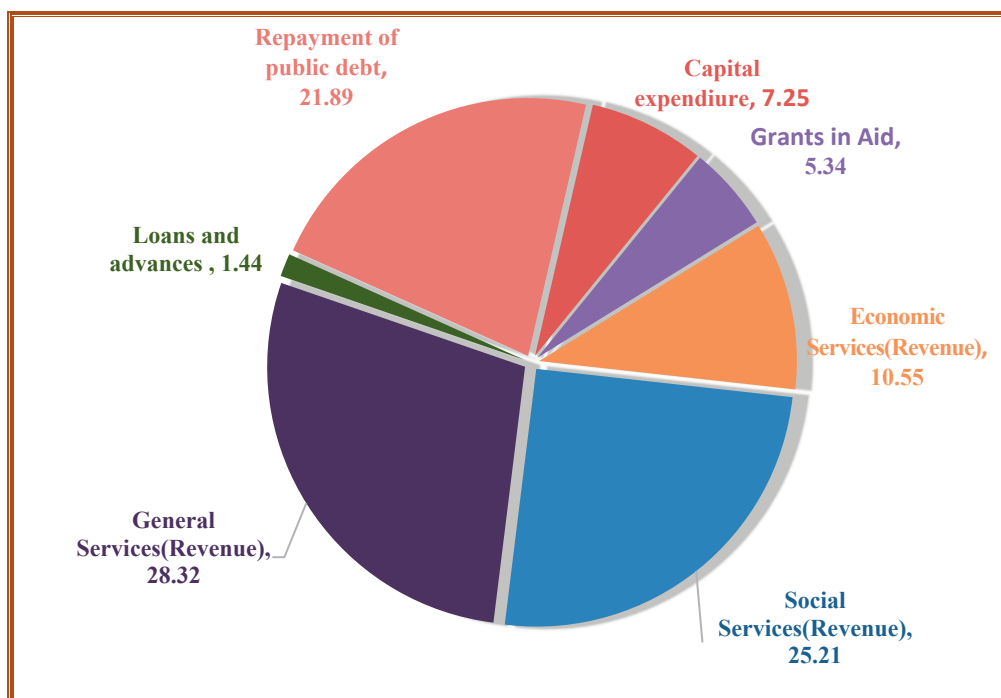


- The movement of the relative share of general, social and economic services exhibited a fluctuating trend during 2016-17 to 2020-21.
- While relative share of General Services in total expenditure decreased, share of Social Services and Economic Services increased during 2020-21 when compared to 2019-20.

- Decrease in expenditure under General Services during 2020-21 was mainly due to decrease in expenditure under Miscellaneous General Service (₹6,332.91 crore) when compared to 2019-20.
- In the year 2020-21, increase in Social Services expenditure is mainly due to increase in expenditure under Social Security and Welfare by ₹9,819.61 crore, when compared to 2019-20. The expenditure under the component Medical and Public health also recorded an increase of ₹1,342.13 crore in the Pandemic period.
- Increase in Economic services is mainly due to increase under the component Food, Storage and Warehousing by ₹4,767.95 crore followed by Road and Bridges ₹2,099.55 crore. In 2020-21, capital expenditure under economic services increased by ₹3,145.17 crore as compared to 2019-20.

Chart 2.10 : Composition of expenditure for the year 2020-21

(in percentage)



2.4.2 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network.

The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy *vis-a-vis* GSDP and Revenue Receipts are indicated in **Table 2.15** and the sectoral distribution of Revenue expenditure pertaining to 2020-21 is given in **Chart 2.11**.

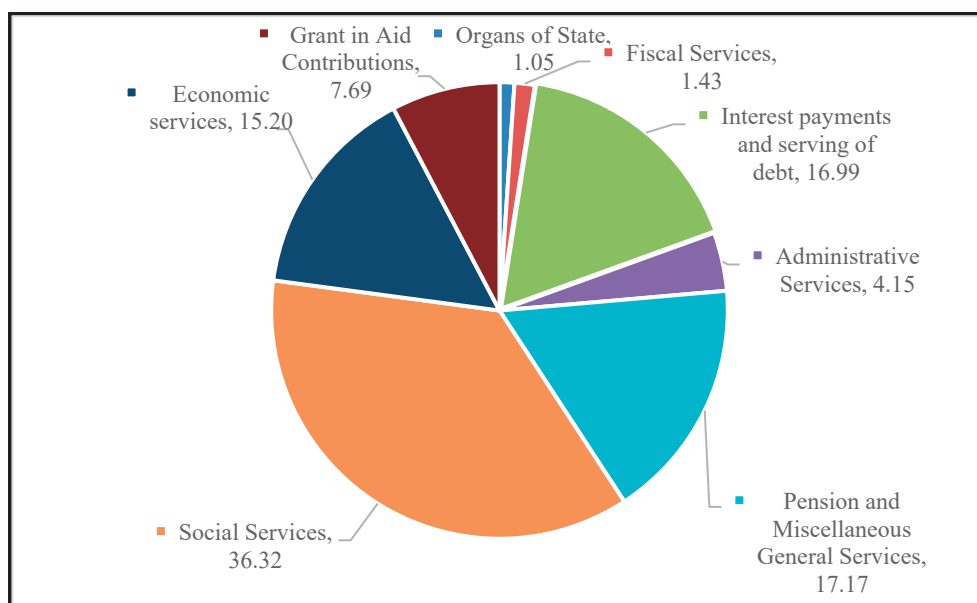
Table 2.15: Revenue expenditure – basic parameters

| (₹ in crore) | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Particulars | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Total Expenditure(TE) | 102382.55 | 110237.82 | 120069.82 | 114384.94 | 138884.49 |
| Revenue expenditure (RE) | 91096.31 | 99948.35 | 110316.39 | 104719.92 | 123446.33 |
| Rate of Growth of RE (per cent) | 15.77 | 9.72 | 10.37 | (-)5.07 | 17.88 |
| Revenue Receipts (RR) | 75611.72 | 83020.14 | 92854.47 | 90224.67 | 97616.83 |
| Rate of growth of Revenue Receipts (per cent) | 9.53 | 9.80 | 11.85 | (-)2.83 | 8.19 |
| GSDP | 634886.00 | 701588.00 | 790302.00 | 854689.00 | 758942.00 |
| Rate of growth of GSDP (per cent) | 12.97 | 10.51 | 12.64 | 8.15 | (-)11.20 |
| Revenue expenditure as percentage to TE | 88.98 | 90.67 | 91.88 | 91.55 | 88.88 |
| RE as percentage of RR | 120.48 | 120.39 | 118.81 | 116.07 | 126.46 |
| RE/GSDP(per cent) | 14.35 | 14.25 | 13.96 | 12.25 | 16.27 |
| Buoyancy of Revenue Expenditure with | | | | | |
| GSDP (ratio) | 1.22 | 0.92 | 0.82 | (-)0.62 | (-)1.60 |
| Revenue Receipts (ratio) | 1.65 | 0.99 | 0.88 | 1.79 | 2.18 |

Source: Finance Accounts of respective years; for GSDP MoSPI site as on 02 August 2021 and information from Directorate of Economics and Statistics, Kerala

Chart 2.11 : Sector-wise distribution of revenue expenditure

(in per cent)



- The expenditure pattern of the State revealed that, revenue expenditure hovered around 88 to 92 *per cent* of the total expenditure during the period (2016-17 to 2020-21) leaving inadequate resources for creation of assets.
- The share of Revenue expenditure in total expenditure decreased from 91.55 *per cent* in 2019-20 to 88.88 *per cent* in 2020-21 indicating a meagre improvement in priority assigned for capital expenditure during the year.
- The Revenue receipts were not sufficient to meet its revenue expenditure during the year. The State had to resort to borrowed funds for meeting the revenue expenditure which is not a good indicator of a prudent fiscal path.
- The revenue expenditure for the year 2020-21 increased by ₹18,726.41 crore (17.88 *per cent*) when compared to 2019-20. There was decrease under General Services by 9.27 *per cent* (₹5,143.31 crore) and significant increase Social Services by 31.69 *per cent* (₹10,787.67 crore) and Economic Services by 106 *per cent* (₹9,653.47 crore) compared to the previous year indicating increase in development expenditure under revenue component of expenditure. The Grant aid contribution during the year also increased 56.54 *per cent* (₹3,428.58 crore).
- The buoyancy of revenue expenditure with reference to GSDP however, decreased and was (-)1.60 *per cent* in the year 2020-21 due to decrease in the rate of growth of GSDP as compared to increase in the rate of growth of revenue expenditure.

2.4.2.1 Major Changes in Revenue Expenditure

Table 2.16 shows the details of significant variation (₹1,000 crore and above) under various Heads of Account with regard to Revenue Expenditure of the State during the current year and the previous year.

Table 2.16: Variations in Revenue Expenditure during 2020-21 compared to 2019-20

(₹ in crore)

| Major Head of Account | 2019-20 | 2020-21 | Increase (+)/ Decrease(-) |
|-------------------------------------|----------|----------|------------------------------|
| 2049 Interest Payments | 19214.70 | 20975.36 | 1760.66 |
| 2075 Miscellaneous General Services | 8590.35 | 2257.44 | (-)6332.91 |
| 2202 General Education | 17151.38 | 15199.63 | (-)1951.75 |
| 2210 Medical and Public Health | 6742.42 | 8013.18 | 1270.76 |
| 2235 Social Security & Welfare | 3758.01 | 13572.74 | 9814.73 |
| 2408 Food, Storage and Warehousing | 1190.81 | 5955.04 | 4764.23 |
| 3054 Roads and Bridges | 1404.90 | 3103.31 | 1698.41 |

| Major Head of Account | 2019-20 | 2020-21 | Increase (+)/ Decrease(-) |
|---|---------|---------|------------------------------|
| 3604 Compensation and Assignments to Local Bodies and Panchayati Raj Institutions | 6063.87 | 9492.45 | 3428.58 |

Source: Finance Accounts

Reasons for major variations in Revenue Expenditure is as detailed:

- Increase under the head Interest payment is mainly due to increase under 'Interest on Market Loans', 'Interest on Special securities issued to National Small Savings Fund of the Central Government by State Government', 'Interest on Other Saving Deposits' and 'Interest on Insurance and Pension Fund'. This was partly offset by decrease under 'Interest on State Provident Funds' and 'Interest on Other Internal Debts'.
- Increase under the head Medical and Public health is mainly due to increase in expenditure under 'Prevention and Control of Diseases', 'Assistance to Public Sector and Other Undertakings'. Increase under the head Social Security and Welfare is mainly due to increase on 'Pensions under Social Security Schemes'. Increase under 'Food Subsidies' and 'Procurement and Supply' are the main reasons for increase under the head 'Food Storage and Warehousing'.
- Decrease under the head Miscellaneous General Services is mainly due to decrease under 'State Lotteries' and decrease under the head General Education is due to decrease under 'Assistance to Non-Government Primary Schools', 'Government Primary Schools' under 'Elementary Education', 'Assistance to Non-Government Secondary Schools' and 'Government Secondary Schools' under Secondary Education. This was partly offset by increase under 'Sarva Siksha Abhiyan' under 'Elementary Education'.

2.4.2.2 Committed Expenditure

The committed expenditure of the State Government on revenue account consist of interest payments, expenditure on salaries and wages and pension. It has first charge on Government resources. Though the KFR Act, 2003 prescribes that there should be a Revenue Surplus, it is challenging to achieve it, given that a large proportion of Revenue Expenditure goes into committed items like salaries and wages, interest payments and pension.

Table 2.17 presents the trends in the components of committed expenditure during 2016-17 to 2020-21. Percentage of component wise committed expenditure in Revenue Expenditure and the balance revenue expenditure during 2016-17 to 2020-21 is given in **Chart 2.12**.

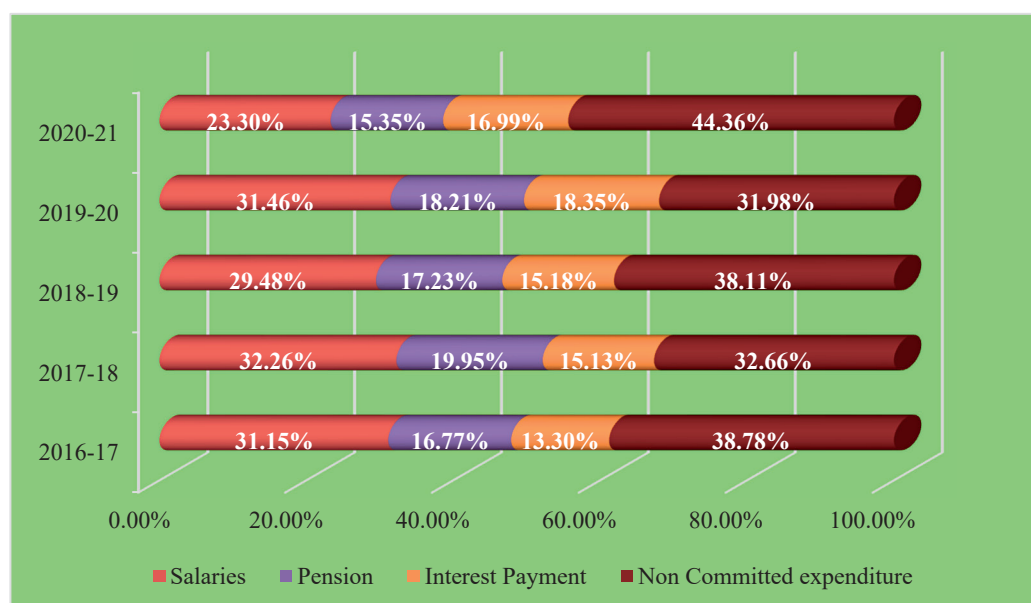
Table 2.17: Components of Committed Expenditure

(₹ in crore)

| Components of Committed Expenditure | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Salaries & Wages | 28373.10 | 32242.99 | 32520.66 | 32942.28 | 28767.46 |
| Expenditure on Pensions | 15277.03 | 19938.41 | 19011.94 | 19064.29 | 18942.85 |
| Interest Payments | 12116.50 | 15119.93 | 16747.92 | 19214.70 | 20975.36 |
| Total | 55766.63 | 67301.33 | 68280.52 | 71221.27 | 68685.67 |
| As a percentage of Revenue Receipts | | | | | |
| Revenue Receipts (RR) | 75611.72 | 83020.14 | 92854.47 | 90224.67 | 97616.83 |
| Salaries & Wages | 37.52 | 38.84 | 35.02 | 36.51 | 29.47 |
| Expenditure on Pensions | 20.20 | 24.02 | 20.47 | 21.13 | 19.41 |
| Interest Payments | 16.02 | 18.21 | 18.04 | 21.30 | 21.49 |
| Total | 73.75 | 81.07 | 73.53 | 78.94 | 70.36 |
| As a percentage of Revenue Expenditure | | | | | |
| Revenue expenditure (RE) | 91096.31 | 99948.35 | 110316.39 | 104719.92 | 123446.33 |
| Salaries & Wages | 31.15 | 32.26 | 29.48 | 31.46 | 23.30 |
| Expenditure on Pensions | 16.77 | 19.95 | 17.23 | 18.21 | 15.35 |
| Interest Payments | 13.30 | 15.13 | 15.18 | 18.35 | 16.99 |
| Total | 61.22 | 67.34 | 61.90 | 68.01 | 55.64 |

Source: Finance Accounts of respective years

Chart 2.12: Share of Committed expenditure in total Revenue Expenditure



Committed expenditure constituted over 55.64 *per cent* of the revenue expenditure of the State in 2020-21, while it accounted for over 70 *per cent* of the revenue receipts during the year. As a percentage of revenue expenditure, the committed expenditure showed a fluctuating trend from 2016-17 to 2020-21. The rate of committed expenditure decreased in 2020-21. The share of non-committed revenue expenditure in total revenue expenditure increased substantially by 63.47 *per cent* in 2020-21 over 2019-20.

The components of committed expenditure are discussed in the succeeding paragraphs.

Salaries and wages

Expenditure on Salaries & wages showed a fluctuating trend from 2016-17 to 2019-20. However, it decreased in 2020-21 by 12.67 *per cent* when compared to 2019-20. It contributed to 23.30 *per cent* of the total revenue expenditure which is the lowest in the five-year period from 2016-17 to 2020-21. The expenditure under the head salaries and wages ranged between 29.48 and 32.26 *per cent* during the period from 2016-17 to 2019-20. Salaries and wages as a percentage of revenue receipts also decreased from 36.51 *per cent* in 2019-20 to 29.47 *per cent* in 2020-21. This was attributed to deferment of salaries by the State Government.

Interest Payments

Interest payments increased from ₹12,116.50 crore in 2016-17 to ₹20,975.36 crore in 2020-21. Interest payments increased by 9.16 *per cent* in 2020-21 over the previous year mainly due to increased interest liability of ₹1,043.55 crore on market loans and ₹42.63 crore on Small Savings, Provident Fund etc. During 2020-21, interest payment on market loans was 58.17 *per cent* of the total interest payments while interest on Small Savings, Provident Fund etc. stood at 30.32 *per cent* of the total interest payments. The expenditure on interest payment as percentage of revenue receipts increased from 16.02 *per cent* in 2016-17 to 21.49 *per cent* in 2020-21.

Pensions

The expenditure during the year on pension and other retirement benefits to State Government employees was ₹18,942.85 crore (19.41 *per cent* of Revenue Expenditure) showing a decrease of ₹121.44 crore when compared to ₹19,064.29 crore for the year 2019-20.

2.4.2.3 Undischarged liabilities in National Pension System

The Government of India introduced the Defined Contribution Pension Scheme namely 'National Pension System to its employees recruited after 01 January 2004. The Government of Kerala introduced the National Pension System (NPS) applicable to all new entrants joining to State Government Service on or after 01 April 2013.

As per the guidelines of the Scheme, the employee contributes 10 *per cent* of his basic pay and dearness allowance every month which is matched by the State Government. Both employees' and employer's contribution are initially

transferred to the Public Account (Major Head 8342-117- Defined Contribution Pension Scheme). The State Government has the responsibility to deposit the entire amount to the designated fund manager through National Securities Depository Limited (NSDL)/Trustee Bank.

As on 01 April 2020, there was a balance of ₹0.34 crore under MH 8342-117 Defined Contribution Pension Scheme. During the year 2020-21, an amount of ₹945.22 crore (₹472.44 crore on account of Government's contribution and ₹472.78 crore as share of employee contribution) was credited to MH 8342-117 Defined Contribution Pension Scheme. Out of total balances of ₹945.56 crore, the State Government transferred/ remitted ₹945.39 crore to NSDL, leaving a balance of ₹0.17 crore under the head of account as on 31 March 2021.

As per Finance Accounts, ₹0.024 crore was the interest due on the amount. Non-payment of interest resulted in understatement of revenue and fiscal deficit by ₹0.024 crore.

Uncollected, unmatched and untransferred amounts, with accrued interest, represent outstanding liabilities under the New Pension Scheme.

2.4.2.4 Subsidies

There was a significant increase in expenditure on subsidies, from ₹1,429.01 crore in 2019-20 to ₹6,547.48 crore in 2020-21. The subsidies as a percentage of both revenue receipts and revenue expenditure shows a decreasing trend in the past four years. In the year 2020-21, subsidies as a percentage of revenue receipts and revenue expenditure increased from 1.58 per cent and 1.36 per cent to 6.71 per cent and 5.30 per cent respectively. In absolute terms, the expenditure on payment of Subsidies increased by ₹5,118.47 crore during the year when compared to the previous year as detailed in **Table 2.18** below:

Table 2.18: Expenditure on subsidies during 2016-2021

| Particulars | (₹ in crore) | | | | |
|--|--------------|----------|-----------|-----------|-----------|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Subsidies | 1730.68 | 1583.84 | 1663.01 | 1429.01 | 6547.48 |
| Revenue Receipts | 75611.72 | 83020.14 | 92854.47 | 90224.67 | 97616.83 |
| Revenue expenditure | 91096.31 | 99948.35 | 110316.39 | 104719.92 | 123446.33 |
| Subsidies as percentage of Revenue Receipts | 2.29 | 1.91 | 1.79 | 1.58 | 6.71 |
| Subsidies as percentage of Revenue Expenditure | 1.90 | 1.58 | 1.51 | 1.36 | 5.30 |

Source: Finance Accounts of respective years

The main items of subsidies given during the year 2020-21 included Grant to Kerala State Civil Supplies Corporation Limited for market intervention operations (₹3,385.08 crore), Ration Subsidy (₹1,714.35 crore), Paddy Procurement through Kerala State Civil Supplies Corporation and Other Agencies (₹844.55 crore), Interest Subsidy to KURDFC towards the loan

availed from HUDCO for the implementation of Life-Parppida Mission (₹175.43 crore).

2.4.2.5 Financial assistance to Local Bodies and Other Institutions

The quantum of assistance provided by way of grants and loans to local bodies, and other institutions during 2016-17 to 2020-21 is presented in **Table 2.19**.

Table 2.19: Financial assistance to local bodies, educational institutions, etc.

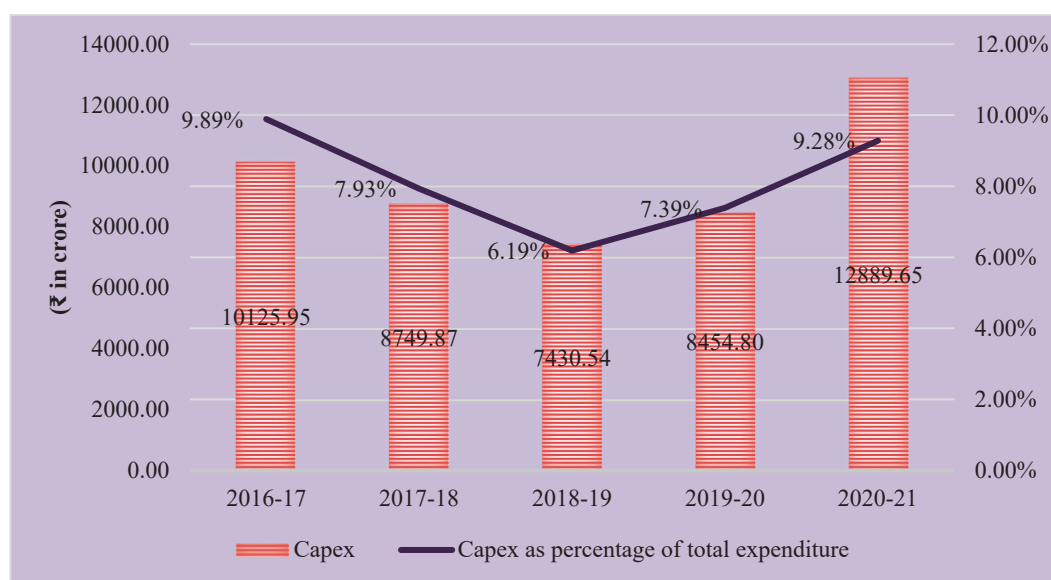
| (₹ in crore) | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Financial Assistance to Institutions | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| (A) Local Bodies | | | | | |
| Municipal Corporation and Municipalities | 2756.55 | 3178.62 | 3287.46 | 2296.24 | 3653.02 |
| Panchayati Raj Institutions | 7775.98 | 11335.87 | 10426.56 | 5711.11 | 8692.14 |
| Total (A) | 10532.53 | 14514.49 | 13714.02 | 8007.35 | 12345.16 |
| (B) Others | | | | | |
| Public Sector Undertakings (Government Companies and Statutory Corporation) | 1096.48 | 1862.03 | 1879.81 | 1489.07 | 2966.98 |
| Educational Institutions (Universities) | 1375.09 | 1483.81 | 1524.64 | 1564.63 | 1569.61 |
| Cooperative Institutions | 78.78 | 76.56 | 64.70 | 50.50 | 193.97 |
| Other Institutions | 2783.96 | 1616.71 | 2199.45 | 1020.49 | 3429.13 |
| Total (B) | 5334.31 | 5039.11 | 5668.60 | 4124.69 | 8159.69 |
| Total (A +B) | 15866.84 | 19553.60 | 19382.62 | 12132.04 | 20504.85 |
| Revenue Expenditure | 91096.31 | 99948.35 | 110316.39 | 104719.92 | 123446.33 |
| Assistance as percentage of Revenue Expenditure | 17.42 | 19.56 | 17.57 | 11.59 | 16.61 |

Source: Finance Accounts of respective years

The financial assistance to local bodies and other institutions increased from ₹12,132.04 crore in 2019-20 to ₹20,504.85 crore in 2020-21. The table above shows that the percentage of assistance with reference to revenue expenditure was 16.61 *per cent* during 2020-21 as compared to 11.59 *per cent* in 2019-20. Substantial increase was noticed in the release of Grants in respect of Local Bodies during 2020-21 compared to the previous year.

2.4.3 Capital Expenditure

Capital Expenditure includes primarily expenditure on creation of fixed infrastructure assets, such as buildings, roads, bridges etc.

Chart 2.13: Capital expenditure in the State

The capital expenditure constituted 9.28 per cent of the total expenditure for the year 2020-21. Capital expenditure as a percentage of total expenditure showed an increase of 25.58 per cent when compared to the year 2019-20 (7.39 per cent) and a decrease of 6.17 per cent to the year 2016-17 (9.89 per cent).

The capital expenditure of the State increased by 52.45 per cent (₹4,434.85 crore) during the year. The increase was mainly under the Social Services sector by 108.86 per cent followed by 65.06 per cent in General Services sector and Economic Services Sector by 43.64 per cent.

2.4.3.1 Major changes in Capital Expenditure

Significant variations under various Head of Account with regard to capital expenditure of the State during the current year and the previous year is given in the **Table 2.20**.

Table 2.20: Capital expenditure during 2020-21 compared to 2019-20

| Major Heads of Account | ₹ in crore | | |
|--|------------|---------|------------------------------|
| | 2019-20 | 2020-21 | Increase (+)/ Decrease(-) |
| 4215 Capital outlay on Water Supply and Sanitation | 271.58 | 1146.16 | 874.58 |
| 4217 Capital Outlay on Urban Development | 11.78 | 110.11 | 98.33 |
| 4515 Capital Outlay on other Rural Development Programmes | 916.32 | 1712.44 | 796.12 |
| 4859 Capital Outlay on Telecommunication and Electronic Industries | 83.09 | 180.33 | 97.24 |
| 5053 Capital Outlay on Civil Aviation | 238.17 | 128.50 | (-)109.67 |
| 5054 Capital Outlay on Roads and Bridges | 2302.80 | 2703.94 | 401.14 |
| 5056 Capital Outlay on Inland Water Transport | 13.45 | 119.06 | 105.61 |
| 5075 Capital Outlay on Other Transport Services | 451.13 | 716.30 | 265.17 |

| Major Heads of Account | 2019-20 | 2020-21 | Increase (+)/ Decrease(-) |
|---|---------|---------|------------------------------|
| 5452 Capital Outlay on Tourism | 81.68 | 239.75 | 158.07 |
| 5465 Investment in General Financial and Trading Institutions | 0.00 | 400.00 | 400.00 |
| 5475 Capital Outlay on Other General Economic Services | 2217.22 | 2854.59 | 637.37 |

Source: Finance Accounts of respective years

Out of the total capital expenditure of ₹12,889.65 crore, 80 per cent was incurred on Capital Outlay on social services.

2.4.3.2 Quality of Capital Expenditure

This section presents an analysis of investments and other capital expenditure undertaken by the Government.

Quality of Investments in the Companies, Corporations and other bodies

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.

As per Finance Accounts 2020-21, the State Government had invested ₹10,064.07 crore in three Statutory Corporations, 117 Government Companies, 40 other Joint Stock Companies and various co-operatives.

The average return on these investments during the five-year period 2016-17 to 2020-21 was 1.34 per cent, while Government paid an average interest rate of 7.33 per cent on its borrowings during the period.

Table 2.21: Return on investments

| Investment/return/ cost of borrowings | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---------|---------|---------|---------|----------|
| Investment at the end of the year (₹ in crore) | 7240.03 | 8211.47 | 8322.38 | 8889.00 | 10064.07 |
| Return (₹ in crore) | 96.37 | 126.48 | 132.12 | 100.33 | 110.19 |
| Return (in per cent) | 1.33 | 1.54 | 1.59 | 1.13 | 1.09 |
| Average rate of interest on Government Borrowings (in per cent) ¹⁰ | 6.92 | 7.48 | 7.34 | 7.58 | 7.31 |

¹⁰ Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2] *100.

| Investment/return/ cost of borrowings | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--|---------|---------|---------|---------|---------|
| Difference between interest rate and return (in per cent) | 5.59 | 5.94 | 5.75 | 6.45 | 6.22 |
| Difference between interest on Government borrowings and return on investment (₹ in crore) ¹¹ | 404.72 | 487.76 | 478.54 | 573.34 | 625.99 |

Source: Finance Accounts of the State Government

During 2020-21, the Government invested ₹92.74 crore in Statutory Corporations, ₹394.47 crore in Government Companies, ₹126.08 crore in Joint Stock, ₹75.56 crore in Co-operative Banks and Societies. Progressive expenditure on investments was increased by ₹7.30 crore under Government Companies and decreased by ₹34.15 crore under Co-operative Banks and Societies.

Out of the total investment of ₹688.85 crore, ₹146.37 crore was invested in one corporation and four government companies, which are loss making and whose net worth is completely eroded as shown in **Table 2.22** below.

Table 2.22: Investment made in corporation/companies, whose net worth is completely eroded

(₹ in crore)

| Name of the Company/Corporation | Year upto which accounts finalised | Net worth | Investment made during 2020-21 | Cumulative investment as on 31 March 2021 |
|---|------------------------------------|-------------|--------------------------------|---|
| Kerala State Road Transport Corporation | 2014-15 | (-) 4290.63 | 2.74 | 752.34 |
| Kerala State Handloom Development Corporation | 2018-19 | (-) 43.79 | 40.00 | 54.44 |
| The Kerala State Cashew Development Corporation limited | 2018-19 | (-) 1181.46 | 51.30 | 557.34 |
| Meat Products of India Limited | 2016-17 | (-)21.83 | 32.33 | 2.14 |
| Kerala State Horticultural Products Development Corporation Limited | 2015-16 | (-)3.19 | 20.00 | 7.93 |
| Total | | | 146.37 | |

Source: Data collected from commercial audit wing and Finance Accounts

¹¹ Investment at the end of the year *Difference between interest rate and return.

Table 2.23: Investments made in loss making companies

(₹ in crore)

| Company | Year upto which accounts finalised | Loss after tax and interest | Investment made during 2020-21 | Cumulative Investment as on 31.03.2021 |
|---|------------------------------------|-----------------------------|--------------------------------|--|
| Kerala Tourism Development Corporation limited | 2017-18 | (-)12.69 | 69.00 | 186.60 |
| The Kerala State Development Corporation for Scheduled Caste and Scheduled Tribes Limited | 2018-19 | (-)12.36 | 15.00 | 207.58 |
| The Kerala State Film Development Corporation Limited | 2016-17 | (-)1.35 | 11.00 | 66.38 |
| Kerala Shipping and Inland Navigation Corporation Limited | 2017-18 | (-)1.15 | 3.60 | 70.27 |
| Indian Institute of Information Technology and Management Kerala | 2019-20 | (-)0.67 | 60.00 | 181.63 |
| Vision Varkala Infrastructure Development Corporation Limited | 2017-18 | (-)0.35 | 2.50 | 14.73 |
| Malabar International Port & SEZ Limited (Erstwhile Azhikkal Port) | 2018-19 | (-)1.27 | 28.23 | 53.80 |
| Kannur International Airport Limited | 2015-16 | (-)0.52 | 126.08 | 1383.24 |
| Total | | | 315.41 | 2164.23 |

Source : Data collected from Commercial Audit Wing and Finance Accounts

Eight Companies in which an amount of ₹315.41 crore was invested during the year are loss making. The total investment of the Government upto 31 March 2021 in these loss making Companies was ₹2,164.23 crore. Details of investments made in loss making companies is given in **Table 2.23** above.

The cumulative investment blocked in 16 non-working companies was ₹33.87 crore.

If the State Government keeps on making investments in loss making government companies there are no chances of return on investment. Investment made in Companies which are loss making and those where net worth is completely eroded, affect quality of capital expenditure.

Loans and Advances by the State

In addition to investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies, the Government also provides loans and advances to these institutions. **Table 2.24** presents the status of loans and advances disbursed, repayments and interest received *vis-à-vis* interest paid by the State Government on its borrowings during 2016-17 to 2020-21.

Table 2.24 : Quantum of loans disbursed and recovered during five years**(₹ in crore)**

| Quantum of Loans disbursed and recovered | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|----------------------|------------------------|------------------------|------------------------|----------------------|
| Opening Balance of loans outstanding | 13009.89 | 13877.23 ¹² | 15163.04 ¹³ | 16557.18 ¹⁴ | 17472.08 |
| Amount advanced during the year | 1160.29 | 1540.59 | 2322.89 | 1210.22 | 2548.51 |
| Amount recovered during the year | 292.24 ¹⁵ | 350.98 ¹⁶ | 210.54 ¹⁷ | 295.32 ¹⁸ | 263.82 ¹⁹ |
| Closing Balance of the Loans Outstanding | 13877.94 | 15066.84 | 17275.39 | 17472.08 | 19756.77 |
| Net addition | 868.05 | 1189.61 | 2112.35 | 914.90 | 2284.69 |
| Interest received | 30.53 | 37.53 | 40.81 | 50.59 | 42.83 |
| Interest rate on loans and Advances given by the Government ²⁰ (in per cent) | 0.23 | 0.26 | 0.25 | 0.30 | 0.23 |
| Rate of Interest paid on the Outstanding borrowings of the Government(in per cent) | 6.92 | 7.48 | 7.34 | 7.58 | 7.31 |
| Difference between the rate of interest paid and interest received (per cent) | 6.69 | 7.22 | 7.09 | 7.28 | 7.08 |

Source: Finance Accounts

Interest received against these loans remained less than one *per cent* during the period 2016-17 to 2020-21 and was 0.23 *per cent* during 2020-21 as against the average cost of borrowings of 7.31 *per cent* during the year. The table indicated that State borrowings were more expensive than the loans advanced by it.

The table also shows that the total outstanding loans and advances increased from ₹17,472.08 crore in 2019-20 to ₹19,756.77 crore in 2020-21. Of the total loans advanced during the year (₹2,548.51 crore), ₹2,405.39 crore was advanced for economic services, ₹133.18 crore was advanced for social services, and ₹9.94 crore was advanced for Miscellaneous purposes and Government Servants. A significant portion of the Loans advanced under social services were to Pariyaram Medical College (₹100.80 crore) for repayment to District Cooperative Bank, Eranakulam. Of the loans advanced under economic services ₹1,739.85 crore (72.33 *per cent*) was provided to Kerala State Road Transport Corporation.

¹² Difference of ₹0.71 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 2017-18.

¹³ 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. 18 of Finance Accounts 2018-19.

¹⁴ Difference of ₹718 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 2019-20

¹⁵ Includes ₹125.72 crore being the irrecoverable loans written off.

¹⁶ Includes ₹0.30 crore being the irrecoverable loans written off

¹⁷ Includes ₹0.40 crore being the irrecoverable loans written off

¹⁸ Includes ₹0.30 crore being the irrecoverable loans written off

¹⁹ Includes ₹0.23 crore being the irrecoverable loans written off

²⁰ Interest Received/(Opening balance + Closing balance of Loans and Advances)/2*100

Further, of the total loans advanced during the year (₹2,548.51 crore), loans amounting ₹532.19 crore (20.88 per cent) were disbursed by the Administrative Departments or Finance Department without setting terms and conditions for repayments of loans and rate of interest payable.

Capital locked in incomplete projects

As per Finance Accounts for the year 2020-21 there are, 354 capital works, each valuing ₹ one crore or more, were incomplete on which an expenditure of ₹1,362.35 crore had been incurred. Age-wise and Department-wise details of incomplete projects are given in **Table 2.25** and **Table 2.26** respectively.

Table 2.25: Age profile of incomplete projects as on 31 March 2021

(₹ in crore)

| Year of Commencement | No. of Incomplete projects | Estimated Cost | Expenditure as on 31 March 2021 |
|----------------------|----------------------------|----------------|---------------------------------|
| Prior to 2014 | 57 | 767.04 | 597.84 |
| 2015 | 18 | 110.57 | 81.68 |
| 2016 | 50 | 384.35 | 224.81 |
| 2017 | 68 | 538.54 | 200.59 |
| 2018 | 85 | 494.79 | 158.84 |
| 2019 | 76 | 313.90 | 98.59 |
| Total | 354 | 2609.19 | 1362.35 |

Source: Finance Accounts

Table 2.26: Department-wise profile of incomplete projects as on 31 March 2021

(₹ in crore)

| Department | No. of Incomplete projects | Estimated Cost | Expenditure as on 31 March 2021 |
|---|----------------------------|----------------|---------------------------------|
| Public Works Department – (Roads including National Highway) | 198 | 1076.02 | 509.03 |
| Public Works Department-(Buildings) | 98 | 531.12 | 207.94 |
| Public Works Department-(Bridges) | 38 | 554.88 | 354.26 |
| Irrigation Department - (Irrigation and Minor Irrigation Works) | 17 | 412.84 | 247.65 |
| Harbour Engineering Department | 3 | 34.33 | 43.47 |
| Total | 354 | 2609.19 | 1362.35 |

Source: Finance Accounts

Physical progress of the projects as on 31 March 2021 ranged between five to 99 per cent. There was delay ranging from two to 30 years in completion of 354 projects/ works and this would result in time overrun and cost overrun, and deprive the State of the intended benefits for prolonged periods.

2.4.3.3 Implementation of Ujwal Discom Assurance Yojana (UDAY)

The Ministry of Power (MoP), Government of India launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY Scheme) for financial turnaround of Power Distribution Companies (DISCOMs).

With an objective to improve the operational and financial efficiency of the State DISCOMs, a tripartite Memorandum of Undertaking (MoU) was executed between Ministry of Power (GoI), concerned State Government and State Power Distribution Companies. This scheme facilitated State Governments to take over 75 per cent of DISCOM's outstanding debt over a period of two years.

The outstanding debt of the DISCOMs was taken over in the form of equity, loan and grant/subsidy. The loan extended to DISCOMs under UDAY has to be converted into grant and equity in the subsequent three years. Accordingly, the States have to convert loan into equity and subsidy.

In Kerala, a tripartite Memorandum of Understanding (MoU) amongst Ministry of Power, Government of India, Government of Kerala (GoK) and Kerala State Electricity Board Limited (KSEBL) in order to improve operational efficiency was entered into on 15 March 2017. The measures to be taken by KSEBL included activities for improving operational efficiency, and to enable sustainable operations of KSEBL. The MoU did not envisage financial turnaround package.

2.4.3.4 Investment in Government Companies/ Corporations and budgetary support

The State Public Sector Undertakings (SPSUs) in Kerala which consists of State Government Companies and Statutory Corporations are established to carry out activities of commercial nature keeping in view the welfare of the people. The GoK has a financial stake in these companies which is mainly in the form of

| | | |
|----------------------------------|---|--|
| Share Capital and Loans | : | share capital contribution and financial assistance by way of loans |
| Special financial support | : | budgetary support by way of grants and subsidies. |
| Guarantees | : | for repayment of loans with interest availed by the SPSUs from financial institutions. |

It also occupies an important place in the State's economy as the turnover (₹34,924.36 crore²¹) of these PSUs was about 4.60 per cent of the GSDP of the State for 2020-21.

The figures in respect of equity, loans and guarantees outstanding as per the records of the SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out a reconciliation of the

²¹ Latest finalised accounts as of September 2021.

differences. The position in this regard as on 31 March 2021 is given in **Table 2.27**.

Table 2.27 : Equity, loans and guarantees outstanding as per Finance Accounts vis-à-vis records of SPSUs

(₹ in crore)

| Sl. No. | Outstanding in respect of | Amount as per | | Difference |
|---------|---------------------------|------------------|----------|------------|
| | | Finance Accounts | SPSUs | |
| 1 | Equity | 6617.30 | 9443.33 | 2826.03 |
| 2 | Loans | 12426.00 | 9515.33 | 2910.67 |
| 3 | Guarantees | 24696.44 | 14928.00 | 9768.44 |

Source: Compiled based on information received from PSUs and Finance Accounts.

There were differences in respect of one Power Sector PSU and 122 Other than Power Sector PSUs. The major differences were observed in 22 companies²². The Government and the PSUs should take concrete steps to reconcile the differences. The details of stake of the State Government in the SPSUs are brought out in the subsequent paragraphs.

(i) Share Capital in the SPSUs

As of March 2021, there were 144²³ PSUs in the State under the audit jurisdiction of the PAG(Audit), Kerala. The State Government invested ₹18,958.66 crore in these PSUs as at the end of March 2021 as furnished by PSUs in their latest finalised accounts.

In addition to the investments, during 2020-21, the State Government has given grants/ subsidies amounting to ₹13,257.19 crore to 37 PSUs.

(ii) Disinvestment/ Closure of SPSUs

There was no disinvestment, restructuring and privatisation by the State Government during the year 2020-21. Further, out of 18 non-working PSUs, liquidation process was initiated in respect of four PSUs.

²² **Equity:** Kerala State Information Technology Infrastructure Limited, Kannur International Airport Limited, Kerala Tourism Development Corporation Limited, Indian Institute of Information Technology and Management-Kerala, Cochin Smart Mission Limited, Kerala Social Security Pension Limited, Kerala State Drugs and Pharmaceuticals Limited, Kerala State Financial Enterprises Limited, Kerala State Electricity Board Limited, Autokast Limited, Kerala High Speed Rail Corporation Limited, Kerala Electrical and Allied Engineering Company Limited, Kerala Financial Corporation, Kerala Academy for Skills Excellence and Kerala Rail Development Corporation Limited.

Loans: Kerala Cashew Board Limited, Kerala Police Housing and Construction Corporation Limited, Roads and Bridges Development Corporation of Kerala Limited, Autokast Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, Kerala Urban and Rural Development Finance Corporation Limited, Kerala Industrial Infrastructure Development Corporation Limited, Kerala State Electricity Board Limited, Kerala Electrical and Allied Engineering Company Limited and Kerala State Electronics Development Corporation Limited.

²³ Statutory Corporations - 4, non-working Government Companies - 18, working Government Companies - 122.

(iii) Returns from Government Companies/ Corporations

During 2016-17 to 2020-21, the number of PSUs which earned profits ranged between 45 and 55, out of which only one to nine PSUs had declared dividend. During 2020-21, 50 PSUs earned profit of ₹383.20 crore and none of them paid the dividend.

The profitability of a PSU is traditionally assessed through return on investment²⁴, return on equity²⁵ and return on capital employed²⁶.

- The return on the State Government fund infused in the three Power Sector PSUs in the State ranged between (-)52.57 *per cent* and (-)8.03 *per cent* during 2016-17 to 2020-21.
- The return on equity in the three Power Sector PSUs from 2016-17 to 2020-21 could not be worked out as net income was negative for these years. On the other hand, the return on the capital employed ranged between (-)6.50 *per cent* and 9.55 *per cent* during the period 2016-17 to 2020-21.
- All the PSUs other than the Power Sector had negative return on investment which ranged between (-)28.01 *per cent* and (-)16.34 *per cent* during 2016-17 to 2020-21.
- Similarly, the return on equity in the PSUs other than Power Sector was negative as the PSUs incurred losses in all the five years.
- The return on capital employed of the PSUs other than Power Sector ranged between (-)1.12 *per cent* and 7.56 *per cent* during the period 2016-17 to 2020-21.

(iv) Loss incurred by the Government Companies/ Corporations

During 2020-21, 67 working PSUs incurred loss of ₹4,495.47 crore. Out of this, one Power Sector PSU incurred an overall loss of ₹1,822.35 crore. In respect of the balance loss, the major contributor was Kerala State Road Transport Corporation (₹1,431.29 crore).

(v) Erosion of capital in SPSUs

Net worth is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses. As at the end of 2020-21, paid up capital worth ₹5,816.42 crore of 60 PSUs was eroded.

Though the overall net worth of three Power Sector PSUs was positive for the year 2016-17, it remained negative from 2017-18 to 2020-21. The net worth

²⁴ Measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to total investment.

²⁵ Measure of performance calculated by dividing net profit by shareholder's funds.

²⁶ Financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing the company's earnings before interest and taxes by capital employed.

{(-)₹3,929.11 crore)} of one PSU²⁷ with paid up capital of ₹3,499.05 crore was fully eroded during 2020-21.

Similarly, the overall net worth of PSUs other than Power Sector was positive in all the years during 2016-17 to 2020-21. However, the net worth of 59 PSUs (₹7,547.38 crore) was eroded as at 31 March 2021.

(vi) Analysis of long term loans

Assessment of the ability of the SPSUs to service the debt owned by them to the Government, banks and other financial institutions through interest coverage ratio and debt turnover ratio revealed the following:

- As on 31 March 2021, out of the three Power Sector PSUs, all three had interest burden. Of these, one had Interest Coverage Ratio of less than one.
- The debt-turnover ratio of three Power Sector PSUs had improved as the compounded annual growth rate of turnover was more than that of debt during 2020-21.
- As on 31 March 2021, 45 out of 68 PSUs other than Power Sector had interest coverage ratio of less than one, indicating that these PSUs could not generate sufficient revenues to meet expenses on interest.
- The debt-turnover ratio of working PSUs of other than Power Sector had not improved as the compounded annual growth rate of turnover was less than that of debt during 2016-17 to 2020-21.

(vii) Accountability framework and submission of accounts by PSUs and its audit

The process of audit of Government Companies are governed by respective provisions of Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013 (Act). The C&AG of India appoints the statutory auditors of the Government Company. Further, as per sub-section 7 of Section 143 of the Act, the C&AG may, in case of any Company covered under sub-section (5) or sub-section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company.

The financial statements of the Government Companies are audited by Statutory Auditors, who are appointed by the CAG. These financial statements are subject to supplementary audit to be conducted by CAG within 60 days from the date of receipt of the Audit Report. However, CAG is sole auditor for four Statutory Corporations and conducts supplementary audit in respect of two Statutory Corporations.

(viii) Age-wise analysis of non-submission of accounts by PSUs

During 2020-21, out of three Power Sector PSUs, one account from one PSU was in arrears. In respect of 123 working PSUs other than Power Sector, six PSUs were yet to finalise their first accounts, 325 accounts from 114 working

²⁷ Kerala State Electricity Board Limited.

PSUs were in arrears. The arrears ranged between one to eleven years. The State Government infused ₹24,810.40 crore²⁸ in 84 out of 121 PSUs during the years for which accounts were in arrears.

The details of arrears in submission of accounts by working PSUs as on 30 September 2021 are given in **Table 2.28**.

Table 2.28: Age-wise analysis of non-submission of accounts by PSUs

| Particulars | Number of working PSUs with arrears of accounts | Number of accounts in arrears |
|------------------------------|---|-------------------------------|
| 1 to 3 years | 81 | 138 |
| 4 to 6 years | 27 | 132 |
| 7 to 10 years | 6 | 45 |
| More than 10 years | 1 | 11 |
| First accounts not finalised | 6 | 13 |
| Total | 121 | 339 |

During 2020-21, the State Government has released Grants and Loans of ₹2,688.67 crore to 34 Public Sector Undertakings (PSUs) which did not finalise their accounts for the periods ranging from one to eleven years in violation of provisions of the Companies Act, 2013. 50 number of accounts are not finalised in respect of 10 PSUs from 2015-16 to 2019-20 and 18 number of accounts in respect of Six PSUs are pending for finalisation from 2017-18 to 2019-20. Audit is therefore unable to certify the accounts of these Companies as required under CAG's DPC Act, 1971 and the Companies Act, 2013.

(ix) Grant/ Loan given to PSUs whose accounts have not been finalised

During 2020-21, Government of Kerala issued loans to 39 Public Sector Undertakings (PSUs) and grants to 21 PSUs, of which 24 PSUs and 13 PSUs which received an aggregate amount of ₹2,688.67 crore as loans and grants respectively, have not finalised their accounts till 31 March 2021. There were arrears in finalising of accounts ranging from one to eleven years, which is in violation of the provisions of the Companies Act, 2013. **Appendix 2.3** shows the details of grants/ loans given to these PSUs whose accounts have not been finalised.

2.4.4 Expenditure Priorities

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 aggregate expenditure) is attached to a particular sector, if the allocation is below the respective national average. The higher the ratio of these components to total expenditure, the quality of expenditure is considered to be better.

²⁸ Equity ₹1,008.54 crore, loans ₹4,687.72 crore and grants ₹19,114.14 crore.

Table 2.29 analyses the fiscal priority of the State Government with regard to Health, Education and Capital Expenditure during 2016-17 and 2020-21.

Table 2.29: Expenditure priority of the State with regards to Health, Education and Capital expenditure

(in per cent)

| | TE/GSDP | CE/TE | Education/ TE | Health & FW/ TE |
|---|---------|-------|------------------|--------------------|
| States other than North Eastern and Himalayan States (erstwhile General Category States)(2016-17) | 17.12 | 19.77 | 14.93 | 5.49 |
| Kerala | 16.13 | 11.02 | 16.66 | 5.85 |
| Tamil Nadu | 15.35 | 23.38 | 13.35 | 4.32 |
| Karnataka | 13.42 | 18.57 | 12.69 | 4.25 |
| States other than North Eastern and Himalayan States (2020-21) | 16.18 | 13.03 | 15.00 | 6.74 |
| Kerala | 18.30 | 11.12 | 11.87 | 6.41 |
| Tamil Nadu | 14.36 | 13.50 | 13.97 | 6.36 |
| Karnataka | 13.46 | 21.45 | 11.12 | 5.29 |
| TE- Total Expenditure, CE- Capital Expenditure, | | | | |

Source: Information furnished by Economic Advisor and based on Finance Accounts

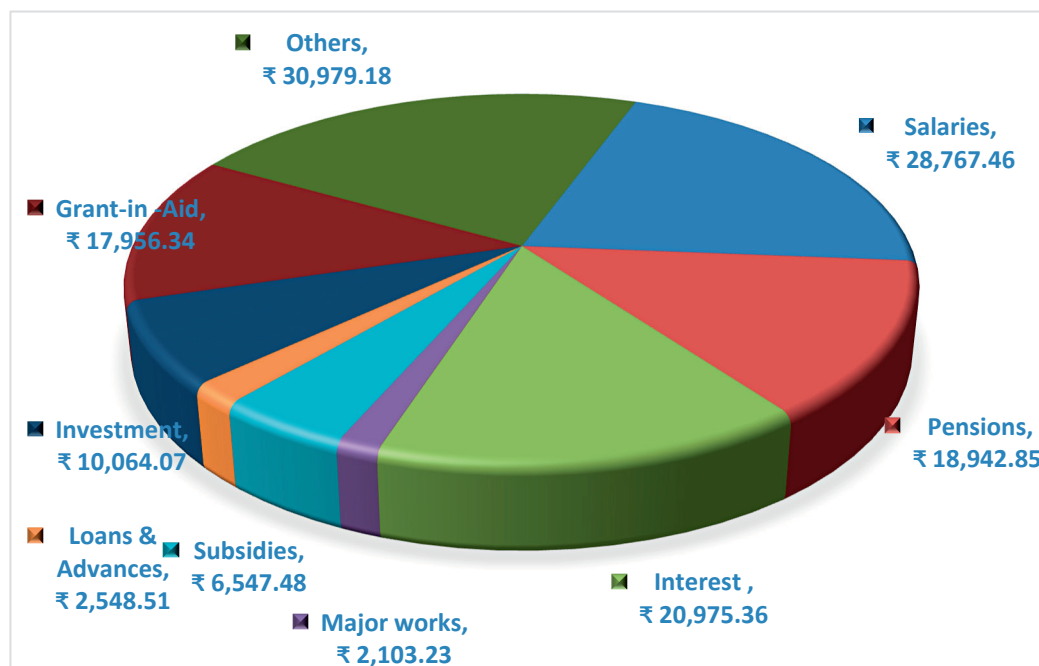
Though in 2020-21, the percentage of Total Expenditure to GSDP for the State was more than that of the percentage of Total Expenditure to GSDP of States other than North Eastern and Himalayan States, the share of Capital Expenditure and the State's share of expenditure on Health and Education sectors in the total expenditure was less than that of States other than North Eastern and Himalayan States.

2.4.5 Object head wise expenditure

The Total Expenditure for the year 2020-21 was ₹1,38,884.49 crore. The **Chart 2.14** below gives information about object/purpose of the expenditure.

Chart : 2.14 Object head wise expenditure

(₹ in crore)



From above, it can be seen that expenditure on salaries and interest payments were the highest and major works constituted only 1.51 per cent of total expenditure.

2.5 Public Accounts

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 and are not subject to vote by the State Legislature. The Government acts as a banker in respect of these. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

2.5.1 Net Public Account Balances

Component-wise net balances in Public Account of the State as on 31 March 2021 are shown below in **Table 2.30**.

Table 2.30: Components-wise net balances

(₹ in crore)

| Sector | Sub Sector | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--|------------------------------------|----------|---------|---------|------------|----------|
| I. Small Savings, Provident Funds etc. | Small Savings, Provident Funds | 12931.64 | 7206.84 | 9619.21 | 8274.11 | 11547.96 |
| | (a) Reserve Funds bearing Interest | 43.34 | 171.22 | 1826.90 | (-)1478.41 | 83.97 |

| Sector | Sub Sector | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--------------------------------------|---|-----------------|----------------|-----------------|----------------|-----------------|
| J. Reserve Funds | (b) Reserve Funds not bearing Interest | 118.88 | 137.76 | 154.12 | 127.99 | 260.08 |
| K. Deposits and Advances | (a) Deposits bearing Interest | 1.40 | (-)1.32 | (-)0.30 | 0.23 | (-)0.15 |
| | (b) Deposits not bearing interest | 104.28 | 267.23 | 392.70 | 584.93 | 497.22 |
| | (c) Advances | (-)0.03 | 0.00 | (-)0.23 | (-)59.42 | (-)2.19 |
| L. Suspense and Miscellaneous | (a) Suspense | (-)1015.96 | 691.76 | (-)534.98 | 17.05 | (-)328.46 |
| | (b) Other Accounts | (-)1153.13 | 510.92 | (-)226.68 | (-)270.19 | 967.49 |
| | (c) Accounts with Government of Foreign Countries | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | (d) Miscellaneous | 0.00 | (-)0.15 | (-)0.57 | (-)0.06 | (-)20.39 |
| M. Remittances | (a) Money Orders, and other Remittances | (-)367.34 | (-)61.62 | (-)90.82 | 35.18 | 86.49 |
| | (b) Inter Governmental Adjustment Account | 54.33 | (-)104.35 | 39.30 | 82.36 | (-)47.08 |
| Total | | 10717.41 | 8818.29 | 11178.65 | 7313.77 | 13044.94 |

Source: Finance Accounts of respective years

The net receipts from the Public Account increased (21.72 per cent) from ₹10,717.41 crore in 2016-17 to ₹13,044.94 crore in 2020-21. When compared to 2019-20 the increase in net balance during 2020-21 is ₹5,731.17 crore, this mainly is due to increase under Small Savings, PF etc. (₹3,273.85 crore), and Reserve Funds bearing interest (₹1,562.38 crore). There is an increase in treasury cheques under Suspense and Miscellaneous by ₹955.78 crore.

2.5.2 Reserve Funds

Reserve funds are created for specific and defined purposes under the Public Account of the State Government. These Funds are met from contribution of grants from the Consolidated Fund of the State.

As on 31 March 2021, the State Government had 16 Reserve Funds with balances amounting to ₹3,457.91 crore. Out of these, two Reserve Funds (₹719.55 crore) are interest bearing, and 14 Reserve Funds (₹2,738.36 crore) are non-interest bearing. Five out of the 14 non-interest bearing funds had nil balance and are inoperative.

Details of significant Reserve Funds are given below:

2.5.2.1 Consolidated Sinking Fund

In line with the recommendations of the XII Finance Commission the State Government set up Consolidated Sinking Fund (CSF) with effect from the financial year 2007-2008, according to which the Fund is to be utilised as an amortisation fund for redemption of all outstanding liabilities of the Government commencing from the financial year 2012-13. The State Government may contribute to the Fund on a modest scale of at least 0.50 *per cent* of the outstanding liabilities as at the end of the previous year.

At the beginning of the year 2020-21, ₹2,185.31 crore was available and with the interest received on the investment (₹172.95 crore), the outstanding balance at the end of the year was ₹2,358.26 crore. The outstanding balance is invested in GoI Securities as per the recommendations of the XII Finance Commission.

Against a requirement of ₹1,326.81 crore (0.50 *per cent* of the outstanding liabilities of ₹2,65,362.36 crore as on 01 April 2020), the State Government did not contribute any amount to the Fund during the year. The State Government has not made any contribution to the Fund since 2012-13.

The State Government has been giving a reply that as the State is continuously running in revenue deficit, the contribution to Consolidated Sinking Fund (CSF) can materialise only from borrowed funds. The Government also stated that the yield on Consolidated Sinking Fund investment as against the cost of borrowings would give a negative carry and hence it is not prudent to contribute to CSF, given the high cost of borrowings.

However, the fact remains that the amortisation of loans as envisaged in guidelines of the CSF could not be met.

2.5.2.2 State Compensatory Afforestation Fund

The Compensatory Afforestation Fund Act, 2016, is an Act to provide for the establishment of funds under the public accounts of India and the public accounts of each State and crediting thereto the monies received from the user agencies towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, net present value and all other amounts recovered from such agencies under the Forest(Conservation) Act, 1980; constitution of an authority at national level and at each of the State and Union Territory Administration for administration of the funds and to utilise the monies so collected for undertaking artificial regeneration (plantations), assisted natural regeneration, protection of forests, forest related infrastructure development, Green India Programme, wildlife protection and other related activities and for matters connected therewith or incidental thereto.

The monies received by the State Governments from the user agencies is credited in 'State Compensatory Afforestation Deposits' under interest bearing section in Public Account of the State at Minor Head level below the Major Head '8336-Civil Deposits'. Further as per Section 3(4) of the Act, 90 *per cent* of the fund needs to be transferred to the Major Head '8121-General and Other

Reserve Funds' in Public Account of State and balance 10 *per cent* to be credited into the National Fund on yearly basis.

The applicable rate of interest on balances available under 'State Compensatory Afforestation Deposits' under '8336-Civil Deposits' and 'State Compensatory Afforestation Fund' under '8121- General and other Reserve Funds' will be as per the rate declared by the Central Government on year-to-year basis.

During the year 2020-21, the State Government received ₹0.01 crore from the user agencies and credited the same under Major Head 8336-Civil Deposits and this was not remitted to the National Fund during the year 2020-21. The total balance in the State Compensatory Afforestation Fund as on 31 March 2021 was ₹73.08 crore.

The balance in the fund as on 01 April 2020 was ₹81.59 crore and the rate of interest fixed by Ministry of Environment, Forest and Climate Change was 3.4 *per cent*. An interest of ₹2.77 crore was due on the amount. Non-payment of interest resulted in understatement of revenue and fiscal deficit by ₹2.77 crore.

2.5.2.3 State Disaster Response Fund

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. In terms of the guidelines of the Fund, the Centre and States are required to contribute to the Fund in the certain proportion. The contributions are to be transferred to the Public Account to Major Head-8121. Expenditure during the year is incurred by operating Major Head-2245.

The State Governments are required to pay interest to the SDRF at the rate applicable to overdrafts under Overdraft Regulation Guidelines of the RBI. The interest is to be credited on a half yearly basis. The accretions to the SDRF together with the income earned on the investment of SDRF is to be invested in Central Government dated Securities, auctioned Treasury Bills and other interest earning deposits with Scheduled Commercial Banks.

The SDRF is to be used only for meeting the expenditure for providing immediate relief to the victims of a disaster and the provision for disaster preparedness, restoration, reconstruction and mitigation should not be a part of SDRF. Such expenditure has to be built into the normal budgetary heads/ State Plan Funds, etc.

The size of the Fund for Kerala for the year 2020-21 was ₹419 crore, 75 *per cent* (₹314 crore) of which was to be contributed by the Central Government and 25 *per cent* (₹105 crore) by the State Government.

During the year, an amount of ₹590.85 crore was credited to the Fund, Central share of ₹314 crore, ₹105 crore of State share and ₹171.85 crore on account of interest on uninvested balances for the years 2018-19 and 2019-20.

After setting off the expenditure for disaster relief operations to the extent of ₹495.99 crore, the balance in SDRF as on 31 March 2021 is ₹646.47 crore.

According to the guidelines issued by the Government of India, the accretions to SDRF are to be invested in GoI securities/ Treasury Bills/ interest earning deposits with scheduled commercial banks by the State Executive Committee constituted for the management of the Fund. However, this was not done till date.

As per Finance Accounts ₹87.82 crore was the interest due on the opening balance (₹551.61 crore) in the Fund. Non-payment of interest resulted in understatement of Revenue and Fiscal deficits by ₹87.82 crore.

2.5.2.4 Guarantee Redemption Fund

As per recommendations of the XII Finance Commission, the State Government is required to constitute 'Guarantee Redemption Fund' for meeting the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Public Sector Undertakings or other Bodies and invoked by the beneficiaries. The accumulations in the Fund are to be utilised only towards payment of the guarantees issued by the Government and not paid by the institutions on whose behalf guarantee was issued.

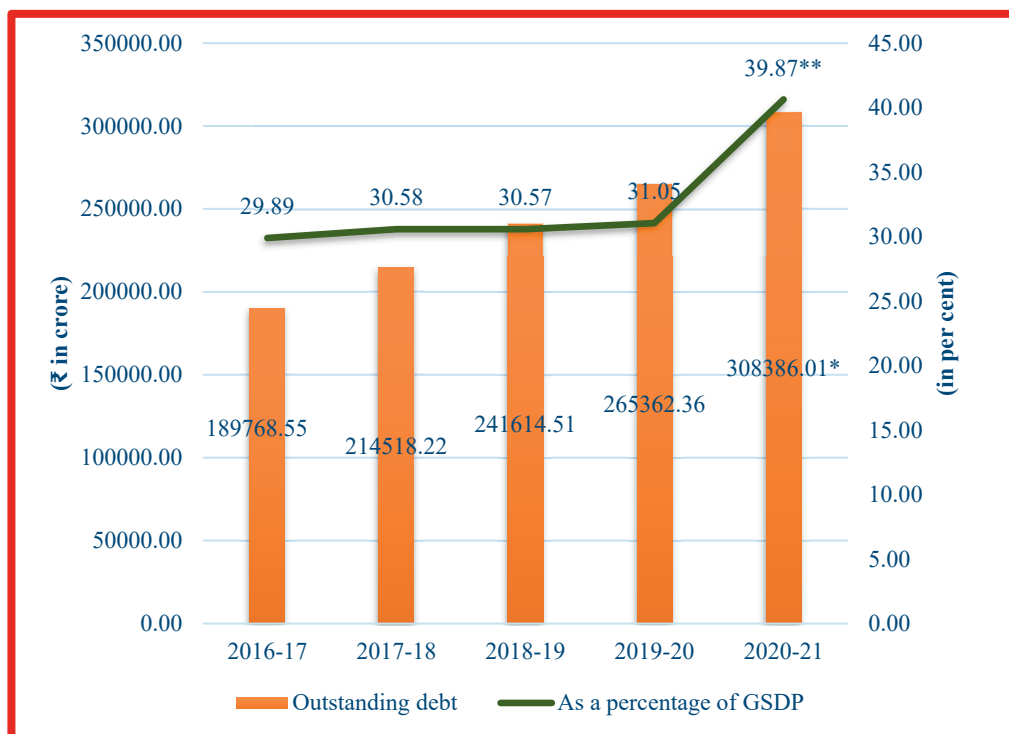
However, Government of Kerala has not established Guarantee Redemption Fund. The Fund is to be operated outside the State Government account and administered by the Reserve Bank of India. Under the guidelines, the State Government is required to make minimum annual contribution of 0.50 per cent of outstanding guarantee at the beginning of the year. The amount be contributed by the State Government in the Fund during the year is ₹138.78 crore.

In terms of the Kerala Ceiling on Government Guarantees Act, 2003 the guarantee commission received annually are to be transferred to the Public Account and these contributions shall form the corpus of the Guarantee Redemption Fund (GRF) under Public Account of the State. As the State Government has not constituted GRF as per para 6 of the Kerala Ceiling on Government Guarantees Act, 2003 and RBI guidelines, Guarantee commission amounting to ₹1,467.16 crore collected during 2003-04 to 2020-21 (this includes ₹216.57 crore for the year 2020-21) had not been credited to the Fund but treated as non-tax revenue and used for meeting the revenue expenditure of Government. Non-crediting of guarantee commission collected to the GRF resulted in understatement of revenue expenditure to that extent.

2.6 Debt Management

Debt management is the process of establishing and executing a strategy for managing the Government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.

Chart 2.15: Trend of Overall Debt



* Effective Outstanding Debt would be ₹3,02,620.01 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

** The back to back loan (₹5,766 crore) received from GoI in lieu of GST compensation has not been considered as Debt for working out the indicator.

2.6.1 Debt Profile: Components

Total debt of the State Government typically constitutes of Internal Debt of the State (market loans, ways and means advances from RBI, special securities issued to National Small Savings Fund and loans from financial institutions, etc.), loans and advances from the Central Government, and Public Account Liabilities. The details relating to total debt received, repayment of debt ratio of debt to GSDP and the actual quantum of debt available to the State during the five-year period 2016-17 to 2020-21 are given in the **Table 2.31**.

Table 2.31: Component wise debt trends

| | | (₹ in crore) | | | | |
|-------------------------------|----------------|--------------|-----------|-----------|-----------|------------|
| | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Outstanding Overall Debt | | 189768.55 | 214518.52 | 241614.51 | 265362.36 | 308386.01* |
| Public Debt | Internal Debt | 118268.72 | 135500.53 | 150991.04 | 165960.03 | 190474.09 |
| | Loans from GoI | 7614.13 | 7483.99 | 7243.41 | 8680.19 | 14973.64* |
| Liabilities of Public Account | | 63885.70 | 71534.00 | 83380.06 | 90722.14 | 102938.28 |

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--|-----------|-----------|-----------|-----------|---------------------|
| Rate of growth of outstanding overall debt (<i>per cent</i>) | 18.21 | 13.04 | 12.63 | 9.83 | 16.21 |
| Gross State Domestic Product (GSDP) | 634886.00 | 701588.00 | 790302.00 | 854689.00 | 758942.00 |
| Debt/GSDP (<i>per cent</i>) | 29.89 | 30.58 | 30.57 | 31.05 | 39.87 ^{^^} |
| Total Debt Receipts | 89787.12 | 120227.77 | 146499.36 | 183509.21 | 245780.87 |
| Total Debt Repayments | 60557.25 | 95478.10 | 119403.07 | 159761.36 | 202757.22 |
| Total Debt Available | 29229.87 | 24749.67 | 27096.29 | 23747.85 | 43023.65 |
| Debt Repayments/Debt Receipts (<i>per cent</i>) | 67.45 | 79.41 | 81.50 | 87.06 | 82.50 |

Source: Finance Accounts of respective years

^{^^} The back to back Loan (₹5,766 crore) received from GoI in lieu of GST compensation has not been considered as Debt for working out the indicator.

* Effective Outstanding Loans from GoI would be ₹9,207.64 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission and therefore, the effective Outstanding Debt would be ₹3,02,620.01 crore for the current year.

Total outstanding liabilities of the State grew from ₹1,89,768.55 crore in 2016-17 to ₹3,08,386.01 crore in 2020-21. In 2020-21, the outstanding liabilities grew at 16.21 *per cent* over the previous year. It comprised internal debt of ₹1,90,474.09 crore (62 *per cent*), public account liabilities of ₹1,02,938.28 crore (33 *per cent*) and loans and advances from GoI of ₹14,973.64 crore (five *per cent*). The internal debt largely composed of market loans (₹1,65,402.04 crore) and special securities issued to NSSF (₹19,833.71 crore). Component wise break-up of debt is shown below in **Chart 2.16**.

Chart 2.16: Component wise breakup of debt

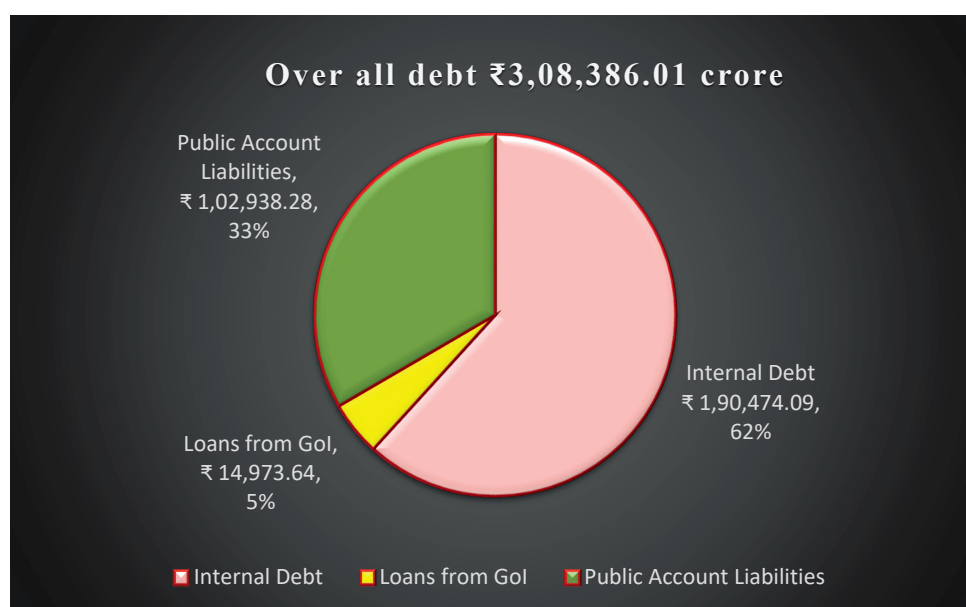
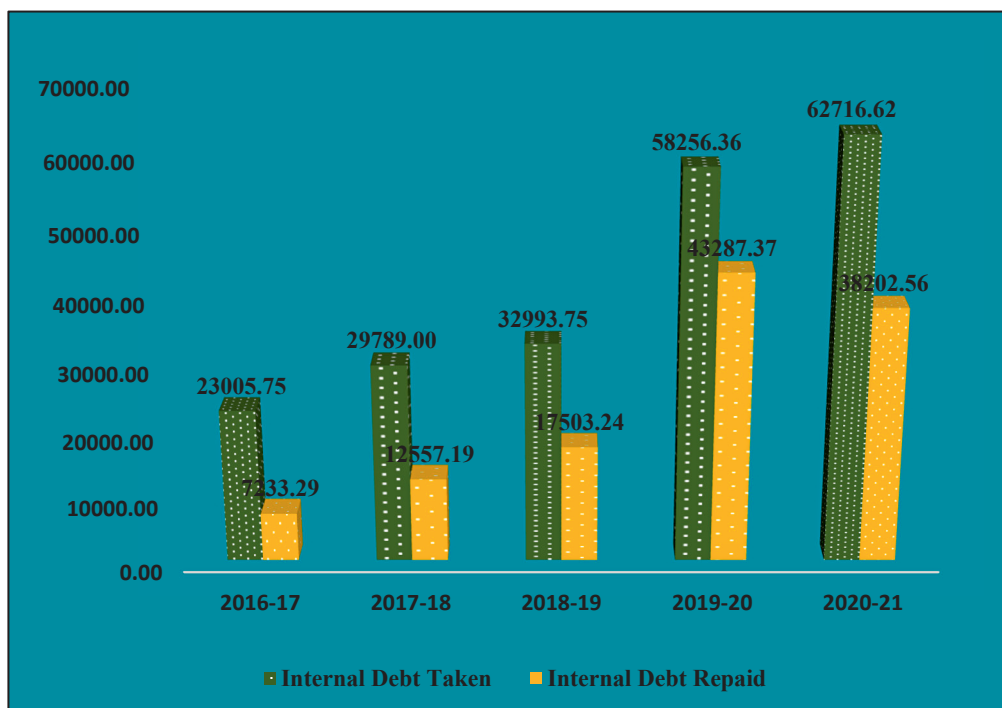


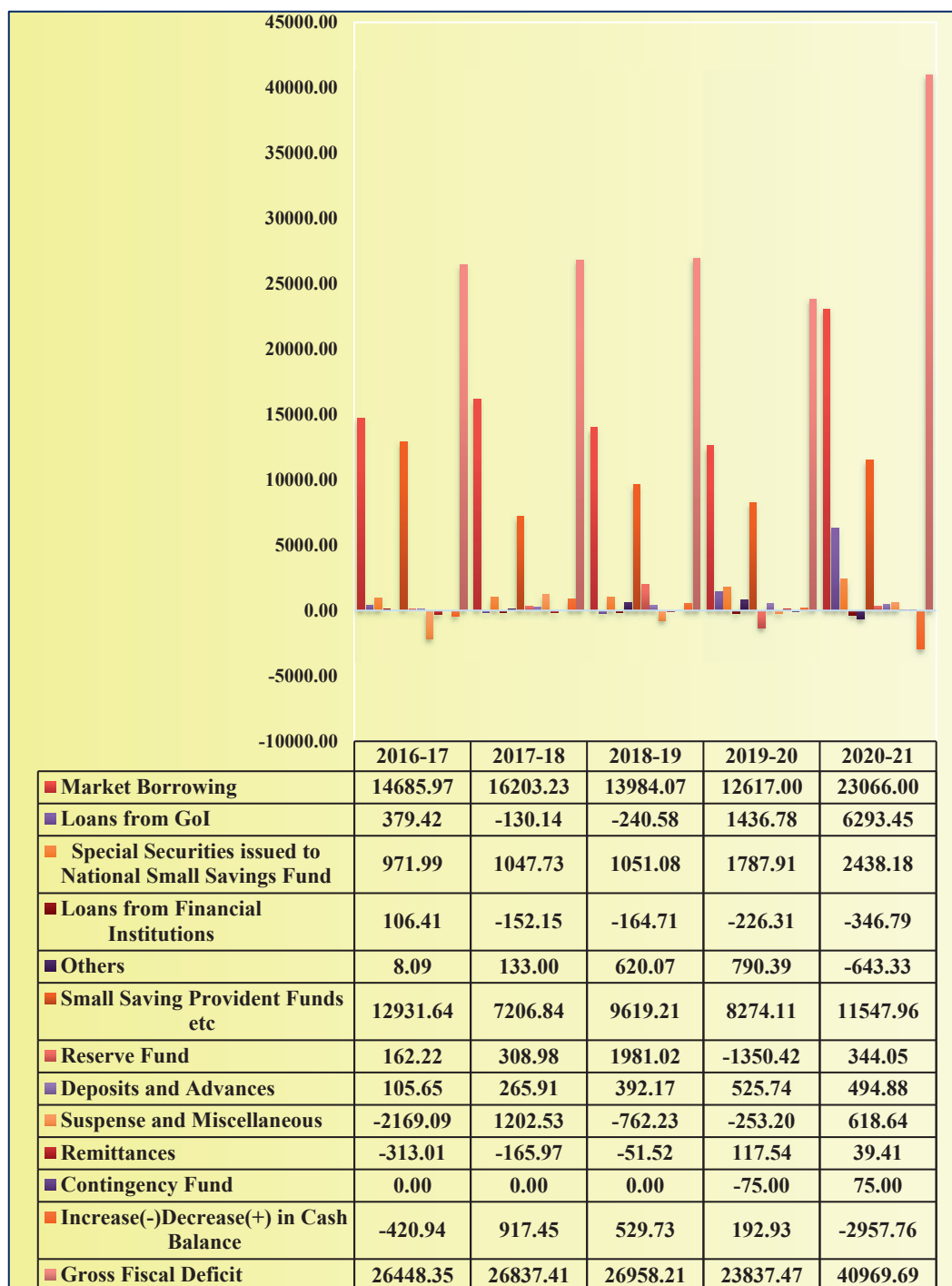
Chart 2.17: Internal debt taken vis-a vis repaid

(*₹ in crore*)

Components of Fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit had undergone a compositional shift as reflected in **Chart 2.18** and **Table 2.32**. The receipts and disbursements under the components of financing the fiscal deficit during the year 2020-21 are given in the **Table 2.33**.

Chart 2.18: Component wise debt trends (₹ in crore)



Note: Effective Loans from GoI would be ₹527.45 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

Table 2.32: Components of Fiscal Deficit and its financing pattern*(₹ in crore)*

| Particulars | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Composition of Fiscal Deficit | | | | | |
| Revenue Deficit | 15484.59 | 16928.21 | 17461.92 | 14495.25 | 25829.50 |
| Net Capital Expenditure | 10095.71 | 8719.59 | 7384.04 | 8427.32 | 12855.50 |
| Net Loans and Advances | 868.05 | 1189.61 | 2112.35 | 914.90 | 2284.69 |
| Total | 26448.35 | 26837.41 | 26958.31 | 23837.47 | 40969.69 |
| Financing Pattern of Fiscal Deficit | | | | | |
| Market Borrowing | 14685.97 | 16203.23 | 13984.07 | 12617.00 | 23066.00 |
| Loans from GoI | 379.42 | (-)130.14 | (-)240.58 | 1436.78 | 6293.45* |
| Special Securities issued to National Small Savings Fund | 971.99 | 1047.73 | 1051.08 | 1787.91 | 2438.18 |
| Loans from Financial Institutions | 106.41 | (-)152.15 | (-)164.71 | (-)226.31 | (-)346.79 |
| Others | 8.09 | 133.00 | 620.07 | 790.39 | (-)643.33 |
| Small Saving Provident Funds etc. | 12931.64 | 7206.84 | 9619.21 | 8274.11 | 11547.96 |
| Reserve Fund | 162.22 | 308.98 | 1981.02 | (-)1350.42 | 344.05 |
| Deposits and Advances | 105.65 | 265.91 | 392.17 | 525.74 | 494.88 |
| Suspense and Miscellaneous | (-)2169.09 | 1202.53 | (-)762.23 | (-)253.20 | 618.64 |
| Remittances | (-)313.01 | (-)165.97 | (-)51.52 | 117.54 | 39.41 |
| Contingency fund | 0.00 | 0.00 | 0.00 | (-)75.00 | 75.00 |
| Overall Deficit | 26869.29 | 25919.96 | 26428.58 | 23644.54 | 43927.45 |
| Increase(-) Decrease(+) in Cash Balance | (-)420.94 | 917.45 | 529.73 | 192.93 | (-)2957.76 |
| Gross Fiscal Deficit | 26448.35 | 26837.41 | 26958.31 | 23837.47 | 40969.69 |

Source: Finance Accounts of respective years

* Effective Loans from GoI would be ₹527.45 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

Table 2.33: Receipts and Disbursement under components financing the fiscal deficit*(₹ in crore)*

| Particulars | Receipts | Disbursement | Net |
|--|-----------|--------------|-----------|
| Market Borrowing | 28566.00 | 5500.00 | 23066.00 |
| Loans from GoI | 7018.74 | 725.29 | 6293.45* |
| Special Securities issued to National Small Savings Fund | 4273.98 | 1835.80 | 2438.18 |
| Loans from Financial Institutions | 521.51 | 868.30 | (-)346.79 |
| Others | 29355.13 | 29998.46 | (-)643.33 |
| Small Saving Provident Funds etc. | 170413.72 | 158865.76 | 11547.96 |
| Reserve Fund | 878.63 | 534.58 | 344.05 |
| Deposits and Advances | 4466.92 | 3972.04 | 494.88 |

| Particulars | Receipts | Disbursement | Net |
|---------------------------------------|------------------|------------------|-----------------|
| Suspense and Miscellaneous | 170492.00 | 169873.36 | 618.64 |
| Remittances | 4610.66 | 4571.25 | 39.41 |
| Contingency fund | 75.00 | 0.00 | 75.00 |
| Overall Deficit | 420672.29 | 376744.84 | 43927.45 |
| Increase-Decrease (+) in Cash Balance | 2010.22 | 4967.98 | (-)2957.76 |
| Gross Fiscal Deficit | 422682.51 | 381712.82 | 40969.69 |

Source: Finance Accounts

* Effective Loans from GoI would be ₹527.45 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

During 2020-21, the State Government raised ₹28,566 crore as market loans at a weighted average interest rate of 6.41 per cent, loans amounting to ₹521.51 crore from National Bank for Agriculture and Rural Development, ₹4,273.98 crore from National Small Savings Fund at an interest rate of 7.40 per cent and ₹132.38 crore from National Cooperative Development Corporation at interest rates of 9.50 per cent to 10.36 per cent. The State Government also received loans amounting to ₹7,018.74 crore from the Government of India during the year.

Chart 2.19: Financing of fiscal deficit from 2019-20 to 2020-21 (₹ in crore)

| | |
|--|----------|
| Fiscal Deficit 2020-21 | 40969.69 |
| -3150.69 Increase(-) Decrease(+) in Cash Balance | |
| Contingency fund | 150 |
| -78.13 Remittances | |
| Suspense and Miscellaneous | 871.84 |
| -30.86 Deposits and Advances | |
| Reserve Fund | 1694.47 |
| Small Saving Provident Funds etc. | 3273.85 |
| -1433.72 Others | |
| -120.48 Loans from Financial Institutions | |
| Special Securities issued to National Small Savings Fund | 650.27 |
| Loans from GoI | 4856.67 |
| Market Borrowing | 10449 |
| Fiscal Deficit 2019-20 | 23837.47 |

The above tables and charts reveal that, during the year, market borrowings and net accretions in Public Account, mainly Small savings and Provident Funds

etc., are the main sources of the State Government to finance the fiscal deficit like previous years. The net market borrowings (₹23,066 crore) and net accretions in Small Savings, PF etc. (₹11,547.96 crore) contributed to financing 84.49 *per cent* of the fiscal deficit of the State Government.

2.6.2 Off-budget borrowings

The borrowings of the State Government are governed by Article 293(1) of the Constitution of India, under which the State Governments can borrow money within the territory of India upon security of the Consolidated Fund of the State. The limits on such borrowings are regulated under Article 293(3) of the Constitution of India under which the State must obtain prior consent of the Government of India (GoI) to raise any loan. The State Government is, therefore, required to furnish to GoI, the financial statements showing the estimates of receipts and repayments of all sources of borrowings including open market borrowings, other liabilities arising out of Public Account transfers, etc. based on which the GoI gives the consent for raising loans and fixes the borrowing ceiling for the State Government. GoI had fixed Net Borrowing of the State for 2020-21 in line with the recommendations of Finance Commission at *three per cent* of the estimated GSDP in April 2020. Thereafter, in May 2020, GoI allowed an additional borrowing of two *per cent* in 2020-21 to the State as onetime special dispensation, beyond the State's eligibility of three *per cent* of estimated GSDP.

Off-budget borrowing refers to use of those financial resources by the State Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year or those years, for seeking grant/ appropriation. Hence, these off-budget borrowings remain outside Legislative control. They are financed through State Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the State Government. However, the State Government has to repay and service the debt from its budget.

During 2020-21, Government of Kerala resorted to off-budget borrowing through various entities amounting to ₹9,273.24 crore. It was in addition to the budgeted liabilities of ₹3,08,386.01 crore as on 31 March 2021. **Table 2.34** gives the entity-wise position of borrowings till the end of 2020-21.

Table 2.34: Entity-wise details of off-budget borrowings

(₹ in crore)

| Name of the Entity | Total Off Budget Borrowings upto 2019-20 | Outstanding Off Budget Borrowings as on 31 March 2020 | Off Budget Borrowings during 2020-21 | Repayment during 2020-21 | | Closing Balance |
|---|--|---|--------------------------------------|--------------------------|----------------|-----------------|
| | | | | Principal | Interest | |
| Kerala Infrastructure Investment Fund Board | 5036.61 | 5017.23 | 669.05 | 65.84 | 469.38 | 5620.44 |
| Kerala Social Security Pension Limited | 13662.47 | 9124.97 | 8604.19 | 6880.55 | 772.05 | 10848.61 |
| Total | 18699.08 | 14142.20 | 9273.24 | 6946.39 | 1241.43 | 16469.05 |

Source: Information furnished by KIIFB and ACS(Finance Department)

These off-budget borrowings have increased the overall debt liabilities of the State by ₹16,469.05 crore from ₹3,08,386.01 crore to ₹3,24,855.06 crore as on 31 March 2021. The outstanding liabilities of KSSPL amounting to ₹10,848.61 crore constituted a major part (65.87 per cent) of the total outstanding off-budget borrowings of the State.

The overall debt as a percentage of GSDP for the year increased from 39.87 per cent to 42.80 per cent against the FRBM limit of 29.67 per cent (including off-budget borrowing). Further, if the repayment of off-budget borrowings is considered, the total debt repayment to GSDP ratio increased from 26.72 per cent to 27.63 per cent.

The issue of off-budget borrowing was raised on the State Finances Audit Report for the year ended March 2020 too. During the Exit Conference on that report held on 29 April 2021, the Additional Chief Secretary, Finance Department had agreed to consider the disclosure of the details of off-budget borrowings in the Budget and accounts. In the exit conference (December 2021) the Additional Chief Secretary (Finance) stated that the borrowings of KIIFB are not off-budget borrowing of the State but these are at the most contingent liabilities. However, the fact remains that KIIFB has no revenue of its own and the State Government has to defray the debt obligations of KIIFB by transferring its own revenue resources through budget every year. As such, these borrowings cannot be treated as contingent liability, but a direct liability on the States 'own resources.

2.6.3 Debt Profile: Maturity and Repayment

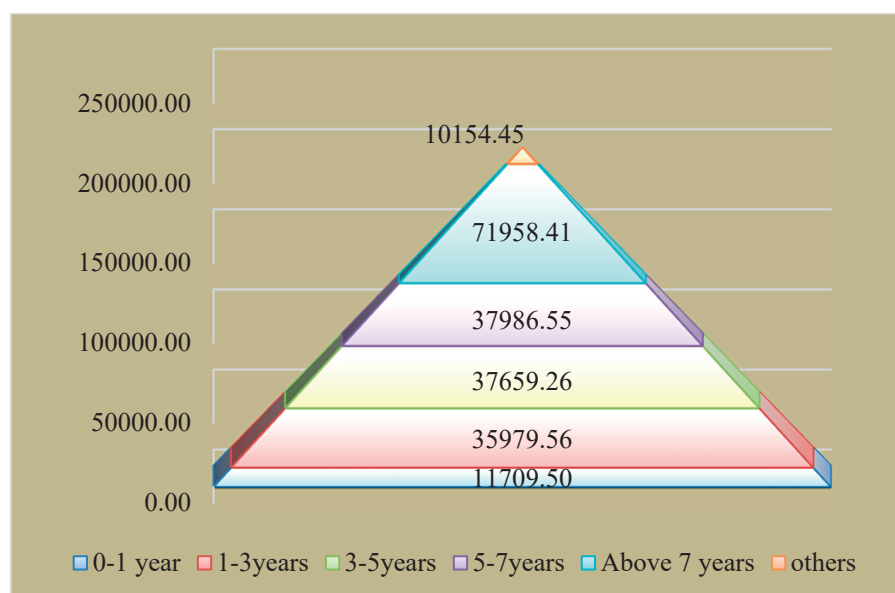
Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing. As per Finance Accounts for the year 2020-21, the maturity profile of the public debt is as shown in **Table 2.35** and **Chart 2.20**.

Table 2.35: Debt Maturity profile

| Year of Maturity | Maturity Profile | Amount (₹ in crore) | | | Per cent of total Public Debt |
|---|------------------|---------------------|---------------------------|-----------|-------------------------------|
| | | Internal Debt | Loans & Advances from GoI | Total | |
| By 2021-22 | 0-1 year | 11430.75 | 278.75 | 11709.50 | 5.70 |
| Between 2022-23 & 2023-24 | 1-3 years | 34624.58 | 1354.98 | 35979.56 | 17.51 |
| Between 2024-25 & 2025-26 | 3-5years | 36456.74 | 1202.52 | 37659.26 | 18.33 |
| Between 2026-27 & 2027-28 | 5-7 years | 37066.86 | 919.69 | 37986.55 | 18.49 |
| 2028-2029 onwards | Above 7 years | 60740.71 | 11217.7 | 71958.41 | 35.03 |
| Total | | 180319.64 | 14973.64 | 195293.28 | 95.06 |
| Amount for which Maturity profile details not furnished by State Government | | 10154.45 | | 10154.45 | 4.94 |

Source: Finance Accounts

Chart 2.20: Debt Maturity profile (₹ in crore)



2.7 Debt Sustainability Analysis (DSA)

Debt sustainability implies the State's ability to service the debt in future. 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, net debt available to the State etc. These indicators for the last five years are given in **Table 2.36 and Chart 2.21** below:

Table 2.36: Trends in Debt Sustainability indicators

(*₹ in crore*)

| Debt Sustainability Indicators | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|--|-----------|-----------|-----------|-----------|-----------|
| Outstanding Public Debt | | 125882.85 | 142984.52 | 158234.45 | 174640.22 | 205447.73 |
| Rate of Growth of Outstanding Public Debt | | 14.72 | 13.59 | 10.67 | 10.37 | 17.64 |
| GSDP | | 634886.00 | 701588.00 | 790302.00 | 854689.00 | 758942.00 |
| Rate of Growth of GSDP | | 12.97 | 10.51 | 12.64 | 8.15 | (-)11.20 |
| Debt/GSDP | | 19.83 | 20.38 | 20.02 | 20.43 | 27.07 |
| Debt Maturity profile of repayment of State debt – including default history if any | Up to one year | 5682.54 | 6980.49 | 6948.14 | 7063.60 | 11709.50 |
| | One to three years | 13331.80 | 13373.47 | 16870.66 | 22986.77 | 35979.56 |
| | Three to five years | 16677.73 | 22907.53 | 26865.91 | 28555.60 | 37659.26 |
| | Five to seven years | 26786.58 | 28437.13 | 30372.21 | 34323.92 | 37986.55 |
| | Seven years and above | 58456.21 | 66308.08 | 70013.73 | 71540.49 | 71958.41 |
| | Maturity profile details not furnished by State Government | 4948.00 | 4977.82 | 7163.79 | 10169.83 | 10154.45 |
| Average interest Rate of Outstanding Public Debt (<i>per cent</i>) ²⁹ | | 8.01 | 8.15 | 8.04 | 7.99 | 7.60 |
| Percentage of Interest Payment to Revenue Receipt | | 16.02 | 18.21 | 18.04 | 21.30 | 21.49 |
| Percentage of Public Debt Repayment to Public Debt Receipts | | 32.30 | 43.44 | 54.40 | 72.84 | 55.82 |
| Net Public Debt available to the State ³⁰ | | 6735.52 | 6164.00 | 3163.64 | 3131.98 | 10631.94 |
| Net Public Debt available as <i>per cent</i> to Public Debt Receipts | | 28.23 | 20.39 | 9.46 | 5.18 | 30.20 |

Source: Finance Accounts of respective years

Effective Outstanding Public Debt would be ₹1,99,681.73 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be

²⁹ Average interest rate = (Interest paid/OB of Public Debt + CB of Public Debt/2)

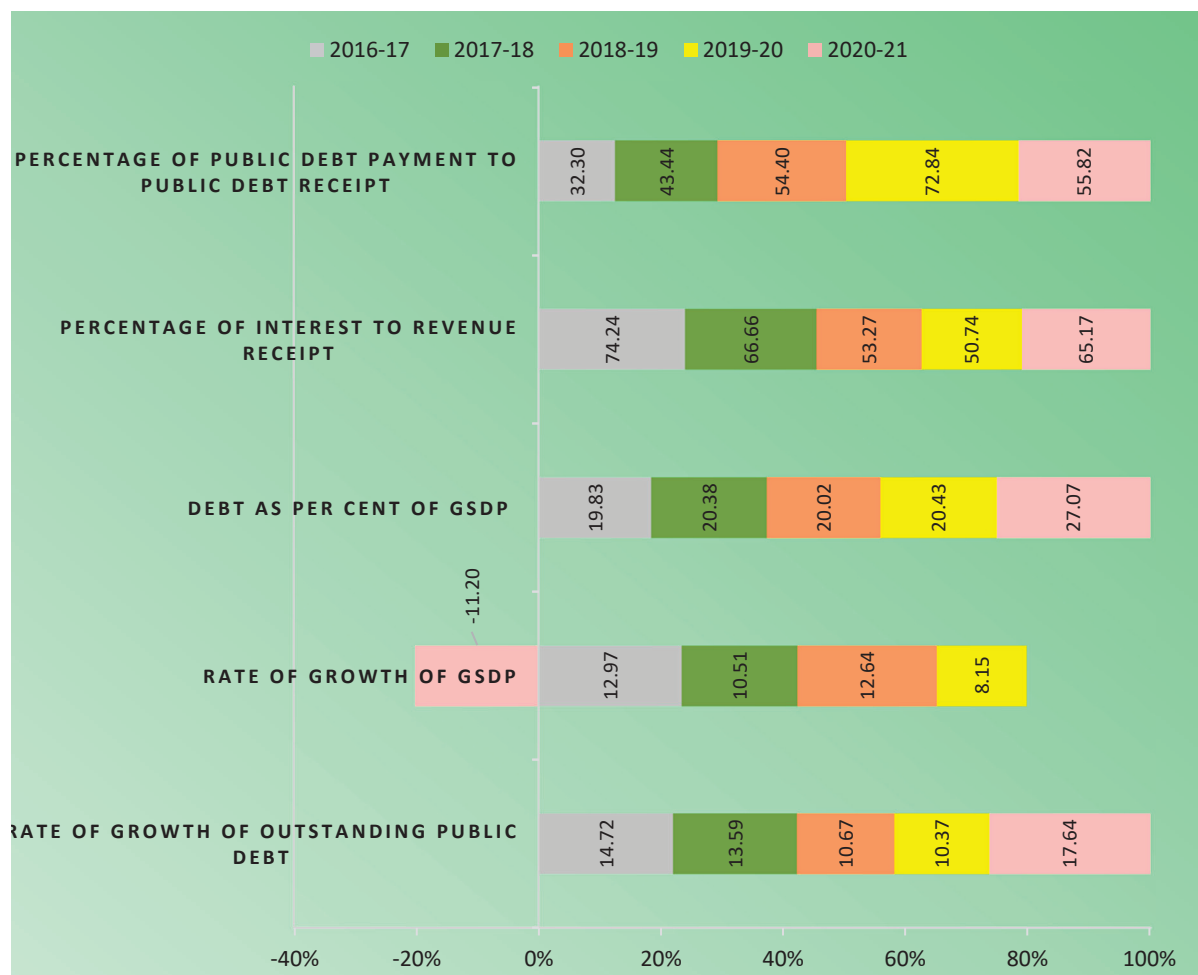
³⁰ Net Debt available=Public debt receipt during the year-repayment of principal amount -Interest paid on public debt and excludes back to back loan received from GI.

treated as debt of the State for any norms which may be prescribed by the Finance Commission. As a result, the effective Rate of Growth of Outstanding Public Debt would be 14.34 *per cent* and the effective Debt-GSDP ratio would stand at 26.31 *per cent*.

The debt maturity profile of the State showed that 42 *per cent* of the debt has to be repaid within five years and 60 *per cent* of the debt within the next seven years. The Debt-GSDP ratio was on an increasing trend over the last five-year period.

Moreover, the committed liability of the State Government as percentage of revenue expenditure has increased from 61.22 *per cent* in 2016-17 to 68.01 *per cent* in 2019-20 (though in 2020-21, it has gone down to 55.64 *per cent* mainly because of deferment of salaries by the State Government). The increased liability due to the increasing committed expenditure coupled with rapid rise in Debt-GSDP ratio, would render the current level of the primary balance insufficient to stabilize the Debt-GSDP ratio. Fiscal adjustment should be made by reducing the fiscal deficit to a level necessary to make public debt sustainable.

Chart 2.21: Trends of Debt Sustainability indicators



| Indicators | What it means | What the above table and chart shows |
|--|--|---|
| Rate of Growth of Outstanding Public Debt vis-à-vis rate of growth of GSDP | If the growth rate of public debt is higher than the GSDP growth rate, it will lead to higher debt to GSDP ratio. | The rate of growth of outstanding public debt is higher than the GSDP growth rate in all the years except 2018-19. |
| Average interest rate of Outstanding Debt | Higher interest rate means that there is scope for restructuring of debt. | The interest rate shows a growing trend and is the highest in the year 2019-20. However, it has fallen during the year 2020-21. |
| Percentage of Interest payments to Revenue Receipt | Higher percentage of interest payments leaves less funds for priority areas. It measures the margin of safety a government has for paying interest on its debt during a given period. Governments need to have more than enough revenues to cover interest payments in order to survive future (and perhaps unforeseeable) financial hardships that may arise. | The interest rate shows a growing trend and is the highest in the year 2020-21. It indicates that significant portion of the borrowed funds is utilised for repayment of the portion of the borrowings and interest thereon, the net debt available with State for development activities is curtailed. |
| Percentage of Public Debt Repayment to Public Debt Receipt | Higher the percentage, the greater the proportion of debt utilised for debt servicing rather than productively. | This ratio has decreased from 72.84 <i>per cent</i> in 2019-20 to 55.82 <i>per cent</i> in 2020-21. |

2.7.1 Utilisation of borrowed funds

As per the disclosure Form B-2(A) under Kerala Fiscal Responsibility Rules, 2005, State Government liabilities comprise the following components:

- (i) Special securities issued to the National Small Savings Fund
- (ii) Loans and advances from Central Government
- (iii) Market loans
- (iv) Loans from financial institutions/banks
- (v) Ways and means advances/overdraft from RBI
- (vi) Small savings, provident fund of Government employees *etc.*
- (vii) Reserve fund/deposits and provident fund of other employees
- (viii) Other liabilities.

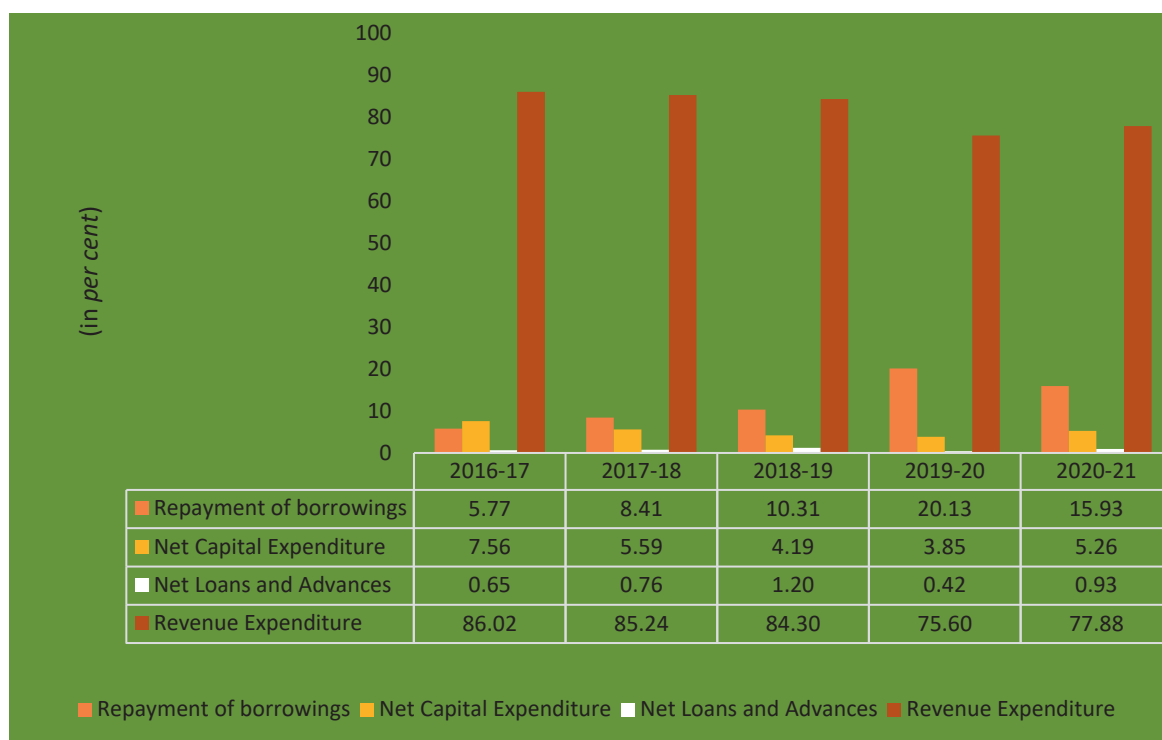
These funds are utilised for various activities of the Government. Details of utilisation of borrowed funds is given in **Table 2.37** and **Chart 2.22** below.

Table 2.37: Utilisation of borrowed funds

| Particulars | (₹ in crore) | | | | |
|--|--------------|-----------|-----------|-----------|-----------|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Total Borrowings | 133588.86 | 156116.62 | 146330.44 | 218641.50 | 244375.58 |
| Repayment of earlier borrowings (Principal) | 7706.01 | 13132.10 | 18195.99 | 44001.28 | 38927.85 |
| Net Capital Expenditure | 10095.71 | 8719.59 | 7384.04 | 8427.32 | 12855.50 |
| Net loans and advances | 868.05 | 1189.61 | 2112.35 | 914.90 | 2284.69 |
| Portion of Revenue expenditure met out of net available borrowings | 114919.09 | 133075.32 | 118638.06 | 165298.00 | 190307.54 |

Source: Finance Accounts of respective years

Chart 2.22: Trends of Utilisation of borrowed funds



In all the five years a major portion of the borrowed funds is utilized for meeting the Revenue Expenditure of the State. Though there is a decrease in the proportion of fund used for revenue expenditure in the year 2019-20, it increased in 2020-21. Borrowed funds should ideally be used to fund capital

creation and development activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable.

2.7.2 Status of Guarantees- Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The State Government have come out with legislations or instructions with regard to cap on the guarantees.

As per section 3 of the Kerala Government Guarantees Act, 2003 amended vide 'Kerala Finance (No.2) Act, 2018', the total outstanding Government Guarantees shall be within the limit of five *per cent* of the Gross State Domestic Product (GSDP) of the State as calculated by the Department of Economics and Statistics for the respective financial year. This Act came into force with effect from 01 April 2018. The Estimate (Advance) of GSDP for the year was ₹7,58,942 crore (as per Department of Economics and Statistics). The total outstanding Guarantees as on 31 March 2021 was ₹36,600.99 crore, which was within the limit of five *per cent* of the GSDP for the year.

The Act also stipulates that a minimum of 0.75 *per cent* of Government Guarantee outstanding against the entity should be charged by the State Government each year as Guarantee Commission, which could not be waived under any circumstances. Guarantee Commission of ₹216.57 crore was received during 2020-21. However, Guarantee Commission of ₹257.67 crore was receivable upto 2020-21. Major institutions who have not paid Guarantee Commission upto 2020-21 are Kerala State Road Transport Corporation (₹73.91 crore), Kerala Small Industries Development Corporation Limited (₹37.04 crore), Kerala Water Authority (₹28.04 crore) and Keltron (₹15.81 crore). Nine out of forty two institutions paid guarantee commission of which Kerala State Co-operative Agricultural and Rural Development Bank Limited (₹83.79 crore) and Kerala State Financial Enterprises (₹73.65 crore) are the major contributors.

2.7.3 Management of Cash Balance

As per an agreement with the Reserve Bank of India, State Governments have to maintain a minimum daily cash balance with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary Ways and Means Advances (WMA)/Special Ways and Means Advances (SWMA)/Overdrafts (OD) from time to time. The limit for ordinary WMA to the State Government are revised by the RBI from time to time.

State Government invests its surplus cash balance in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited as receipts under the head '0049-Interest Receipts'. The cash balances are invested in the Consolidated Sinking Fund and Guarantee Redemption Fund as well.

It is not desirable that State Government take recourse to market loans despite having large cash balances leading to further accretion to cash balances without putting it to productive use.

The cash balance and investments made by the State Government out of the cash balances during the year are shown in **Table 2.38**.

Table 2.38 : Cash balances and Investment of cash balance

| (₹ in crore) | | |
|--|-------------------------------------|-------------------------------------|
| Particulars | Opening balance on 01 April 2020 | Closing Balance on 31 March 2021 |
| A. General Cash Balance | | |
| Cash in treasuries | 35.13 | 37.06 |
| Deposits with Reserve Bank of India | (-)221.02 | (-)244.42 ³¹ |
| Deposits with other Banks ³² | | |
| Remittance in transit-Local | 0.92 | 0.94 |
| Total | (-)184.97 | (-)206.42 |
| Investment held in Cash Balance investment account | 1.67 | 2809.86 |
| Total (A) | (-)183.30 | 2603.44 |
| B. Other Cash Balances and Investments | | |
| Cash with departmental officers viz, Public Works, Forest Officers | -5.70 | (-)7.63 |
| Permanent advances for contingent expenditure with department officers | 0.52 | 0.53 |
| Investment in earmarked funds | 2198.70 | 2371.64 |
| Total (B) | 2193.52 | 2364.54 |
| Total (A+B) | 2010.22 | 4967.98 |
| Interest realised | 7.88 | 4.05 |

Source: Finance Accounts

Cash Balances of the State Government at the end of the March 2021, increased by ₹2,957.76 crore compared to the closing balance at the end of March 2020. This was mainly due to increase in investment held in Cash Balance Investment Account (₹2,808.19 crore). Interest of ₹4.05 crore was realised during the year against short term investments with a closing balance of ₹2,808.19 in GoI Treasury Bills.

The Cash Balance included investment of ₹2,371.64 crore from earmarked funds. The said investment consisting of Sinking Fund Investment (₹2,358.26 crore) and Development and Welfare funds (₹13.39 crore).

³¹ There was a difference of ₹254.05 crore (debit) between the figures reflected in accounts (credit item ₹244.43 crore) and that communicated by Reserve Bank of India (credit item ₹9.62 crore) as on 31 March 2021. Out of the difference, an amount of ₹193.75 crore (net credit) has been cleared in 2021-22. The balance difference of ₹447.80 crore (net debit) is under reconciliation.

³² Represents cash held with State Bank of India (amount negligible).

- The State Government was able to maintain a minimum cash balance of ₹1.66 crore for 170 days during 2020-21 without taking any advance. However, the State Government had to resort to Ways and Means Advance (₹20,300.95 crore) for 162 days, Special Drawing Facility (₹3,552.44 crore) for 33 days to maintain minimum cash balance.
- Overdraft (₹5,356.08 crore) was taken on 35 days.
- The State Government repaid an amount of ₹29,222.75 crore obtained under Special Drawing Facility, Ways and Means Advances etc. along with an amount of ₹529.82 crore being the balance pertaining to 2019-20, leaving no amount to be repaid.
- An amount of ₹26.95 crore was paid as interest to Reserve Bank of India for the amount obtained under Special Drawing Facility, Ways and Means Advances etc.

The Cash Balance Investment of the State during the five-year period 2016-17 to 2020-21 are given below

Table 2.39 : Cash Balance Investment Account (Major Head-8673)

| (₹ in crore) | | | | |
|--------------|-----------------|-----------------|---------------------------|-----------------|
| Year | Opening Balance | Closing Balance | Increase (+)/ Decrease(-) | Interest earned |
| 2016-17 | 1636.75 | 1944.50 | 307.76 | 78.32 |
| 2017-18 | 1944.50 | 891.03 | (-)1053.47 | 47.66 |
| 2018-19 | 891.03 | 189.53 | (-)701.49 | 37.14 |
| 2019-20 | 189.53 | 1.67 | (-)187.86 | 7.88 |
| 2020-21 | 1.67 | 2809.86 | 2808.19 | 4.05 |

Source: Finance Accounts

Chart 2.23 below, compares the balances available in the Cash Account and Market Loans taken by the State during the period 2016-17 to 2020-21. Both market loan and Cash balance showed a decreasing trend from 2017-18 to 2019-20 and increased in 2020-21.

Chart 2.23: Market Loan vis-à-vis Cash Balance

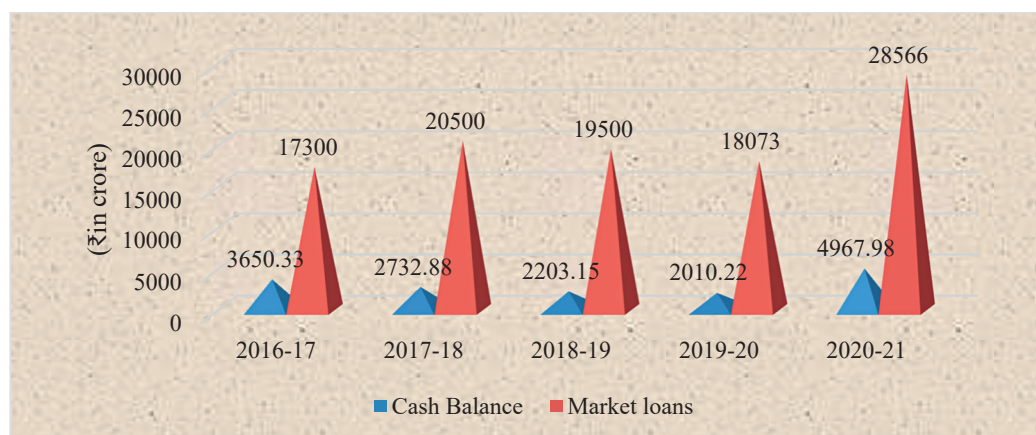
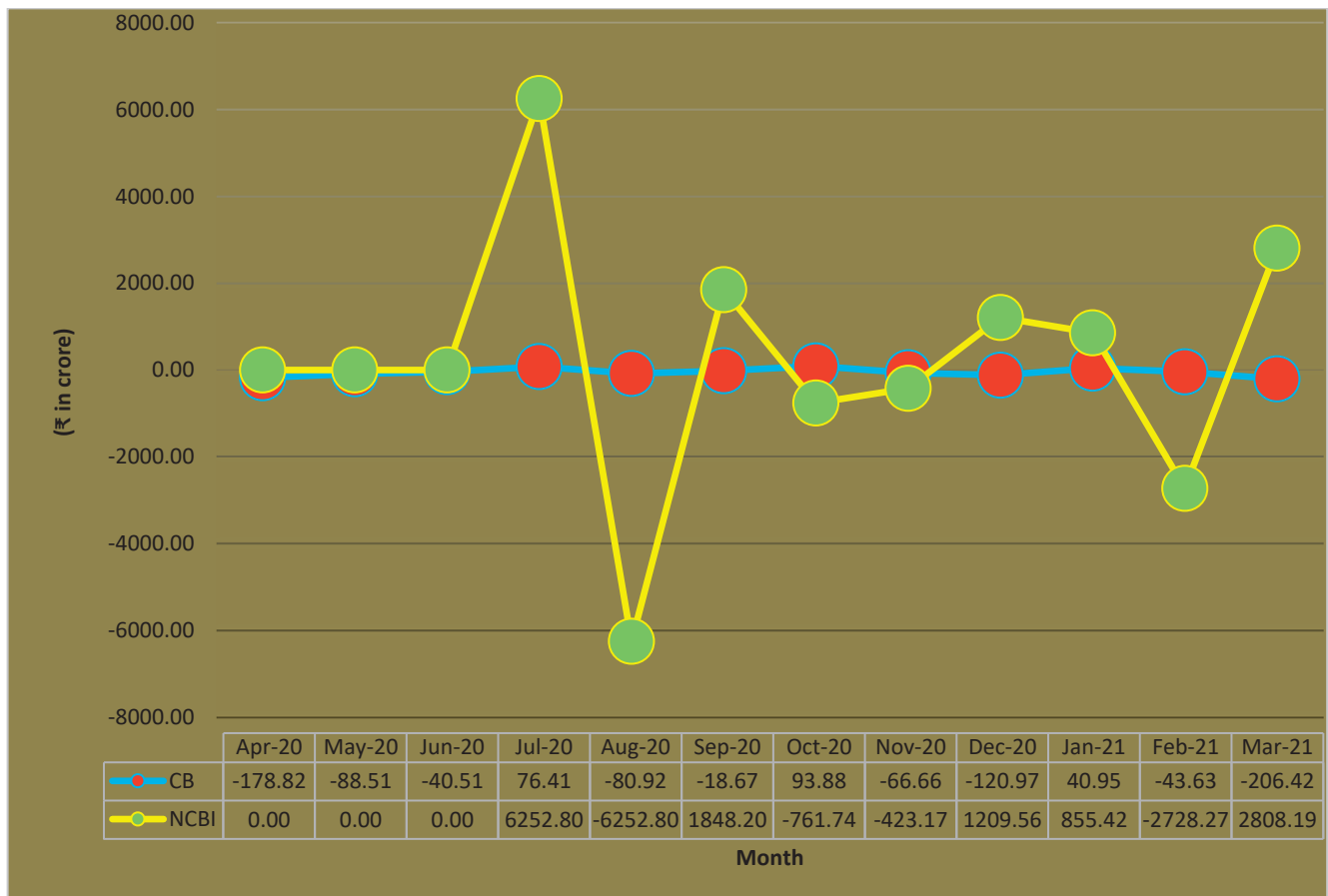


Chart 2.24: Month wise movement of Cash Balances and Net Cash Balance Investment during the year



From the **Chart 2.24** it is seen that the monthly cash balance has shown a negative balance from April 2020 onwards except for the months of October 2020 and January 2021 which showed positive balances. In March 2021, the cash balance was (-) ₹206.42 crore.

2.8 Conclusions

1. Revenue resources

Revenue receipts of the State increased from ₹75,611.72 crore in 2016-17 to ₹97,616.83 crore in 2020-21, recording a growth of 29.10 *per cent* during the last five years. The State's own tax revenue, being the main source of revenue in revenue receipts increased by only 13.00 *per cent* during the period and its share in revenue receipts decreased from 55.78 *per cent* in 2016-17 to 48.82 *per cent* in 2020-21 indicating poor collection of tax revenue during the pandemic period.

2. Revenue Expenditure

Revenue Expenditure of the State increased from ₹91,096.31 crore in 2016-17

to ₹1,23,446.33 crore in 2020-21 recording a growth of 35.51 *per cent* during the five-year period. Revenue expenditure as a percentage of total expenditure ranged between 88 and 92 *per cent* during the period showing predominance of revenue expenditure in total expenditure. Share of committed expenditure in revenue expenditure was 55.64 *per cent* during 2020-21 and it consumed 70.37 *per cent* of the revenue receipts during the year. Interest payments consumed 21.49 *per cent* of revenue receipts during 2020-21 and is a matter of concern for the State Government.

3. Quality of expenditure

Capital Expenditure of the State increased from ₹10,125.95 crore in 2016-17 to ₹12,889.65 crore in 2020-21 recording a growth of 27.29 *per cent* during the five-year. Though the percentage of total expenditure to GSDP of the State was more than that of States other than North Eastern and Himalayan States, the State's share on expenditure on the health and education sectors and capital expenditure, were less than that of States other than that of North Eastern and Himalayan States. Though the State Government invested ₹10,064.70 crore in Statutory Corporations, Government Companies, other Joint Stock Companies and Co-operatives, average return on these investments was 1.34 *per cent* in the last five years while the Government paid an average interest rate of 7.33 *per cent* on its borrowings during 2016-17 to 2020-21. The interest receipt on loans and advances given by State Government was 0.22 *per cent* of outstanding loans and advances during 2020-21 against the average cost of borrowing of 7.31 *per cent*. During the year the Government invested ₹315.41 crore in loss making institutions and ₹146.37 crore in institutions whose net worth is completely eroded.

4. Reserve Funds and liabilities

The Consolidated Sinking Fund was constituted with the aim to amortize the outstanding liabilities of the Government, but the Government did not contribute to the fund during 2020-21. Similarly, the Government has to constitute a Guarantee Redemption Fund for crediting guarantee commission collected for meeting future liabilities arising out of guarantees given by the Government. The Guarantee Redemption Fund has not been constituted so far and guarantee commission of ₹1,467.16 crore collected during 2003-04 to 2020-21 was not credited to the Fund. The State Disaster Response Fund (SDRF) had an accumulated balance of ₹646.47 crore by the end of March 2021. As per the guidelines issued by GoI, accretions to SDRF have to be invested in GoI Securities/Treasury Bills by the State Executive Committee constituted for the management of the fund. However, this was not done.

5. Debt Management

Open market Loans had a major share (54 *per cent*) in the total fiscal liabilities of the State. The net debt available with the State for development activities was only ₹10,631.94 crore (16.62 *per cent* of public debt receipts) during 2020-21 considering the exclusion of ₹5,766 crore received as back to back loan in lieu of GST compensation.

6. Off- Budget Borrowings

The State Government resorted to off-budget borrowings amounting to ₹9,273.24 crore during 2020-21.

Off-budget borrowings by the State Government have the effect of bypassing the Net Borrowing Ceiling (NBC) of the State by routing loans outside State budget through Government owned or controlled Companies/ statutory bodies despite being responsible for repayment of such loans. Such borrowings naturally have impact on the Revenue Deficit and Fiscal Deficit and thus, have the effect of surpassing the targets set for fiscal indicators under ‘The Kerala Fiscal Responsibility Act, 2003’ (as amended from time to time). Creating such liabilities, without disclosing them in the budget, raises questions both of transparency, and of inter-generational equity.

These off-budget borrowing will have an impact of increasing the liabilities of the State Government, leading to a debt trap over a period of time. As these borrowings are not disclosed in the budgets the Legislature is unaware of creation of such liabilities.

7. Debt Sustainability

The ratio of Public Debt to GSDP of the State increased from 20.43 *per cent* in 2019-20 to 27.07 *per cent* in 2020-21 (effective increase is to 26.31 *per cent* considering the exclusion of back to back loans). Similarly, the ratio of interest payments to total revenue receipts of the State increased from 21.30 *per cent* in 2019-20 to 21.49 *per cent* in 2020-21.

2.9 Recommendations

1. *The Government needs to address the growth of its own tax revenue and take measures to improve the same.*
2. *The State needs to improve its capital expenditure to augment its growth and development. The government may review the investment made in loss making institutions and introduce a methodology to revive such institution.*
3. *The government need to take necessary steps to constitute a Guarantee Redemption Fund and also invest the accretions in the SDRF in GoI Securities/ Treasury bills.*
4. *Budget is the most important instrument of legislative control and is at the very core of a democratic setup. Hence, all Government borrowings and expenditure should legitimately be covered within the respective budgets. Expenditure on social security pension schemes and critical infrastructure projects in the State are desirable. However, financing expenditures through off-budget borrowings raises public debt and detracts from compliance with the letter and spirit of the provisions of the Kerala Fiscal Responsibility Act, 2003. Such outstanding extra budgetary liabilities need to be clearly identified, with transparent reporting of deficit and debt as provided in the Act.*

The Government may include the disclosure of the details of the off-budget borrowings done through various agencies of the State Government in the Budget and Accounts.

5. *The State Government should closely monitor the debt sustainability of the State and make earnest efforts to maintain a healthy debt-GSDP ratio and also ensure that the incremental interest burden is adequately covered.*