

Executive Summary

Background

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area-wise, Kerala is ranked 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.56 crore (14th in the country) and is ranked as the sixth most densely populated State with a density of 917.15 persons per sq.km. The decadal growth rate of population is 5.92 *per cent*, which is the second lowest among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian states. The Gross State Domestic Product (GSDP) in 2021-22 of the State at current prices was ₹9,01,997.83 crore.

The Report

Based on the audited accounts of the Government of Kerala for the year ended 31 March 2022, this Report provides an analytical review of the finances of the State Government. The Report is structured in five chapters.

Chapter I – Overview - This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government Accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.

Chapter II – Finances of the State – This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2017-18 to 2021-22, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter III – Budgetary Management – This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.

Chapter IV – Quality of Accounts and Financial Reporting Practices - This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

Chapter V – Financial performance of State Public Sector Undertakings. This chapter presents the summary of financial performance of PSUs as revealed from their latest finalised accounts, their contribution to the GSDP of the State and makes an analysis of the operating efficiency of the State PSUs.

The Report also includes appendices of additional data collected from several sources in support of these findings.

Audit findings

Fiscal position

The fiscal position of the State is viewed in terms of three key fiscal parameters – Revenue Deficit, Fiscal Deficit and the ratio of Outstanding Debt to GSDP.

As per State Government accounts, the ratio of fiscal deficit to GSDP increased from 3.83 *per cent* in 2017-18 to 5.10 *per cent* in 2021-22. Further, on post audit analysis it was concluded that the Revenue and Fiscal deficit of the State were understated by ₹468.08 crore and ₹16,369.43 crore, respectively thereby increasing the fiscal deficit to GSDP ratio to 6.92 *per cent* in 2021-22.

The State did not achieve any of the targets fixed in its Medium-Term Fiscal Plan or the Kerala Fiscal Responsibility Act during the year 2021-22. Though the fiscal deficit to GSDP ratio was to be anchored at four *per cent* as per KFR (Amendment) Act, 2022 against which the State registered a fiscal deficit to GSDP ratio of 5.10 *per cent* during 2021-22.

The overall debt of the State including off-budget borrowings (outstanding liabilities of KIIFB, KSSPL and deferred liabilities through BDS) is ₹3,83,267.15 crore. The effective total liabilities after excluding the GST compensation of ₹14,505.31 crore received as back to back loan would be ₹3,68,761.84 crore. If the Government continues to borrow year after year, it would lead to the accumulation of debt and the Government would have to pay more and more by way of interest. These interest payments themselves contribute to the debt. Increase in debt over the years not only reduces the capital formation and growth but also acts as a burden on future generations.

(Chapter I)

Finances of the State

The State Government registered an increase of 19.49 *per cent* in its Revenue Receipts during 2021-22 compared to the previous year.

Revenue Resources

Revenue receipts of the State increased from ₹83,020.14 crore in 2017-18 to ₹1,16,640.24 crore in 2021-22, recording a growth of 40.50 *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 25.57 *per cent* during the period and its share in revenue receipts decreased from 55.96 *per cent* in 2017-18 to 50.02 *per cent* in 2021-22 indicating poor collection of tax revenue during the pandemic period.

Revenue Expenditure

Revenue Expenditure of the State increased from ₹99,948.35 crore in 2017-18 to ₹1,46,179.51 crore in 2021-22 recording a growth of 46.26 *per cent* during the five-year period. Revenue expenditure as a percentage of total expenditure ranged between 88.88 and 91.88 *per cent* during the period showing predominance of revenue expenditure in total expenditure. Share of committed expenditure in revenue expenditure was 65.66 *per cent* during 2021-22 and it consumed 82.29 *per cent* of the revenue receipts during the year. Interest payments consumed 19.98 *per cent* of revenue receipts during 2021-22 and is a matter of concern for the State Government.

Quality of Expenditure

Capital Expenditure of the State increased from ₹8,748.87 crore in 2017-18 to ₹14,191.73 crore in 2021-22 recording a growth of 62.21 *per cent* during the five-year. The State Government invested ₹9,767.48 crore in Statutory Corporations, Government Companies, other Joint Stock Companies and Co-operatives, average return on these investments was 1.57 *per cent* in the last five years while the Government paid an average interest rate of 7.34 *per cent* on its borrowings during 2017-18 to 2021-22. The interest receipt on loans and advances given by State Government was 0.26 *per cent* of outstanding loans and advances during 2021-22 against the average cost of borrowing of 7.00 *per cent*.

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 2021-22. 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 ₹1,697.92 crore collected during 2003-04 to 2021-22 was not credited to the Fund. The State Disaster Response Fund (SDRF) had an accumulated balance of ₹333.27 crore by the end of March 2022. 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.

Off- Budget Borrowings

The State Government resorted to off-budget borrowings amounting to ₹15,914.50 crore during 2021-22.

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 budget, the Legislature is unaware of

creation of such liabilities. Non - disclosure of off-budget borrowings through KIIFB (₹13,066.18 crore), KSSPL (₹11,206.49 crore) and bill discounting system (₹1,601.72 crore) in the State budget led to an understatement of Government liabilities by ₹25,874.39 crore.

(Chapter II)

Budgetary Management

Variations between the total grants/ appropriation and expenditure incurred led to savings which indicate improper scrutiny of budget estimates at various levels of Government and poor budget management. During 2021-22, against the original provision of ₹2,15,813.79 crore, expenditure of ₹2,05,451.40 crore was incurred and supplementary provision of ₹21,202.33 crore was also made.

The accounts depicted an overall savings of ₹31,833.19 crore offset by excess of ₹268.47 crore during 2021-22 resulting in a net savings of ₹31,564.72 crore. Against the Budgeted receipts of ₹2,14,478.66 crore, the actual receipts available for meeting the budgeted expenditure of ₹2,37,016.12 crore were only ₹1,99,125.54 crore. This implied that the savings and the surrender on the estimated expenditure are notional, as the funds were not actually available for expenditure indicating weak budget formulation leading to an inflated budget.

In view of the overall net savings, the supplementary provision of ₹1,948.99 crore in 22 cases of 16 grants and one appropriation proved unnecessary as the original provisions were not exhausted.

There has been a persistent non-utilisation of budget provision from 7.89 *per cent* in 2017-18 to 11.52 *per cent* in 2020-21 which further increased to 13.32 *per cent* in 2021-22. There was an excess disbursement of ₹268.47 crore over the authorisation made by State Legislature under nine grants during the financial year 2021-22. An excess disbursement of ₹10,277.93 crore pertaining to the years 2016-17 to 2020-21 is yet to be regularised by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in the management of public resources.

A rush in expenditure has been noticed as 55 schemes witnessed the entire expenditure being incurred in March alone during the year 2021-22.

(Chapter III)

Quality of Accounts and Financial Reporting Practices

There was persistent trend of cess/ royalty/ fund not being credited to Consolidated Fund of the State

There were cases of regulators maintaining 'Fund' outside Public Account of the State (Funds of the Kerala State Electricity Regulatory Commission).

Non-reconciliation of balances in PD accounts is fraught with the risk of misuse of public funds, fraud and misappropriation.

Six utilisation certificates for ₹1.19 crore were not received by PAG(A&E).

Autonomous bodies (23 numbers) were to render Annual Accounts to C&AG. The arrears in submission of accounts ranged from one to eight years.

Bill discounting system (BDS) is a form of short term borrowing resorted by the State Government as a measure to overcome the paucity of funds. As per BDS, the State Government issues promissory notes to the contractors who opt for BDS against their pending bills. The contractors can get prompt payment of the bills by discounting it with their banks. As against promissory notes amounting to ₹2,652.94 crore issued during the year, the promissory notes settled during the year were ₹1,051.22 crore. The promissory notes pending settlement as on 31 March 2022 is ₹1,601.72 crore. BDS is another form of short-term borrowing whereby the payments are deferred to a future date against which the State Government bears a certain amount of settlement charges in the form of discount charges.

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

(Chapter IV)

Financial Performance of State Public Sector Undertakings

There are 150 State Public Sector Undertakings (PSUs) in Kerala as on 31 March 2022. This comprises 146 Government Companies and four Statutory Corporations. Of these 127 are functional and the remaining 19 are non-functional. As per the latest finalised accounts, 55 Companies had made a profit of ₹ 654.99 crore and 63 Companies made a net loss of ₹4,065.38 crore. The turnover of State PSUs for the year 2021-22 was ₹ 35,767.90 crore as against ₹34,769.57 crore during the previous year.

As on 31 March 2022, the total equity investments by State Government in 131 State PSUs were ₹9,817.46 crore against which only three Companies declared/paid dividend of ₹3.23 crore.

As per the latest finalised accounts submitted till 30 September 2022, out of the 131 working State PSUs, 75 had an aggregate accumulated loss of ₹19,169.12 crore. Of these 75 State PSUs, 63 State PSUs incurred loss of ₹4,065.38 crore as per their latest finalised accounts.

The networth of 46 out of these 75 State PSUs had been completely eroded by accumulated loss and their networth was negative. The networth of these 46 State PSUs was (-)₹12,460.21 crore against equity investment of ₹6,081.18 crore.

(Chapter V)