

CHAPTER VI

FINANCIAL MANAGEMENT

The percentage of health expenditure with reference to allocated funds declined from 97.64 *per cent* in 2016-17 to 93.28 *per cent* in 2020-21. However, the expenditure increased to 98.92 *per cent* of the outlay on health in the year 2021-22. The budgetary outlay on health services in the State during the six-year period from 2016-17 to 2021-22, showed an increase of 98.68 *per cent* from ₹6,146.69 crore in 2016-17 to ₹12,212.51 crore in 2021-22 except for the year 2019-20 wherein the allocation was less than the previous year. State sector health spending did not meet the target of more than eight *per cent* of the budget as envisaged in the NHP, 2017. Against the expenditure of ₹48,735.92 crore on health during the audit period, the capital expenditure was only 4.24 *per cent*. The allotment of funds to KMSCL for purchase of drugs was not based on requirement.

A key requirement for any health system is to ensure that the available public funds are directed to organizations in line with health system objectives. Such funding seeks to give Governments and health authorities, both the financial capacity and the incentive to fulfil their objectives. Examination of records disclosed deficiencies in planning and adequacy of funds for the healthcare sector as discussed in the succeeding paragraphs:

6.1. Planning and Financial Assessment

Government of Kerala (GoK) prepared long-term (five-year plan) as well as annual plans for all sectors. The thrust of the 13th Five Year Plan policy (2017-22) of GoK was to transform the quality of public health sector, to improve access and affordability with respect to healthcare, to expand insurance coverage, and in general, to put into place schemes and programmes that are intended to tackle the health issues that confront contemporary Kerala. The proposed initiatives included development of infrastructure, machineries and equipment for hospitals, developing super-speciality services in selected district level hospitals, patient friendly outpatient care in all hospitals, etc.

GoK also prepared a Healthcare Policy document (January 2019) in line with National Health Policy, 2017 (NHP) with a view to improve healthcare services in the State. The Policy aims to provide universal, affordable and quality healthcare for everyone.

6.2. Financial position and Management

The main sources of funds for the healthcare sector in the State are GoK funds and GoI funds (released by GoK with corresponding share of State Government (60:40) to National Health Mission (NHM) and National AYUSH Mission

(NAM)). GoK also utilises the funds under MP/ MLA development, from Corporate Social Responsibility (CSR) of PSUs, Local Self Governments, Hospital Management Committee and KIIFB.

The details of allocation in the budget and expenditure thereagainst w.r.t GoI and GoK funds are furnished in the **Table 6.1**.

Table 6.1: Details of allocation and expenditure in health sector (GoI and GoK)

(₹ in crore)

Year	Government of India [#]			Government of Kerala [#]		
	Total budget provision	Expenditure	Savings	Total budget provision	Expenditure	Savings
1	2	3	4=(2-3)	5	6	7=(5-6)
2016-17	648.22	591.92	56.30	5498.47	5409.94	88.53
2017-18	607.07	627.55	-20.48*	6544.70	6281.03	263.67
2018-19	655.56	630.86	24.70	7443.55	6636.32	807.23
2019-20	715.20	689.10	26.10	7108.37	6871.56	236.81
2020-21	1412.10	1125.60	286.50	8147.10	7791.22	355.88
2021-22	1594.25	1476.30	117.95	10618.26	10604.52	13.74
Total	5632.40	5141.33	491.07	45360.45	43594.59	1765.86

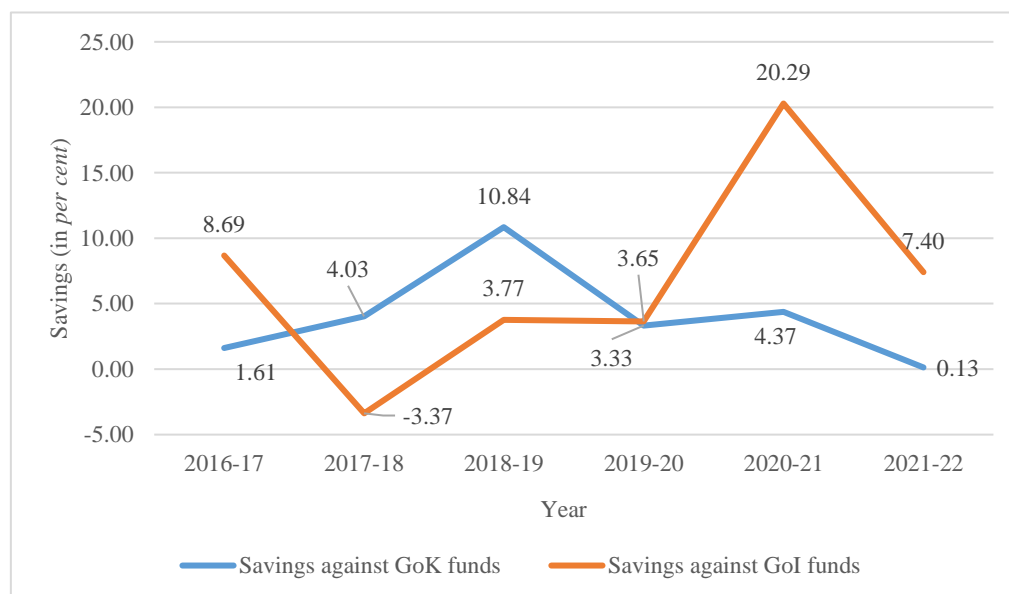
[#]Bifurcation as to GoI and GoK funds in respect of allocation and expenditure in State budget was available from 2022-23 onwards. The table was prepared reckoning the percentage of share of GoI and GoK prescribed for each case of GoI schemes.

*During 2017-18, the expenditure was in excess of provision.

(Source: Appropriation accounts of GoK for the respective years)

From the above table, it is evident that 91.28 per cent of GoI funds and 96.11 per cent of GoK funds were utilised over the period from 2016-17 to 2021-22. The year-wise savings against GoI and GoK funds during 2016-17 to 2021-22 is as shown in **Chart 6.1**.

Chart 6.1: Savings against GoI and GoK funds (per cent)



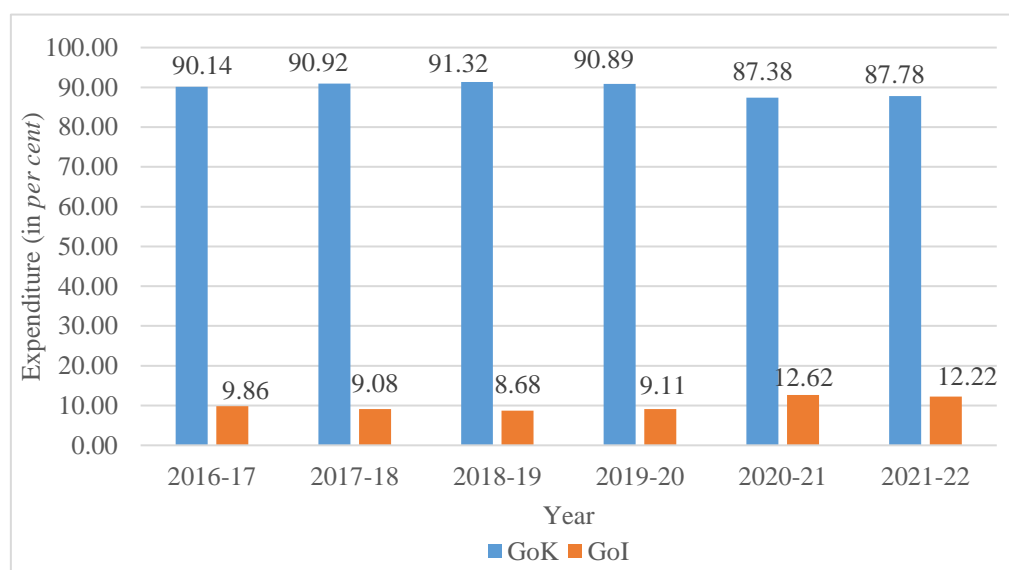
The savings against GoK funds ranged from ₹13.74 crore (0.13 per cent) in 2021-22 to ₹807.23 crore (10.84 per cent) in 2018-19. With reference to GoI funds, there was excess expenditure in 2017-18. The savings ranged from

₹26.10 crore (3.65 per cent) in 2019-20 to ₹286.50 crore (20.29 per cent) in 2020-21. In respect of CSS, over the years 2016-22, the highest saving of ₹284.26 crore (no savings in 2021-22) was observed in respect of NHM (60:40 share), followed by ₹235.03 crore (allocations made only in 2020-21 and 2021-22) in respect of Pradhanmantri Jan Aarogya Yojana/Karunya Aarogya Suraksha Padhathi (100 per cent CSS). Had the budgeting exercise been carried out more realistically, this amount could have been utilised for purchase of essential drugs and equipment.

6.2.1. Share of expenditure on health sector by GoI and GoK

The percentage of share of expenditure on health sector by GoI and GoK is as shown in **Chart 6.2**.

Chart 6.2: Percentage of expenditure on health sector under GoI and GoK funds



6.3. Expenditure on health sector by the State vis-à-vis National Health Policy norms

The expenditure on health compared with the overall budget allocation of the State during the audit period is as given in **Table 6.2**.

Table 6.2: Comparative analysis of health spending

(₹ in crore)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total / Average
Overall budget allocation	132058.00	144881.93	160374.90	194462.61	208946.79	237016.12	1077740.35
Overall expenditure	111597.71	133456.97	143721.60	163815.80	184877.38	205451.40	942920.86
Outlay on health	6146.69	7151.76	8099.11	7823.57	9559.20	12212.51	50992.84
Expenditure on health	6001.86	6908.58	7267.18	7560.66	8916.82	12080.82	48735.92
Savings against health outlay	144.83	243.18	831.93	262.91	642.38	131.69	2256.92
Percentage of outlay on health to total budget	4.65	4.94	5.05	4.02	4.57	5.15	4.73
Percentage of expenditure on health to total budget	4.54	4.77	4.53	3.89	4.27	5.10	4.52

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total / Average
Percentage of expenditure on health to total expenditure	5.38	5.18	5.06	4.62	4.82	5.88	5.16
Percentage of health expenditure to outlay on health	97.64	96.60	89.73	96.64	93.28	98.92	95.57
Gross State Domestic Product (GSDP) (constant prices)	485301.54	516189.76	554228.31	559194.18	512076.08	573591.46	533430.22
Percentage of expenditure on health compared to GSDP of State	1.24	1.34	1.31	1.35	1.74	2.11	1.52

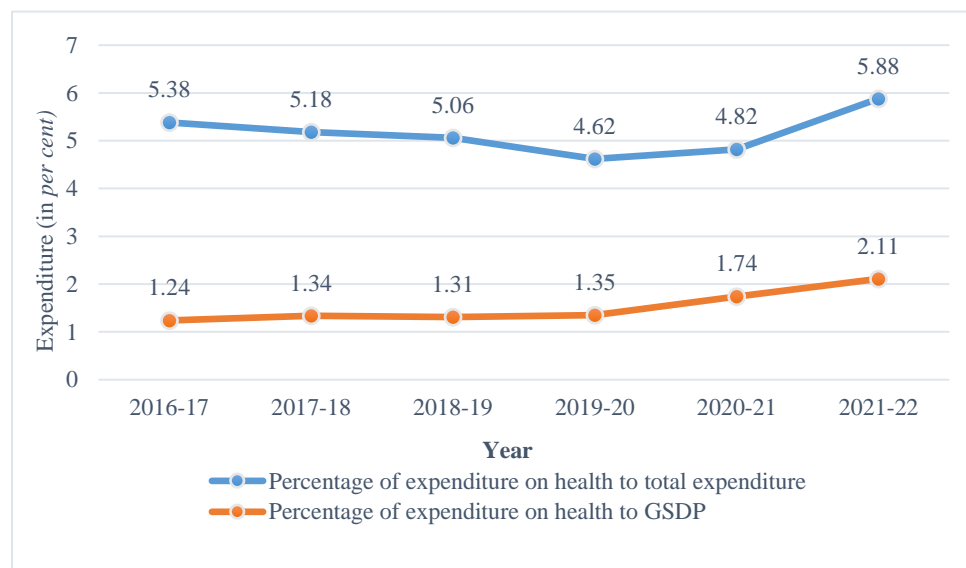
(Source: Data from Department of Economics and Statistics and Appropriation Accounts)

The budgetary outlay on health services in the State during the six-year period from 2016-17 to 2021-22, showed an increase of 98.68 *per cent* from ₹6,146.69 crore in 2016-17 to ₹12,212.51 crore in 2021-22 except for the year 2019-20 wherein the allocation was less by ₹275.54 crore compared to the previous year. However, the percentage of outlay on health was on an average 4.73 *per cent* of total budget during the audit period. The percentage of health expenditure with reference to allocated funds declined from 97.64 *per cent* in 2016-17 to 93.28 *per cent* in 2020-21. However, in the year 2021-22, the expenditure increased to 98.92 *per cent* of the outlay on health.

The NHP, 2017 envisaged an increase of State sector health spending to more than eight *per cent* of the budget by 2020.

- As seen from **Table 6.2**, the State sector health spending did not meet the targets. The expenditure on health ranged from 3.89 *per cent* to 5.10 *per cent* of the total budget during the period 2016-17 to 2021-22.
- To ensure adequate investment, the NHP, 2017 proposes a potentially achievable target of raising public health expenditure to 2.5 *per cent* of the Gross State Domestic Product (GSDP) in a time bound manner by 2025. Audit observed that in Kerala, the public health expenditure when compared to the GSDP, rose from 1.24 *per cent* in 2016-17 to 2.11 *per cent* in 2021-22, thus exhibiting a positive trend. A comparison of the State expenditure on health to the total expenditure of the State and to GSDP is shown in **Chart 6.3**.

Chart 6.3: Comparison of expenditure on health by GoK to the total expenditure of the State/ GSDP

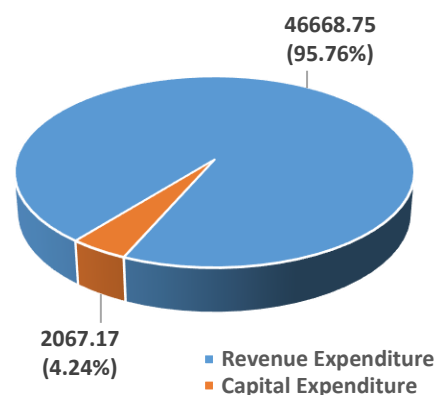
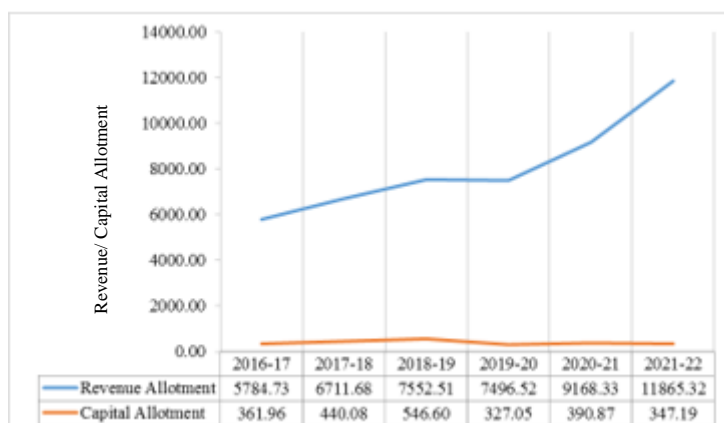


6.4. Revenue and capital allocation and expenditure

Against the budget allocation of ₹50,992.84 crore on health during 2016-22, revenue allotment constituted ₹48,579.09 crore (95.27 per cent) while capital allotment was only ₹2,413.75 crore (4.73 per cent). While the revenue allocation showed an upward trend, the capital allocation remained largely static throughout the audit period which revealed lapses in progressive allocation of funds for creation/ upgradation of infrastructure. Against the budget expenditure of ₹48,735.92 crore during the above period, the revenue expenditure and capital expenditure were ₹46,668.75 crore (95.76 per cent) and ₹2,067.17 crore (4.24 per cent) respectively. The allocation and expenditure under revenue and capital heads for the six-year period 2016-22 is shown in **Chart 6.4**.

Chart 6.4: Revenue and capital allocation and expenditure (2016-22)

(₹ in crore)



The decrease in capital allocation which reflected in meagre capital expenditure needs to be seen in the context of infrastructure projects remaining incomplete as detailed in Chapter V of this Report.

6.5. Budget allocation and expenditure on important components under National Health Mission

Budget allocation and expenditure on important components under NHM for the period 2016-17 to 2021-22 and the year-wise percentage of utilisation are as shown in **Table 6.3**.

Table 6.3: Budget allocation and expenditure on important components under NHM

Name of Scheme	Total budget for 2016-17 to 2020-21 (₹ in lakh)	Total expenditure for 2016-17 to 2020-21 (₹ in lakh)	Percentage of total expenditure to budget	Per cent utilisation						Sparkline for six years from 2016-17 to 2021-22
				2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
National Vector Borne Disease Control Programme	4611	2477	54	69	115	86	32	26	41	
Information Education and Communication/ Behaviour Change Communications	8751	5399	62	57	104	50	56	49	79	
Iodine Deficiency	302	98	32	33	16	10	295	100	10	
Procurement of equipment/ drugs funds	123513	85056	69	88	86	83	35	88	71	
New constructions/ renovation and setting up funds	50003	24815	50	106	69	10	22	100	79	
Innovation activity	5247	3768	72	70	164	117	26	64	47	
Infrastructure maintenance (reimbursement)	153490	153490	100	100	100	100	100	100	100	

(Source: Details furnished by NHM)

The total utilisation under various schemes for the period 2016-22 showed huge variations ranging from 32 to 100 per cent.

6.6. Inadequacy of funds for purchase of drugs

KMSCL was set up (2007) as a fully owned Government company for procuring and distributing drugs, supplies and equipment to hospitals. For the procurement of drugs GoK provides grants to KMSCL. Against an allocation of ₹2,573.35 crore during 2016-17 to 2021-22, GoK released ₹2,497.39 crore as grant for the procurement of drugs to KMSCL. Audit noticed that before inviting indent for a financial year, financial cap was fixed to each level of hospitals based on the expected budgetary allocation for the procurement of drugs. Further, the procurements were significantly lower than the actual requirement establishing the fact that budget allocation to KMSCL was not based on the actual requirement of drugs. Consequently, the financial cap fixed

for hospitals was not realistic. The impacts of unrealistic financial cap resulting in short procurement of drugs are detailed in Chapter IV of this Report.

6.7. Delay in release of funds to implementing agencies

Audit noticed delay in release of GoI/ GoK share of funds by Government of Kerala to NHM and NAM during the audit period as shown in **Table 6.4**.

Table 6.4: Delay in release of funds to implementing agencies

(₹ in crore)

Name of the implementing agency	Amount released with delay	Amount released with delay period within 15 days	Amount released with delay period within six months	Amount released with delay more than six months
NAM	176.37	Nil	37.81	138.56 ⁸⁵
NHM	2002.28	265.78	1412.65	323.85

(Source: NAM and NHM)

Further in the test-checked hospitals, Audit observed delay in release of funds by GoK due to delays on the part of hospital authorities in identifying proper site, finalisation of proposals, etc. and on the part of GoK in issue of sanctions. GoI funds amounting to ₹4.09 crore sanctioned for the implementation of three schemes⁸⁶ in GMC, Thiruvananthapuram were released by GoK only after periods ranging from 19 months to over five years as detailed in Chapter V of this Report (Paragraphs 5.8.3, 5.8.5 and 5.8.6).

GoK stated (October 2022) that steps would be taken to avoid any delay in future.

6.7.1. Delay in release of matching share by GoK

The resource envelope of NHM included GoI share and matching State share for both cash and kind grants of GoI. As per GoI records, the State had not released the matching share against the GoI grant released amounting to ₹49.51 crore for 2019-20 and 2020-21. NHM stated that they had addressed (January 2022) GoK and the matter was pending with Government.

6.8. Monitoring of funds across entities related to health

Funds sanctioned for improvement in infrastructural facilities in hospitals remained blocked up with implementing agencies without timely/ proper utilisation which revealed deficiencies in monitoring of sanctioned funds.

GoK sanctioned ₹2.10 crore (₹1.40 crore in May 2017 and ₹0.70 crore in May 2018) for Standardisation of Homoeopathy dispensaries and hospitals under the Department of AYUSH. Director, Homoeopathy transferred (February and December 2018) the funds to NHM for its implementation. Since all the

⁸⁵ Except in 2016-17, the funds were released in the same and subsequent years

⁸⁶ Setting up of four station Temporal Bone Lab, Establishment of Burns Unit and Implementation of National Mental Health Programme

agreements executed between NHM and Project Management Consultants for NAM civil works were cancelled (October 2020), NAM requested (June 2021) Director of Homoeopathy to transfer the funds to NAM and the Director of Homoeopathy requested (June 2021) GoK to take necessary action to transfer funds from NHM to NAM. However, the entire amount released, remained unutilised with NHM for the last four years, resulting in non-commencement of works.

GoK stated (October 2023) that funds were transferred to NAM which would be utilised within the financial year 2023-24. However, the fact remains that the project has not materialised even after a lapse of four years.

6.9. Irregular retention of funds

Funds sanctioned for purchase of equipment and implementation of centrally sponsored schemes were found retained with the authorities of test-checked Medical Colleges without timely/ proper utilisation as detailed in Paragraphs 4.7.1.2 and 5.8.3 to 5.8.6 in Chapters IV and V of this Report respectively.

6.10. Recommendation

- Government should formulate an action plan to enhance State sector health spending in line with the target set by the National Health Policy.