



**EXECUTIVE  
SUMMARY**



## Executive Summary

### *About the Report*

*This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.*

*This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.*

Gross State Domestic Product (GSDP)(at current prices) grew at an average growth rate of 8.69 *per cent* from ₹7,88,286 crore in 2018-19 to ₹10,46,188 crore in 2022-23. Budget Outlay of the State grew at an average growth rate of 11.46 *per cent* from ₹1,60,374.90 crore in 2018-19 to ₹2,47,628.77 crore in 2022-23.

There was 11.95 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 13.79 *per cent* and the percentage of revenue receipts over GSDP slightly improved from 12.48 *per cent* in 2021-22 to 12.69 *per cent* in 2022-23. The tax revenue increased by 18.47 *per cent* during the period and the State's own tax revenue increased by 23.36 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Kerala decreased from ₹1,63,225.53 crore in 2021-22 to ₹1,58,738.42 crore decreasing by 2.75 *per cent*. Of this, revenue expenditure showed 2.89 *per cent* decrease from 2021-22. Revenue deficit decreased from ₹29,539.27 crore to ₹9,226.28 crore registering 68.77 *per cent* decrease over 2021-22, while fiscal deficit decreased from ₹46,045.78 crore in 2021-22 to ₹25,554.54 crore in 2022-23 decreasing by 44.50 *per cent*.

### *Receipt-Expenditure Mismatch*

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in taxes, Grants in aid and transfers from the Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, etc.).

From 2018-19 to 2022-23, revenue receipts grew from ₹92,854.47 crore to ₹1,32,724.65 crore, with an average annual growth rate of 10.10 *per cent*. Capital receipts also increased from ₹24,004.84 crore to ₹38,721.39 crore during this period. The share of Grants-in-aid in revenue receipts rose from 12.27 *per cent* in 2018-19 to 20.63 *per cent* in 2022-23, indicating increased reliance on support

from the Government of India. The State Government received ₹4,587.79 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year.

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. Between 2018-19 and 2022-23, revenue expenditure increased from ₹1,10,316 crore (13.99 *per cent* of GSDP) to ₹1,41,950.93 crore (13.57 *per cent* of GSDP). It consistently made up a significant portion (89 to 92 *per cent*) of the total expenditure during this period, growing at an average annual rate of 7.74 *per cent*.

### ***Result of expenditure beyond means***

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State decreased to ₹9,226.28 crore (0.88 *per cent* of GSDP) in the current year from ₹17,461.92 crore (2.22 *per cent* of GSDP) in the year 2018-19.

The State Government spent ₹13,996.56 crore only on capital account. This was 8.82 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was just 2.12 *per cent* of the total borrowings. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State decreased to ₹25,554.54 crore (2.44 *per cent* of GSDP) in 2022-23 from ₹26,958.31 crore (3.42 *per cent* of GSDP) in 2018-19.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 56-68 *per cent* of revenue expenditure during the period 2018-19 (61.89%) to 2022- 23 (63.86%). The Committed expenditure increased at an average rate of 7.28 *per cent* i.e. from ₹ 68,280.52 crore in 2018-19 to ₹90,656.05 crore in 2022-23 {a decrease of 5.55 *per cent* over 2021-22 (₹95,981.59 crore)}.

In addition to the committed expenditure, inflexible expenditure decreased from 17.24 *per cent* to 12.66 *per cent* of revenue expenditure during 2018-19 to 2022-23. The inflexible expenditure increased from ₹16,549.96 crore in 2021-22 to ₹17,975.34 crore in 2022-23 registering an increase of 8.61 *per cent*.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹1,08,631.39 crore; 76.53 *per cent* of the revenue expenditure. The huge share of committed and inflexible expenditure in revenue expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

### ***Subsidies constitute major portion of the non-committed expenditure***

Within the non-committed expenditure, there is a fluctuating trend of subsidies. Subsidies increased from ₹1,663.01 crore in 2018-19 to ₹1,847.04 crore in 2022-23, however as a percentage of Revenue expenditure the subsidies decreased from 1.51 *per cent* in 2018-19 to 1.30 *per cent* in 2022-23.

### ***Off-budget borrowings***

The State Government, through Public Sector Undertakings, raised ₹8,058.91 crore as off-budget borrowings; which did not flow into the Consolidated Fund of the State but are required to be repaid and serviced through budget.

### ***Contingent Liabilities on account of Guarantees***

In 2022-23, the amount guaranteed by the State Government is ₹6,184.94 crore. No guarantee was invoked during the year.

### ***Fiscal sustainability***

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, *etc.* So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments, interests, *etc.* and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds, transfer to local bodies, *etc.*

### ***FRBM requirements and compliance with fiscal parameters***

The FRBM Act/ Rules prescribes certain limits within which, revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be maintained. In 2022-23, revenue deficit was 0.88 *per cent* as against the limit of 0.80 *per cent* revenue surplus; fiscal deficit was 2.44 *per cent* as against the limit of four *per cent*; debt was 35.42 *per cent* as against limit of 34.50 *per cent*.

Further, if the quantum of the off-budget borrowings is included as part of debt, the overall liability (Includes Public Debt and Public Account Liabilities) of the Government was 38.23 *per cent* of the GSDP. Going by the fiscal trends, the State finances are heavily stressed.

As per the debt stabilisation analysis, the public debt of the Government of Kerala has grown on an average at a rate of 12.10 annually of the outstanding public debt between 2018-19 to 2022-23. Public debt-GSDP ratio of Kerala has increased from 20.07 *per cent* in 2018-19 to 24.14 *per cent* in 2022-23.

The Domar gap (g-r) was positive during the period from 2018-19 to 2022-23, except in 2020-21. During the pre-Covid period of 2018-19 and 2019-20, the real

growth rate of the GSDP was 4.80 *per cent* and Domar gap (expressed as g-r) remained positive but there was primary deficit in the State. Covid -19 affected the real growth rate of GSDP during 2020-21 and the Domar gap turned negative during the year. In the subsequent years (2021-22 and 2022-23), the Domar gap became positive along with the primary deficit, which reflect that Public debt as a percentage of GSDP tends towards a stable value and is therefore sustainable. Depending on the stock of debt, it will either increase or decrease in time to reach a stable level greater than zero. Further, the sustainability of Public Debt will depend on whether the State economy maintains the real growth rate in the long run keeping the real interest rate under control.

*Going by the analysis and results as discussed above, the finances of the State of Kerala is marked by increasing trend of liabilities (debt, guarantees, implicit subsidies, off-budget borrowings, etc.) which pose risk to target of debt stabilisation and debt sustainability.*

### ***Budget performance***

#### ***Aggregate expenditure outturn***

Budget performance in terms of budgetary intent and budget implementation is examined to assess extent to which the aggregate expenditure outturn reflects the amount originally approved both in terms of excess and saving. In the Capital section, deviation in outturn compared with Budget Estimates (BE) was (-)26.16 *per cent*. This was due to deviation up to  $\pm 25$  *per cent* in seven grants, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in 12 grants; between  $\pm 50$  *per cent* and  $\pm 75$  *per cent* in six grants, between  $\pm 75$  *per cent* and  $\pm 100$  *per cent* in three grants and more than  $\pm 100$  *per cent* in two grants.

#### ***Expenditure composition outturn***

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In the Revenue section, deviation in outturn compared with Revised Estimates (RE) was (-) 0.29 *per cent*. This was due to deviation up to  $\pm 25$  *per cent* in 41 grants and between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in four grants. In the Capital section, deviation in outturn compared with RE was (-) 0.58 *per cent*. This was due to deviation upto  $\pm 25$  *per cent* in 15 grants, between  $\pm 25$  *per cent* and  $\pm 50$  *per cent* in nine grants and between  $\pm 50$  *per cent* and  $\pm 75$  *per cent* in six grants. No provision in Capital section was made in respect of 16 grants and one appropriation.

It was noticed that supplementary provisions of ₹719.80 crore during the year 2022-23 in 16 cases (more than ₹50 lakh in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

*Overall Budget reliability assessment indicates that though the deviations between the actual expenditure and the final budget was 18.07 per cent, there*

were deviations between 30 and 50 per cent in two grants. Moreover, it was also noticed that in several cases, there were supplementary grants where expenditure was not even up to the original grant. A reliable budget practice should need to deal with such deviations.

### ***Quality of Accounts and Financial Reporting***

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short – discharging of liabilities and misclassification of transactions and data gaps.

### ***Regularisation of Excess over Grants/ Appropriations***

The State Government has to get excesses over grants/ appropriations regularised by the State Legislature as per Article 204 and 205(1)(b) of the constitution. It was observed that in 2022-23 there was excess expenditure of ₹2.23 crore under three appropriations which required regularization. Further, excess expenditure of ₹10,546.40 crore pertaining to the period from 2016-17 to 2021-22 were yet to be regularized.

### ***Misclassification in accounts***

During 2022-23, capital expenditure amounting to ₹12.35 crore in four schemes were wrongly classified as revenue expenditure even though the expenditure were of capital in nature.

### ***Compliance with IGAS***

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government complied with IGAS-1: ‘Guarantees given by the Government–Disclosure requirements’, however, IGAS-2: ‘Accounting and Classification of Grants-in- Aid’ and IGAS-3: ‘Loans and Advances made were partly complied by the Government.

### ***Operation of Treasury Savings Bank (TSB)Accounts***

The Government of Kerala does not follow the system of operating PD Accounts for implementation of schemes by transferring funds from the Consolidated Fund. This purpose is served through TSB Accounts maintained in the State Treasuries as per Rule 37 of Kerala Treasury Code. As on 31 March 2023, the amount lying in TSB Accounts under the head 8031-00-102- 99 was ₹833.56 crore. An amount of ₹73,900.05 crore was also outstanding under Term Fixed Deposit accounts in Treasuries as on 31 March 2023 under the head of account ‘8031-00-102-98’. State Government resumed funds amounting to ₹6,859.18 crore parked in the TSB Accounts of various Government departments and state-



owned PSUs, Autonomous Bodies etc. into the Consolidated Fund of the State on 31 March 2023. Out of ₹6,859.18 crore resumed, an amount of ₹6,243.94 crore was resumed to a common head of account '2075-00-911-94 Deduct Recoveries-Refund of amounts resumed from the idling STSB accounts' during the year.

An amount of ₹1,116.87 crore was resumed from the STSB account of Kerala Social Security Pension Limited (KSSPL) and written back (by deduct debiting) to the head '2075-00-911-94'. The resumption of funds (raised by KSSPL) to the Consolidated fund of the State is irregular. By making such resumption on the last day of the year, the Government had understated the Revenue deficit and Fiscal deficit to that extent.

### ***Funds to Single Nodal Agency***

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The share of the Government of India and the State Government is transferred to the Bank Account of the SNA lying outside the Government Account. As per information available on the PFMS portal, ₹8,349.22 crore (₹4,031.43 crore share of the Government of India and ₹4,317.79 crore share of the State Government) was transferred to the SNAs as on 31 March 2023. An amount of ₹3,407.28 crore is lying unspent in the bank accounts of SNAs as on 31 March 2023.

### ***Utilisation Certificates against conditional grants***

Despite the requirement of submitting Utilisation Certificates (UCs) against grants within a stipulated time period, 126 outstanding UCs of ₹89.44 crore were pending as on 31st March 2023.

### ***Advance Contingent Bills***

As on 31 March 2023, 24,867 advance contingent bills/ temporary advances amounting to ₹1,951.09 crore were pending adjustments.

### ***Working of State Public Sector Undertakings***

As on 31 March 2023, there were 149 State Public Sector Undertakings (SPSUs) in Kerala, including four Statutory Corporations and 130 Government Companies (including nine non-working Government Companies) and 15 Government Controlled Other Companies under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 115 PSUs whose 270 accounts were in arrears. Out of the total profit of ₹1,368.72 crore earned by 58 working SPSUs, 61.50 *per cent* was contributed by two SPSUs. Out of total loss of ₹1,873.89 crore incurred by 66 working SPSUs, loss of ₹1,113.99 crore was incurred by two PSUs. The financial impact of amendments of financial statements as a result of supplementary audit of PSUs by the CAG



was ₹35.17 crore on profitability and ₹35.72 crore on assets and liabilities.

*The State Government may impress upon the managements of SPSUs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSUs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making SPSUs and initiate steps to make their operations efficient and profitable.*