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EXECUTIVE SUMMARY

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About the Report

This Report of the CAG of India is on the State Finances for the year 2023-24. 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 8.97 per cent from ₹8,12,935 crore in 2019-20 to ₹11,46,109 crore in 2023-24. Budget Outlay of the State grew at an average growth rate of 8.35 per cent from ₹1,94,462.61 crore in 2019-20 to ₹2,67,969.30 crore in 2023-24.

GSDP grew by 11.97 per cent in 2023-24 over 2022-23. The revenue receipts decreased by 6.21 per cent and the percentage of revenue receipts over GSDP decreased from 12.97 per cent in 2022-23 to 10.86 per cent in 2023-24. The tax revenue increased by 6.48 per cent during 2023-24 and the State's own tax revenue increased by 3.28 per cent. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Kerala increased from ₹1,58,738.42 crore in 2022-23 to ₹1,59,506.51 crore in 2023-24 increasing by 0.48 per cent. Of this, revenue expenditure showed 0.48 per cent increase from 2022-23. Revenue deficit increased from ₹9,226.28 crore in 2022-23 to ₹18,140.19 crore in 2023-24 registering 96.61 per cent increase over 2022-23, while fiscal deficit increased from ₹25,554.54 crore in 2022-23 to ₹34,258.05 crore in 2023-24 increasing by 34.06 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 2019-20 to 2023-24, revenue receipts grew from ₹90,224.67 crore to ₹1,24,486.15 crore, with an average annual growth rate of 8.38 per cent. Capital receipts also increased from ₹25,514.50 crore to ₹51,810.65 crore during this period. The share of Grants-in-aid in revenue receipts decreased from 12.45 per cent in 2019-20 to 9.69 per cent in 2023-24. The State Government received ₹3,936.74 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 2019-20 and 2023-24, revenue expenditure increased from ₹1,04,719.92 crore (12.88 *per cent* of GSDP) to ₹1,42,626.34 crore (12.44 *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 8.03 *per cent*.

Result of expenditure beyond means

The gap between the revenue receipts and revenue expenditure results in revenue deficit. The revenue deficit of the State increased to ₹18,140.19 crore (1.58 *per cent* of GSDP) in the current year from ₹14,495.25 crore (1.78 *per cent* of GSDP) in the year 2019-20.

The State Government spent ₹13,584.45 crore only on capital account. This was 8.52 *per cent* of the total expenditure in the year 2023-24. Capital expenditure was just 5.18 *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 increased to ₹34,258.05 crore (2.99 *per cent* of GSDP) in 2023-24 from ₹23,837.47 crore (2.93 *per cent* of GSDP) in 2019-20.

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 2019-20 (68.02%) to 2023-24 (65.01%). The Committed expenditure increased at an average rate of 6.82 *per cent* i.e. from ₹71,221.27 crore in 2019-20 to ₹92,728.15 crore in 2023-24 {an increase of 2.29 *per cent* over 2022-23 (₹90,656.05 crore)}.

Share of inflexible expenditure in revenue expenditure decreased from 9.99 *per cent* to 9.82 *per cent* during 2019-20 to 2023-24. The inflexible expenditure decreased from ₹15,236.34 crore in 2022-23 to ₹14,011.67 crore in 2023-24 registering a decrease of 8.04 *per cent*.

Taken together, the committed and inflexible expenditure in 2023-24 was ₹1,06,739.82 crore; 74.83 *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 ₹1,429.01 crore in 2019-20 to ₹1,723.83 crore in 2023-24. However as a percentage of Revenue expenditure, the subsidies decreased from 1.36 *per cent* in 2019-20 to 1.21 *per cent* in 2023-24.

Off-budget borrowings

During 2023-24, State Government, through Public Sector Undertakings, raised ₹10,632.46 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 2023-24, the amount guaranteed by the State Government is ₹13,088.62 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 2023-24, revenue deficit was 1.58 *per cent* of GSDP as against the target of 1.20 *per cent* revenue surplus; fiscal deficit was 2.99 *per cent* of GSDP as against the limit of 3.5 *per cent*; outstanding liability was 34.96 *per cent* of GSDP as against limit of 33.70 *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 37.84 *per cent* of the GSDP. Going by the fiscal trends, the State finances are heavily stressed.

As per the debt stabilization analysis, the Overall Liabilities including off-budget borrowings of the Government of Kerala has grown on an average at a rate of 11.61 *per cent* annually between 2019-20 to 2023-24. Overall Liabilities to GSDP ratio of Kerala has increased from 34.38 *per cent* in 2019-20 to 37.84 *per cent* in 2023-24.

The Domar gap (g-r) was positive during the period from 2019-20 to 2023-24, except during 2019-20 and 2020-21. During the pre-Covid period of 2019-20, the real growth rate of the GSDP was 0.90 *per cent* and Domar gap (expressed as g-r) was negative. Covid -19 affected the real growth rate of GSDP during 2020-21 and the Domar gap sharply declined and continued to be negative during the year. In the subsequent years (2021-22 to 2023-24), the Domar gap became positive along with the primary deficit, which reflect that Overall 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 Overall 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, 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 Revenue section, deviation in outturn compared with BE was 8.61 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in 31 grants and one appropriation, between ± 25 *per cent* to ± 50 *per cent* in nine grants, between ± 50 *per cent* and ± 75 *per cent* in one grant, between ± 75 *per cent* and ± 100 *per cent* in one grant and more than 100 *per cent* in two grants.

In Capital section, deviation in outturn compared with BE was 37.93 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in five grants, between ± 25 and ± 50 *per cent* in 12 grants, between ± 50 *per cent* and ± 75 *per cent* in nine grants and one appropriation, between ± 75 *per cent* and ± 100 in one grant and more than 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 Revenue section, deviation in outturn compared with RE was (-) 3.56 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in 39 grants and one appropriation, and between ± 25 *per cent* and ± 50 *per cent* in five grants.

In Capital section, deviation in outturn compared with RE was (-) 3.95 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in 11 grants and one appropriation, between ± 25 *per cent* and ± 50 *per cent* in 11 grants, between ± 50 *per cent* and ± 75 *per cent* in three grants, between ± 75 *per cent* and ± 100 *per cent* in three grants and more than 100 *per cent* in one grant.

No provision in Capital section was made in respect of 16 grants and one appropriation.

It was noticed that supplementary provisions of ₹266.66 crore during the year 2023-24 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 11.02 per cent, there were deviations between 30 and 70 per cent in 11 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 2023-24 there was excess expenditure of ₹427.68 crore under seven grants and one appropriation which required regularisation. Further, excess expenditure of ₹2,202.11 crore pertaining to the period from 2016-17 to 2022-23 were yet to be regularised.

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’, IGAS-2: ‘Accounting and Classification of Grants-in- Aid’ and IGAS-4: Prior Period Adjustment. However, requirement under IGAS-3 ‘Loans and Advances made by Government’ were only partly complied by 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 2024, the amount lying in TSB Accounts under the head 8031-00-102- 99 was ₹1,578.76 crore. An amount of ₹ 71,050.89 crore was also outstanding under Term Fixed Deposit accounts in Treasuries as on 31 March 2024 under the head of account ‘8031-00-102-98’. State Government resumed funds amounting to ₹3,609.41 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 26 March 2024. Out of ₹3,609.41 crore resumed, an amount of ₹3,179.19 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.

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, ₹6,222.10 crore (₹3,069.44 crore share of the Government of India and

₹3,152.66 crore share of the State Government) was transferred to the SNAs as on 31 March 2024. An amount of ₹2,294.93 crore is lying unspent in the bank accounts of SNAs as on 31 March 2024.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against grants within a stipulated time period, 22 outstanding UCs of ₹ 11.07 crore were pending as on 31st March 2024. Non-submission of UCs indicates the failure of the departmental officers to comply with the rules to ensure accountability. The pendency of UCs are fraught with the risk of misappropriation of funds and fraud.

Temporary Advances

As on 31 March 2024, 2,872 temporary advances amounting to ₹120.88 crore were pending adjustments. Temporary Advances drawn and not accounted for increase the possibility of wastage/ misappropriation/ malfeasance, *etc.*, of public money and unhealthy practices.