CHAPTER – I
Finances of the State Government

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FINANCES OF THE STATE GOVERNMENT

Profile of Kerala

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. In terms of geographical area, Kerala is ranked 21st in the country with an area of 38,863 sq.km. While the State is having a population of 3.34 crore (12th in the country), it remains the third most densely populated State with a density of 860 persons per sq.km. The State's population increased from 3.18 crore in 2001 to 3.34 crore in 2011 recording a decadal growth of five *per cent*. The State's percentage of population below the poverty line is less than the all-India average. The State's Gross State Domestic Product (GSDP) in 2013-14 at current prices was ₹4,02,972 crore. The State's literacy rate increased from 90.9 *per cent* (as per 2001 census) to 94 *per cent* (as per 2011 census). The per capita income (2012-13) of the State at current prices stands at ₹99,977 against the country average of ₹68,757. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognized final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trends in the annual growth of India's GDP at current prices are indicated below:

Table 1.1: Trends in annual growth of GDP and GSDP (at current prices)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
India's GDP (₹ in crore)	6108903	7248860	8391691	9388876	10472807
Growth rate of GDP (percentage)	15.18	18.66	15.77	11.88	11.54
State's GSDP (₹ in crore)	231999	263773	307906	349338	402972
Growth rate of GSDP (percentage)	14.41	13.70	16.73	13.46	15.35

Source : figures furnished by Economics and Statistics Department

The above table shows that, during the last three years, the GSDP growth rate of the State was better than the growth rate of GDP of the country, indicating better economic performance of the State during the above period.

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the Kerala Government's fiscal position as on 31 March 2014. It provides a broad perspective of the finances of the Government of Kerala during 2013-14

and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view of the overall trends during the last five years. The structure and form of Government Accounts have been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is shown in **Appendix 1.2 Part B**. The methodology adopted for the assessment of the fiscal position of the State and norms/ceilings prescribed by the Kerala Fiscal Responsibility Act, 2003 are given in **Appendix 1.3.** As prescribed in the Act, the Government submitted its Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan for 2013-14 to 2015-16 in the State Legislature in March 2013.

1.1.1 Summary of Current Year's Fiscal Transactions

The **Table 1.2** presents the summary of the State Government's fiscal transactions during the current year (2013-14) vis-à-vis the previous year (2012-13). **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of fiscal operations in 2013-14

(₹ in crore)

Receipts	2012-13	2013-14	Disbursements	2012-13	2013-14		
Section –A:Revenue					**Non-plan**	**Plan**	**Total**
Revenue Receipts	**44137.30**	**49176.93**	**Revenue Expenditure**	**53488.74**	**53411.84**	**7073.66**	**60485.50**
Tax Revenue	30076.61	31995.01	General Services	22786.61	26478.44	126.65	26605.09
Non-tax Revenue	4198.51	5575.03	Social Services	18877.49	16333.95	4645.93	20979.88
Share of Union Taxes/ Duties	6840.65	7468.68	Economic Services	7808.42	5627.98	2301.08	7929.06
Grants from Government of India	3021.53	4138.21	Grants-in-aid and Contribution	4016.22	4971.47		4971.47
Section-B : Capital and Others							
Miscellaneous Capital Receipts	**14.81**	**19.19**	**Capital Outlay**	**4603.29**	**796.71**	**3497.62**	**4294.33**
Recoveries of Loans and Advances	**73.61**	**103.75**	**Loans and Advances Disbursed**	**1136.15**	**926.64**	**537.53**	**1464.17**
Public Debt Receipts	**13261.19**	**14461.18**	**Repayment of Public Debt**	**2804.08**			**3244.81**
Contingency Fund	**20.80**		**Contingency Fund**	**..**			**67.39**
Public Account Receipts	**105879.64**	**124374.44**	**Public Account Disbursements**	**100455.82**			**120992.20**
Opening Cash Balance	**3793.46**	**4692.73**	**Closing Cash Balance**	**4692.73**			**2279.82**
Total	**167180.81**	**192828.22**	**Total**	**167180.81**			**192828.22**

Source : Finance Accounts for the respective years

1.1.2 Review of fiscal situation

The State Government enacted the Kerala Fiscal Responsibility Act, 2003 which came into force on 5 December 2003 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or thereto. As per the stipulation in the Kerala Fiscal Responsibility Act, 2003, a Medium Term Fiscal Policy (MTFP) and Strategy Statement is to be prepared, covering fiscal targets fixed for ensuing three financial years, and submitted along with the budget documents to the State Legislature. Accordingly, major fiscal variable targets set by the State Government in MTFP for 2013-14 and its achievements are detailed below;

Table 1.3: Comparison of fiscal variable targets

Fiscal variables	2013-14	
	Targets fixed in MTFP	As per finalized accounts
Revenue deficit/ GSDP	0.54	2.8
Fiscal deficit/ GSDP	2.82	4.2
Outstanding Debt to GSDP	27.14	30.8

Source : Medium Term Fiscal Plan for 2013-14 to 2015-16

According to the Act, the Government is committed to reduce the revenue deficit to 'nil' within a period of four years commencing on the 1 April 2011 and ending with the 31 March 2015 by reducing the revenue deficit in the years 2011-12, 2012-13, 2013-14 and 2014-15 in the order of 1.4 *per cent*, 0.9 *per cent*, 0.5 *per cent* and zero *per cent*, respectively, of the GSDP. The Government is also committed to reduce the fiscal deficit to 3 *per cent* of the estimated GSDP within a period of three years commencing on the 1 April 2011 and ending with the 31 March 2014 by maintaining the fiscal deficit at a level not exceeding 3.5 *per cent* of the GSDP in the years 2011-12 and 2012-13 and reducing it to 3 *per cent* in 2013-14.

It was observed that the State could not achieve the revenue deficit and fiscal deficit targets fixed in the Budget Estimates. Non-realisation of revenue as anticipated resulted in non-achievement of fiscal targets fixed for the year.

1.1.3 Budget estimates and actual

As per Article 202 of the Constitution of India, the Governor of the State shall, cause to be laid before the House of the Legislature of the State a statement of the estimated receipts and expenditure of the State for a financial year. This estimated statement of receipt and expenditure for a financial year named in the Constitution as the 'Annual Financial Statement' is commonly known as 'Budget'. The budget is Government's most important economic policy tool, that translates Government's policies, commitments, and goals into decisions on how much revenue to raise, how it plans to raise it and how to use these funds to meet the

State's competing needs. A budget system that functions well is crucial to developing sustainable fiscal policies and economic growth.

Comparison of State's budget estimates vis-à-vis actual for the year 2013-14 is detailed in **Table 1.4**.

Table 1.4: Budget estimates and actual for 2013-14

(₹in crore)

Particulars	Budget Estimate	Revised Estimate	Actual
Revenue Receipts	58057.88	54966.85	49176.93
Revenue Expenditure	60327.84	61175.20	60485.50
Revenue Deficit	2269.96	6208.35	11308.57
Capital Expenditure	8635.03	5900.62	4294.33
Loans and Advances (Net)[1]	(-)989.67	(-)1054.42	(-)1360.42
Public Debt (Net)[2]	11844.38	11844.38	11216.37
Public Account (Net)[3]	470.04	864.36	3382.24

Source : Budget in brief for 2014-15 and finance accounts for 2013-14

The above table shows that failure of the Government to raise as much revenue as estimated in budget resulted in increase of revenue deficit by ₹5100 crore. Though revenue expenditure was as estimated, revenue receipt was ₹5,790 crore less than the anticipated amount (revised estimate). While Government could release about ₹270 crore more under disbursement of loans and advances, the expenditure on capital project was reduced by ₹1,606 crore.

Detailed analysis conducted to assess the areas where deviation from budget estimation occurred has revealed as under:

(i) Revenue Receipts

State Government estimated a revenue of ₹58,057.88 crore in its original budget and subsequently reduced to ₹54,966.85 crore while presenting the revised estimate. However, State could realize only ₹49,176.93 crore, resulting in a shortfall of ₹5,789.92 crore. Head-wise shortfall is given in **Table 1.5**.

[1] Minus figure was due to loan disbursement more than loan recoveries

	Particulars	Receipt	Expenditure	Net
2.	Public Debt	14342	3126	11216
	Internal Debt	13950	2774	11176
	Loans & Advances from GOI	392	352	40
3.	Public Account	124374	120992	3382
	Small Savings	29473	25241	4232
	Reserve Fund	385	307	78
	Deposit and Advances	9865	9678	187
	Suspense	75729	76675	(-)946
	Remittances	8922	9091	(-)169

Table 1.5: Budget estimates and actual for 2013-14

(₹in crore)

Revenue source	Budget Estimate	Revised Estimate	Actuals	Percentage
Sales Tax and VAT	28456.62	26663.67	24885.25	93
State Excise	2801.75	2719.17	1941.72	71
Motor Vehicles	2570.65	2271.05	2161.09	95
Stamps and Registration	4207.01	3173.27	2593.29	82
Other Taxes	735.57	715.80	413.66	58
Tax Revenue	38771.60	35542.96	31995.01	90
Non-Tax Revenue	4921.57	5613.44	5575.03	99
Share of Central taxes	8143.79	8143.79	7468.68	92
Grant-in-aid from GOI	6221.42	5666.66	4138.21	73
Total Revenue Receipt	58057.88	54966.85	49176.93	89

Table above shows that major shortfall (₹3,547.95 crore) was under Tax revenue. While revenue realization on Sales Tax and Motor vehicles Tax were more than 90 *per cent* of the estimation, realization from State Excise and Stamps and registration were only 71 and 82 *per cent* respectively. In the exit meeting (24 November 2014), Additional Chief Secretary, Finance Department accepted the audit observation and stated that remedial measures to enhance the revenue collection has been proposed for implementation.

Further, Audit analysed variation between revised estimates and actual receipt in respect of revenue receipts for the previous years and observed that in 2012-13 also, actual revenue receipts was ₹4,131.91 crore less than revised estimates. As the revised estimates are prepared during the second half of the financial year, it should be more realistic and wide variations from the actual receipt indicate the deficiency in the estimation process.

(ii) Capital Expenditure

As per the original budget presented in the State Legislature, the estimated capital expenditure for the year was ₹8,635.03 crore and this was reduced to ₹5,900.62 crore while presenting revised estimates. Against this estimation, final expenditure on capital projects came down to ₹4,294.33 crore. Major heads under which less expenditure was incurred (more than ₹25 crore) are detailed in **Table 1.6** below:

Table 1.6 : Under-utilisation of plan funds under capital major heads

(₹in crore)

Major Head	Budget		Expenditure	Saving
	Original	Supplementary		
Capital Outlay on Other General Economic Services	2813.04	100.00	491.35	2421.69
Capital Outlay on Other Transport Services	1617.20	0.00	295.20	1322.00
Capital Outlay on Ports	367.90	5.93	150.28	223.55
Capital Outlay on Co-operation	32.58	199.50	27.90	204.18
Capital Outlay on Medium Irrigation	273.56	0.00	77.14	196.42
Capital Outlay on Education, Sports, Art and Culture	304.31	87.97	199.28	193.00
Capital Outlay on flood control projects	211.75	25.06	76.25	160.56

Major Head	Budget		Expen-diture	Saving
	Original	Supplementary		
Other capital Outlay on Industries and Minerals	150.83	2.14	59.46	93.51
Capital Outlay on welfare of Scheduled Castes, Scheduled Tribes and other backward classes	115.45	0.00	33.28	82.17
Capital Outlay on Medical and Public Health	173.01	16.50	130.32	59.19
Total	**6059.63**	**437.10**	**1540.46**	**4956.27**

Source : Detailed Appropriation Accounts for the year 2013-14

Detailed scrutiny revealed that following projects suffered due to non-incurring of expenditure.

Table 1.7 : Under-utilisation of funds in respect of major schemes

(₹in crore)

Sl. No.	Scheme/project name	Budget allocation	Expen-diture	Savings	Percentage of savings
1.	Major Infrastructure Development projects	846	367	479	57
2.	Accelerated Irrigation Benefit programme	200	9	191	96
3.	Kuttanad Package	200	31	169	85
4.	State Road Improvement project	140	Nil	140	100
5.	Land acquisition and construction works under Medical and Public Health	107	4	103	96
6.	Infrastructure-Higher Secondary Education	56	Nil	56	100
7.	Construction of Ashramam schools and Model Residential Schools	35	1	34	97
8.	Modernisation of Police Force	30	Nil	30	100

Under utilisation of Plan allocation

For the year 2013-14, State Plan outlay of ₹17,000 crore was approved by the Planning Commission (Government of India), which included plan schemes for ₹13,000 crore implemented through various departments and ₹4,000 crore through Local Self Government Institutions. Based on this approved plan, State Government was permitted to borrow an amount of ₹12,397 crore from various sources including Open Market Borrowing. It was observed that State Government has raised ₹12,800 crore from open market and ₹1,542 crore from other sources amounting to ₹14,342 crore. However, the plan expenditure of the State Government for the year was only ₹11,109 crore, indicating funds borrowed were not fully utilised for plan schemes and the balance amount ₹3,233 crore was utilised for other purposes.

1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of Tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). 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 other financial institutions/commercial banks) and loans and advances from GOI. The funds available in the Public Accounts after disbursement are also utilised by the Government to finance its deficit. **Charts 1.1**, **1.2** and **1.3** depict the composition of resources of the State during the current year.

Chart 1.1 : Composition of Receipts *(₹in crore)*

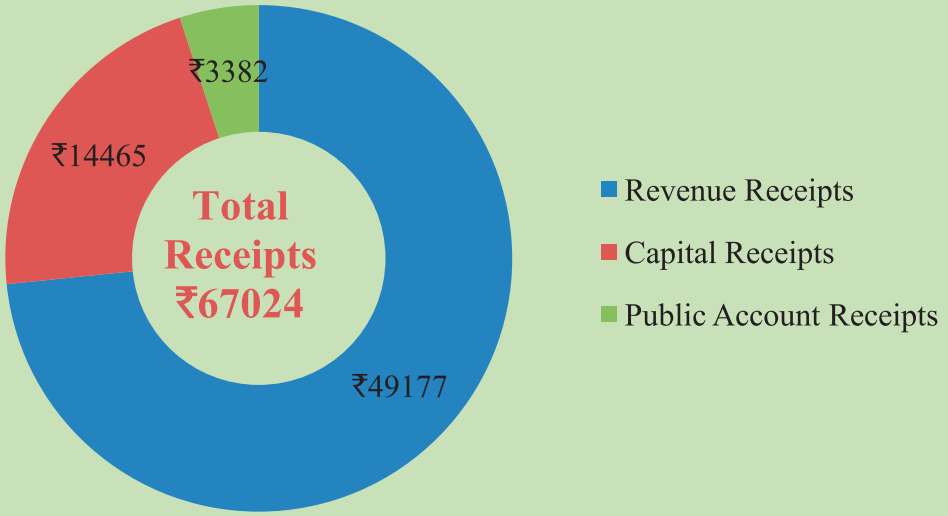


Chart 1.2 :Composition of Revenue Receipts (*₹in crore*)

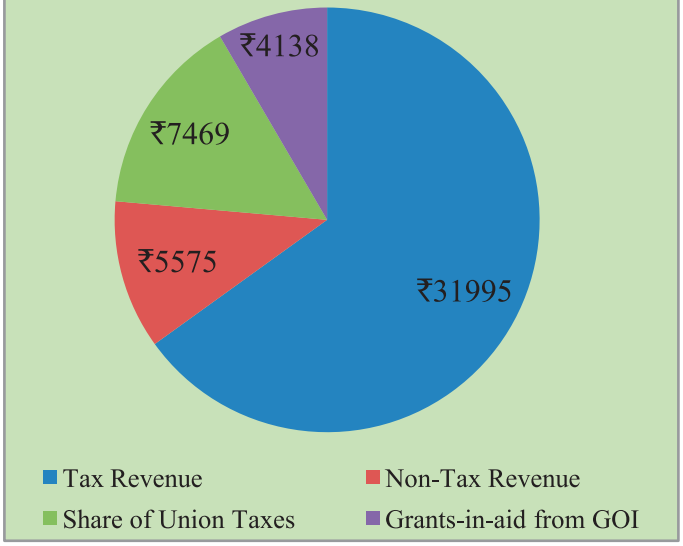
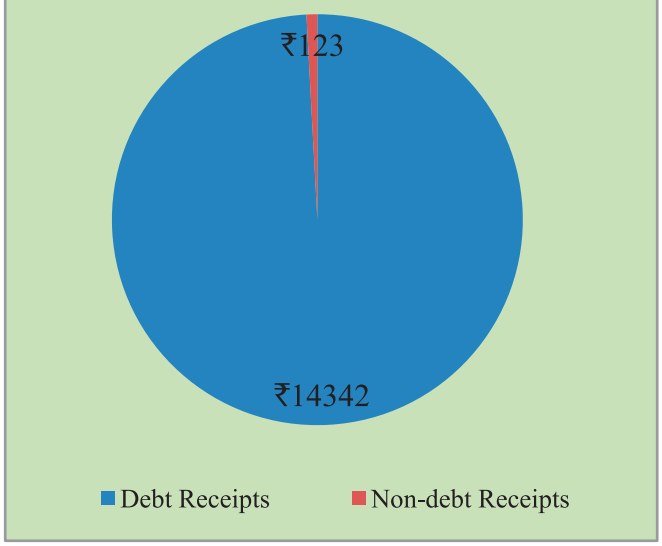


Chart 1.3 :Composition of Capital Receipts (*₹in crore*)



Note: Under Capital Receipts, transactions under 'Ways and Means advances' are excluded and under Public Accounts only net receipts was considered.

Total receipts[4] of the State Government increased from ₹36,860 crore in 2009-10 to ₹67,024 crore in 2013-14, showing an increase of 82 *per cent* during the last five years. Trend in total receipt during the last five years is given in **Chart 1.4** and composition of total receipt during 2013-14 is given in **Chart 1.5**.

Chart 1.4: Trend in total receipts during the last five years

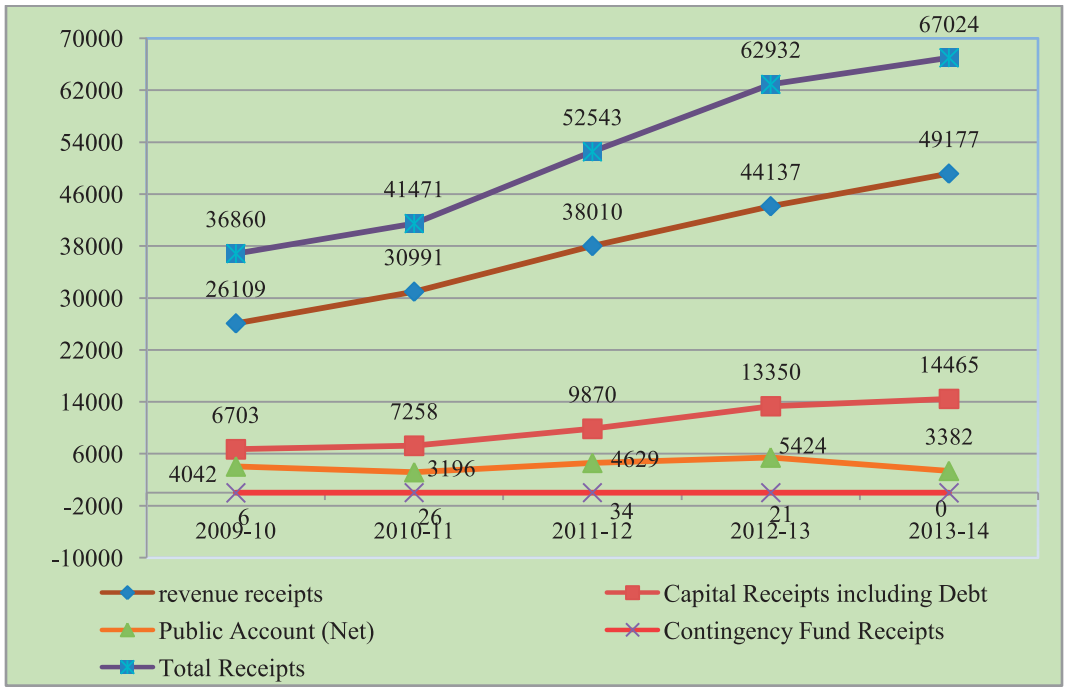
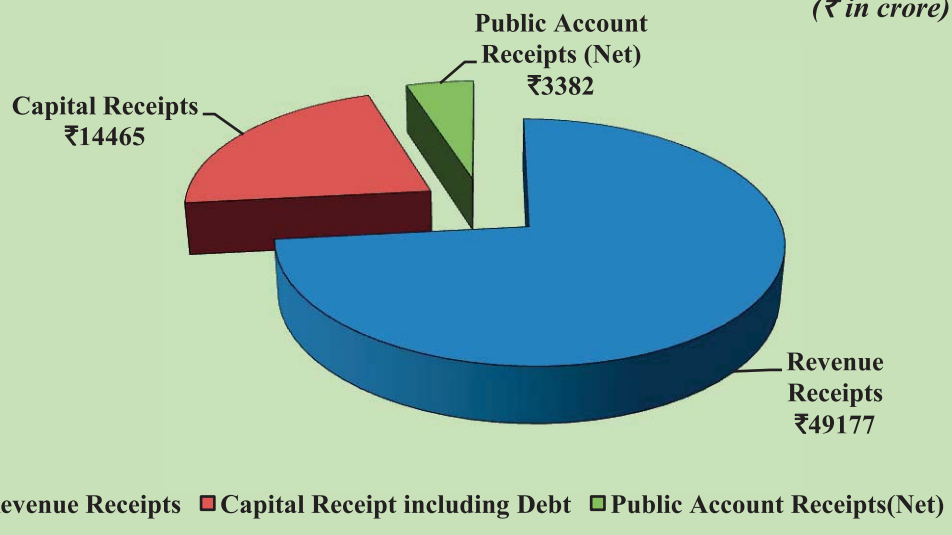


Chart 1.5: Composition of total receipts during 2013-14

(₹ in crore)



[4] Consists of Revenue receipts, Capital receipts (including Debt receipts but excluding Ways and Means advances) and Public Account receipts.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

Government of India has been transferring a sizeable amount, directly to the State implementing agencies[5] for implementation of various critical schemes/ programmes in social and economic sectors. As these funds are not routed through the State Budget/State Treasury System, they do not find mention in the Finance Accounts of the State.

Information on the availability of funds and their utilisation of 12 major centrally sponsored schemes for the last five years (2009-10 to 2013-14) was collected from the State implementing agencies and presented in the **Table 1.8** below.

Table1.8 : Funds transferred directly to State implementing agencies

(₹ in crore)

Sl. No.	Programme/scheme and implementing agency	Un-utilised balance as on 1 April 2009	Amount received during 2009-14		Interest/ other receipts	Amount utilised	Balance as on 31 March 2014
			From GOI	From State			
1	Mahatma Gandhi National Rural Employment Guarantee scheme-MGNREGS State Mission	70.86	4713.95	118.83	50.32	4940.87	13.09
2	Pradhan Mantri Gram Sadak Yojana-Kerala State Rural Roads Development Agency	13.51	449.38	50.05	23.36	504.36	31.94
3	Rural Housing-Indira Awaas Yojana- Poverty Alleviation Unit (Commissioner for Rural Development)	64.20	909.83	303.03	53.41	1202.36	128.12
4	Rashtriya Madhyamik Shiksha Abhiyan-Secondary Education Development Society Kerala	0.00	77.01	44.84	2.44	104.76	19.53
5	Ajeevika- State Poverty Eradication Mission (Kudumbashree)	3.23	179.12	45.42	5.33	213.40	19.70
6	National Horticulture Mission-Kerala State Horticulture Mission	105.09	162.45	60.82	8.06	318.78	17.64
7	National Rural Drinking Water Programme-Kerala Water Authority	4.58	852.12	263.61	7.37	1070.74	56.94
8	Sarva Shiksha Abhiyan-Primary Education Development Society of Kerala	34.47	829.22	652.02	31.16	1499.02	47.85
9	Swarna Jayanthi Shahari Rozgar Yojana-State Poverty Eradication Mission (Kudumbashree)	15.25	92.82	13.90	24.88	103.44	43.41

[5] State implementing agencies include any organization/institution including Non-Governmental organization which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

Sl. No.	Programme/scheme and implementing agency	Un-utilised balance as on 1 April 2009	Amount received during 2009-14		Interest/ other receipts	Amount utilised	Balance as on 31 March 2014
			From GOI	From State			
10	National Rural Health Mission-State Health and Family Welfare Society	16.35	1087.59	504.59	177.94	1674.13	112.34
11	Rashtriya Swasthya Bima Yojana-Comprehensive Health Insurance Agency of Kerala	10.27	371.01	156.37	0	537.65	0
12	Integrated Watershed Management Programme- Poverty Alleviation Unit (Commissioner for Rural Development)	0.00	26.64	2.94	1.53	19.36	11.75
	Total	**337.81**	**9751.14**	**2216.42**	**385.80**	**12188.87**	**502.31**

Source : Information furnished by respective implementing agencies

According to the information furnished by above agencies, an amount ₹502.31 crore remained un-utilised with the implementing agencies at the end of March 2014.

Audit scrutiny of the records of the above agencies revealed that there was a shortfall of ₹83.95 crore in release of matching share in respect of three[6] schemes by the State Government against the required matching contribution of ₹563.80 crore, and significant short releases are given below:

- In respect of National Rural Health Mission Programme, State Government released (to State Health and Family Welfare Society) only ₹76.95 crore against ₹119.73 crore (shortfall of ₹42.78 crore). This shortfall was compensated by the State Government by routing State plan scheme funds through State Health and Family Welfare Society, which was irregular. Accepting Audit's observation, Finance (Planning A) Department informed that shortfall will be set right in future releases.

It was also observed that state level implementing agencies were treating the funds as expenditure as and when these were transferred to next level(s) of agencies for implementation of the schemes. Thus, the funds which were reported as utilised (in utilisation certificates furnished to Government of India) were only partially utilised by the sub level(s) agencies of the State level implementing agencies. Audit scrutiny on the utilisation of funds in respect of three[7] schemes revealed as under:

[6] Indira Awas Yojana (₹24.13 crore), Swarna Jayanthi Sahari Rozgar Yojana (₹17.04 crore) and National Rural Health Mission (₹42.78 crore)

[7] Ajeevika, SJSRY and Rashtriya Madhyamik Shiksha Abhiyan

- Ajeevika (prior to 2011-12 it was Swarna Jayathi Grama Swarozgar Yojana, SGSY), a self employment generation programme was implemented through Self Help Groups formed by Grama Panchayats and monitored by district co-ordinators and the State level agency. As and when funds were released by the State level agency to the district co-ordinators, utilisation certificates for the amount were furnished to Government of India. Audit noticed that an amount of ₹14.84 crore out of ₹60.77 crore released during the last two years (2012-13 and 2013-14) were lying unutilised with State/district agencies/Grama panchayats. A scrutiny of the statement of accounts furnished by the Commissioner of Rural Development (CRD) revealed that an unutilised balance of ₹2.06 crore (as on 31 March 2012) lying with CRD in respect of SGSY was not transferred to Ajeevika implemented by State Poverty Eradication Mission (Kudumbashree).

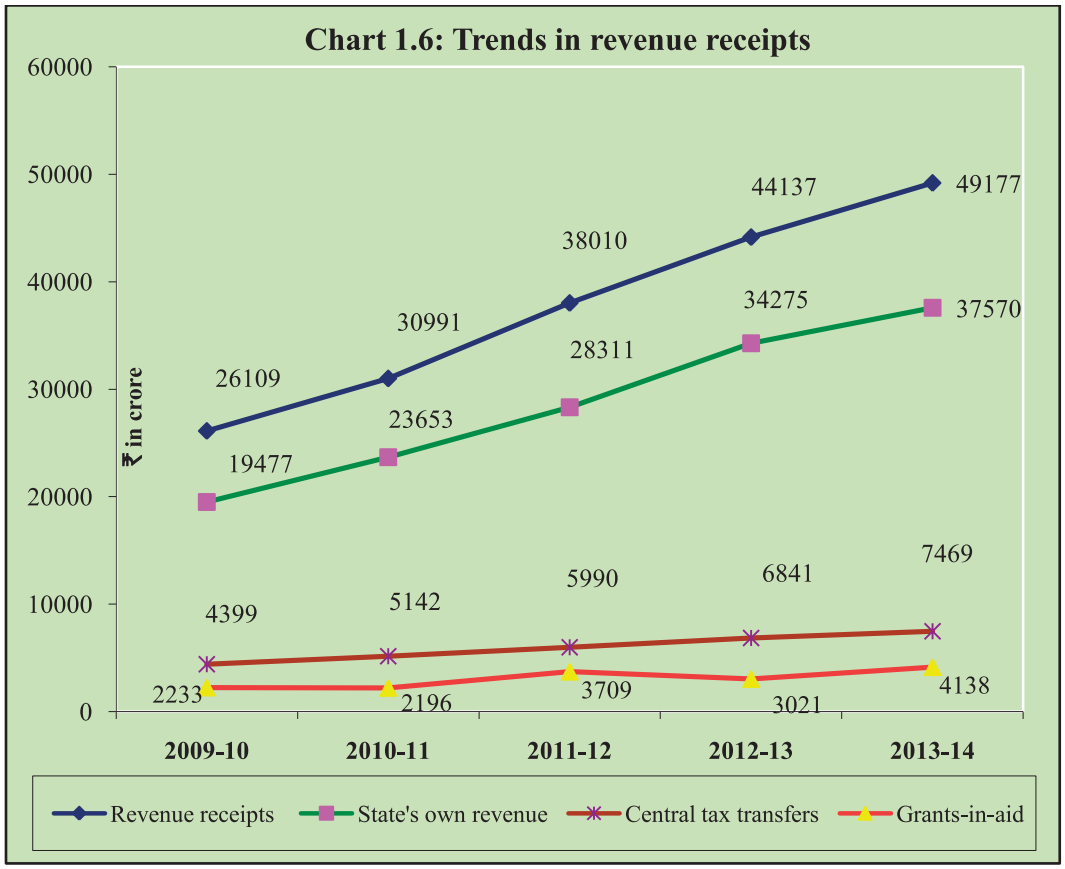
- Audit scrutinised the statements of release of funds and its expenditure to 13 Urban Local Bodies (out of 65 ULBs) for the implementation of Swarna Jayanthi Shahari Rozgar Yojana (SJSRY) and observed that ₹3.78 crore out of ₹8.06 crore remained unutilised at the end of March 2014. However, the entire amount was shown as expenditure in the utilisation certificate given by the Kudumbashree to Government of India.

- The Secondary Education Development Society (agency for implementing Rashtriya Madhyamik Shiksha Abhiyan) reported the utilised amount during the last five years as ₹104.76 crore. But, it was observed that ₹22.40 crore released for up-gradation of 60 schools during 2010-2014 remained unutilised with four District Panchayats/three Municipalities.

Thus, the amounts lying unutilised with sub level(s) implementing agencies indicate that the actual utilisation of funds was not being ensured every year either by the State Government or by the State level implementing agencies before furnishing utilisation certificates to Government of India. Audit is concerned about this practice of issuing utilisation certificate, even though the funds were not actually utilised in sub levels of implementing agencies.

1.3 Revenue Receipts

Statement no.11 of the Finance Accounts details the revenue receipts of the Government. The 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 of revenue receipts over the period 2009-14 are presented in **Appendix 1.5** and also depicted in **Chart 1.6**.



The revenue receipts of the State increased by 88 *per cent* during the last five years (2009-2014). During the same period, State's own revenue recorded an increase of 93 *per cent* but increase in Central tax transfers and Grants-in-aid and contributions from GOI were 70 *per cent* and 85 *per cent* respectively. However, relative share of each components of revenue receipts remained almost same during the last five years. During 2013-14, the share of State's own tax in revenue receipts decreased by three percentage points compared to previous year (2012-13) indicating decrease in revenue under State's own tax.

During 2004-05 to 2012-13, the compounded annual growth rate of revenue receipts (15.96) was less than the growth rate of other General Category States (16.93). This growth rate further declined due to reduced growth during 2013-14. (**Appendix 1.1**).

State's revenue receipts (₹49,177 crore) during the year was ₹8,881 crore (eight *per cent*) less than the projections made (₹58,058 crore) in the Medium Term Fiscal Plan for 2013-14 to 2015-16 (MTFP).

The trends in revenue receipts relative to GSDP are presented in **Table 1.9**.

Table 1.9: Trends in revenue receipts relative to GSDP during 2009-14

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Receipts (RR) (₹*in crore*)	26109	30991	38010	44137	49177
Rate of growth of RR (*per cent*)	6.5	18.7	22.6	16.1	11.4
State's own tax revenue (₹*in crore*)	17625	21722	25719	30077	31955
Rate of growth of own tax revenue (*per cent*)	10.2	23.2	18.4	16.9	6.2
RR/GSDP (*per cent*)	11.3	11.7	12.3	12.6	12.2
Revenue buoyancy w.r.t GSDP*	0.5	1.4	1.4	1.2	0.7
State's Own Tax Buoyancy w.r.t GSDP*	0.7	1.7	1.1	1.3	0.4

Source : Finance Accounts and information furnished by the Economics and Statistics Department
**Change in ratio with respect to the previous Report was due to adoption of revised GSDP figures*

- Declining trend in growth rate of State revenue receipts and own tax receipts was observed during the last three years. 4.7 *per cent* decrease in growth rate of total revenue receipts and 10.7 *per cent* decrease in State's own tax revenue during 2013-14 shows deficiency in revenue mobilization process.

- The revenue buoyancy with reference to GSDP during 2013-14, declined from 1.4 in 2010-11 to 0.7 indicates that growth rate of revenue receipts was not in pace with growth rate of GSDP of the State. Similarly, the State's own tax buoyancy with respect to GSDP was only 0.4 during 2013-14, indicating that the growth rate of own tax revenue keeping less than 50 *per cent* of the pace of GSDP.

1.3.1 Own resources of the State

As the State's share in central taxes and grant-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

The States actual tax and non tax receipts for the year 2013-14 vis-à-vis assessment made in Medium Term Fiscal Plan are given in the **Table 1.10** below:

Table 1.10: Projections and realization of revenue

(₹in crore)

Particulars	Budget estimates and MTFP projection	Actual
Tax Revenue	38771	31995
Non-tax Revenue	4922	5575

Source : Budget documents and Finance Accounts

The above table shows that State's tax revenue collection was less than the projections in the MTFP. However, non-tax revenue collection was better than the

projections in MTFP, due to increased receipts under State Lotteries. Variation (₹6776 crore) in actual tax revenue realized and the projection in MTFP indicates deficiency in State's revenue projection or revenue realization machinery.

1.3.1.1 Tax Revenue

The State's own tax revenue increased from ₹30,077 crore in 2012-13 to ₹31,995 crore in 2013-14. This increase was only six *per cent* comparing to 16.9 *per cent* growth shown during the previous year and details are given in **Table 1.11**.

Table 1.11: Components of own tax revenue

Revenue Head	Actuals for 2012-13	BE for 2013-14	Actuals for 2013-14	Percentage decrease w.r.t to BE	Percentage increase during the year	Share in total tax revenue
	(₹ in crore)					
Taxes on Sales, Trade etc.	22511	28457	24885	13	11	78
Stamps and Registration fees	2938	4207	2593	38	(-)12	8
State Excise	2314	2802	1942	31	(-)16	6
Taxes on Vehicles	1925	2571	2161	16	12	7
Land Revenue	122	135	89	34	(-)27	(*)
Taxes on Agricultural income	19	24	22	8	16	(*)
Other Taxes	248	575	303	47	22	1
Total	**30077**	**38771**	**31995**	**17**	**6**	**100**

Source : Finance Accounts of respective years *(*)insignificant*

'Taxes on Sales, Trade etc.' was the major source of the State's own tax revenue during the last two years. Increase in revenue under 'Taxes on Sales, Trade etc.' was ₹2,374 crore and this was mainly under 'Value Added Tax' (₹1,342 crore) and 'Receipts under State Sales Tax Act' (₹1,001 crore).

Increase in receipts under 'Taxes on Vehicles' was mainly due to increase of receipts under 'State Motor Vehicles Taxation Act' (₹226 crore).

Decrease in revenue under the heads of account 'Foreign Liquors and Spirits' (₹364 crore) and 'Malt Liquor' (₹21 crore) caused reduction in receipts under 'State Excise'. Similarly decrease in receipts under the head of account 'Sale of Stamps' (₹365 crore) and 'Duty on impressing of documents' (₹51 crore) caused substantial decrease in revenue under 'Stamps and Registration fees'.

1.3.1.2 Non-tax Revenue

Collection under non-tax revenue increased by 33 *per cent* from ₹4,198 crore in 2012-13 to ₹5,575 crore in 2013-14 as detailed in **Table 1.12**.

Table 1.12: Components of non-tax revenue

(₹in crore)

Revenue Head	2012-13	2013-14	Percentage Increase during the year	Share in total Non-tax Revenue
Interest receipts	172	149	(-)13	3
Dividends and profits	48	101	110	2
State Lotteries	2674	3796	42	68
Forestry and Wildlife	237	330	39	6
Other non-tax receipts	1067	1199	12	21
Total	**4198**	**5575**	**33**	**100**

Source : Finance Accounts of respective years

Substantial increase in revenue was recorded under 'State Lotteries' (₹1,122 crore) during 2013-14 and increase was also recorded under 'Forestry and Wildlife' (₹93 crore) and 'Dividends and Profits' (₹53 crore). Though the receipts under 'State Lotteries' recorded an increase of 42 *per cent* over the previous year, with an equally high expenditure (₹3,203crore) during the year, the net yield from lotteries was only ₹593 crore, which was only ₹ two crore more than that of previous year.

1.3.2 Grants-in-aid from Government of India

Grants-in-aid from the Government of India increased by ₹1,117 crore (37 *per cent*) from ₹3,021 crore in 2012-13 to ₹4,138 crore in 2013-14. The increase was mainly under 'Non-plan grants' (₹1022 crore), 'Grants for Centrally sponsored schemes' (₹77 crore) and 'Grants for State plan schemes' (₹27 crore). Trends in receipt of grants-in-aid from GOI are detailed in **Table 1.13**.

Table 1.13: Status of Grants-in-aid received from Government of India

(₹ in crore)

Particulars	2012-13	2013-14	Percentage increase during the year	Share in total grant-in-aid
Non-plan grants	657	1679	156	41
Grants for State plan schemes	1163	1154	(-)1	28
Grants for central plan schemes	60	87	45	2
Grants for Centrally sponsored schemes	1141	1218	7	29
Total	**3021**	**4138**	**37**	**100**

Source : Finance Accounts of respective years

During the year, State Government had received an amount (₹1,447 crore) under Non-plan grants (Grants under proviso to Article 275(1) of the Constitution) and these were 189 *per cent* more than the previous year.

1.3.3 Efficiency in Tax collection

Though the State's expenditure on tax collection (during 2012-13) in respect of Stamps (Non-judicial) and Registration and State Excise was higher than the all India average, it was less than the all India average in the case of Taxes on Sales, Trade, etc. and Motor Vehicles. All India average of expenditure on tax collection vis-à-vis state average during the last five years is detailed in **Appendix 1.6**.

1.4 Capital Receipts

Capital receipts comprise miscellaneous capital receipts, recovery of loans and advances released to institutions/organizations and public debt receipts. Trends in receipts under capital sector are as detailed in **Table 1.14**.

Table 1.14: Trends in growth and composition of capital receipts

(₹ in crore)

Sources of Receipts	2012-13	2013-14
Capital Receipts (CR)		
Miscellaneous Capital Receipts	**15**	**19**
Recovery of Loans and Advances	**74**	**104**
Public Debt Receipts	**13261**	**14342**
Internal Debt Receipts	12709	13950
Loans and Advances from GOI	552	392
Total CR	**13350**	**14465**
Rate of growth of debt capital receipts (*per cent*)	35.3	8.2
Rate of Growth of GSDP(*per cent*)	13.46(*)	15.35
Rate of growth of CR (*per cent*)	35.3	8.4
Buoyancy of Debt receipts w.r.t GSDP	2.6(*)	0.5

Source : Finance Accounts of respective years

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

Internal Debt mainly comprised of Open Market Borrowings of the State and growth rate shown by debt capital receipts was mainly due to increase in open market borrowings. During the year, growth rate of capital receipt was less as compared to the previous year due to less growth in open market borrowings. Buoyancy[8] of debt receipts with respect to GSDP also showed considerable reduction during the last year due to less growth of debt receipt when compared to GSDP growth rate. This indicates that Government's borrowing pace was less than that of GSDP, which is a good indicator.

1.4.1 Proceeds from disinvestment

As of March 2014, the State Government had invested ₹5,623.61 crore in Statutory Corporations, Government Companies, Joint Stock companies and Co-operatives. During the year, ₹19.19 crore was received from retirement of

[8] Buoyancy ratio is the comparison of growth rates of two parameters. Ratio equal to one indicates both parameters are growing at same pace and less than one indicates first parameter growing with less pace than the other and *vice versa*

capital/disinvestment of shares of co-operative societies/banks and accounted for under Miscellaneous Capital Receipts.

1.4.2 Recoveries of loans and advances

During the year, the State Government had released an amount of ₹1,464.17 crore as loans and advances to various institutions and at the end of March 2014, an amount of ₹11,721.13 crore was outstanding under this head. Against this balance, principal amount recovered was ₹103.75 crore, which was only 0.9 *per cent* of the outstanding balance under loans and advances. As per the details furnished by the Departments (Finance Accounts 2013-14), the repayment of arrears from various loanee entities as of March 2014 was ₹7,657.66 crore (Principal: ₹4,648.89 crore and Interest: ₹3,008.77 crore), which indicate that State Government's receipts under loans and advances were much less than the amount actually due.

1.4.3 Debt receipts from internal sources

Public Debt receipts of the State Government increased by ₹1,081 crore (8.2 *per cent*) from ₹13,261 crore in 2012-13 to ₹14,342 crore in 2013-14. This includes, Open Market Borrowing (₹12,800 crore), Special Securities issued to National Small Savings Fund (₹565.14 crore) and Loans from Financial Institutions (₹501.25 crore).

1.5 Public Accounts Receipts

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. Here, the Government acts as banker. The balance after disbursements is the fund available with the Government for use for various activities.

Table 1.15: Net receipts under public account heads

(₹ in crore)

Resources under various heads	2009-10	2010-11	2011-12	2012-13	2013-14
Public Account receipts					
a. Small Savings, Provident Fund etc.	2849.29	2489.94	3839.05	3685.54	4231.86
b. Reserve Fund	328.42	407.21	146.93	-145.58	78.02
c. Deposits and Advances	436.87	468.89	-51.47	1140.93	187.43
d. Suspense and Miscellaneous	370.14	-197.30	852.37	712.44	-946.60
e. Remittances	57.31	26.92	-157.40	30.49	-168.48
Total	**4042.03**	**3195.66**	**4629.48**	**5423.82**	**3382.23**

The above table shows that overall net receipts under public account decreased by ₹2,260.65 crore from ₹5,423.82 crore in 2012-13 to ₹3163.17 crore in 2013-14. Though there was an increase of ₹546.32 crore under the sector 'Small Savings, Provident Fund, etc.', substantial decrease was noticed under 'Deposit and Advances' (₹953.50 crore) and 'Remittances' (₹198.97 crore).

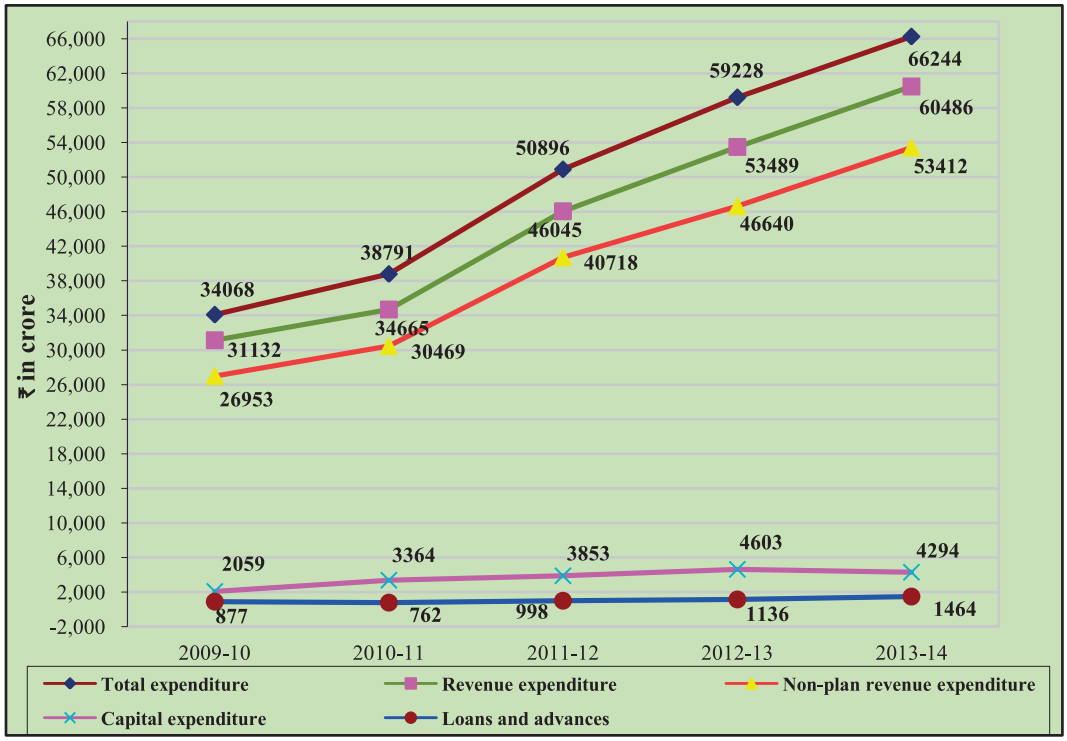
1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.6.1 Growth and Composition of Expenditure

The total expenditure of the State Government consists of revenue expenditure as well as capital expenditure which include expenditure on loans and advances. The trends in 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. **Chart 1.7** presents the trends in total expenditure of the State Government over a period of five years (2009-14).

Chart 1.7: Total expenditure: trends and composition



The total expenditure increased (11.8 *per cent*) from ₹59,228 crore in the previous year to ₹66,244 crore in 2013-14. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.16**. During 2004-05 to 2012-13, the compounded annual growth rate of total expenditure (16.01 *per cent*) was more than the growth rate of other General

Category States (15.37 *per cent*) **(Appendix 1.1)**.

Table 1.16: Total expenditure – basic parameters

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Total expenditure (TE) (₹ in crore)	34068	38791	50896	59228	66244
Rate of growth (*per cent*)	10.2	13.9	31.2	16.4	11.8
TE/GSDP ratio (*per cent*)	14.7	14.7(*)	16.5(*)	17.0(*)	16.4
RR/TE ratio (*per cent*)	76.6	79.9	74.7	74.5	74.2
Buoyancy of TE with reference to:					
GSDP (ratio)	0.7	1.0(*)	1.9(*)	1.2(*)	0.8
RR (ratio)	1.6	0.7	1.4	1.0	1.0

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

The increase (₹7,016 crore) of total expenditure during 2013-14 was on account of increase of ₹6,997 crore in revenue expenditure and ₹328 crore in disbursement of loans and advances. This increase was offset by decrease of ₹309 crore in capital expenditure. During the last four years, ratio between revenue receipt and total expenditure showed a declining trend, indicating the widening of gap in receipt and expenditure amounts of the State Government. Though the Buoyancy of the total expenditure with respect to GSDP was more than one during the period 2010-2013, the Buoyancy came down to less than one during 2013-14. This indicates that the total expenditure growth was less than the GSDP during the year 2013-14, which is positive. Buoyancy of total expenditure with revenue receipt was one during the last two years indicating that the growth of revenue receipt was in pace with total expenditure.

During the five-year period 2009-14, the revenue expenditure increased in absolute terms from ₹31,132 crore in 2009-10 to ₹60,486 crore in 2013-14. However, capital expenditure increased only from ₹2,059 crore in 2009-10 to ₹4,294 crore indicating Government's low priority towards the creation of capital assets. Though, share of revenue and capital expenditure in total expenditure almost remained static reduced growth of capital expenditure in absolute terms is not a positive sign towards the economic growth of the State.

1.6.2 Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative shares of these components in the total expenditure showed nearly two *per cent* increase under General Services and 2.5 *per cent* decrease under Economic Services and a marginal decrease under Social Services during 2013-14 as indicated in **Table 1.17.**

Table 1.17: Components of expenditure – relative shares

(in per cent)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
General Services	**41.1**	**40.0**	**40.2**	**38.7**	**40.4**
of which, Interest Payments	15.5	14.7	12.4	12.2	12.5
Social Services	**31.8**	**32.4**	**33.0**	**32.8**	**32.6**
Economic Services	**17.2**	**18.4**	**18.1**	**19.8**	**17.3**
Grants-in-aid	**7.3**	**7.2**	**6.7**	**6.8**	**7.5**
Loans and Advances	**2.6**	**2.0**	**2.0**	**1.9**	**2.2**

1.6.3 Revenue Expenditure

Revenue expenditure increased by 13 *per cent* (₹6,997 crore) during 2013-14 when compared to previous year. The increase in revenue expenditure was mainly due to increase in expenditure under the major heads 'Miscellaneous General Services[9]' (₹1,198 crore), 'General Education' (₹1123 crore), 'Pension and Other Retirement Benefits' (₹1,104 crore), 'Interest Payments' (₹1,061 crore), 'Compensation and Assignments to Local Bodies and Panchayati Raj Institutions' (₹955 crore), 'Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities' (₹422 crore), 'Medical and Public Health' (₹364 crore), 'Social Security and Welfare' (₹171 crore), etc.

1.6.3.1 Incidence of revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and does not result in any addition to the State's infrastructure and service network. During the last five years the share of Revenue expenditure was around 90 *per cent* of the total expenditure. The overall revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP, to revenue receipts and its buoyancy are indicated in **Table 1.18.**

Table 1.18: Revenue expenditure – basic parameters

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue expenditure (RE)	**31132**	**34665**	**46045**	**53489**	**60486**
Non-plan revenue expenditure (NPRE)	26953	30469	40718	46640	53412
Plan revenue expenditure (PRE)	4179	4196	5327	6849	7074
Rate of Growth of					
RE (*per cent*)	10.3	11.3	32.8	16.2	13.1
NPRE (*per cent*)	7.8	13.0	33.6	14.5	14.5
PRE (*per cent*)	30.1	0.4	27.0	28.6	3.3

[9] Includes ₹1,120 crore towards expenditure under 'State Lotteries'

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue expenditure as percentage to TE	91.4	89.4	90.5	90.3	91.3
NPRE/GSDP (*per cent*) (*)	11.6	11.6	13.2	13.4	13.3
NPRE as percentage of TE	79.1	78.5	80.0	78.7	80.6
NPRE as percentage of RR	103.2	98.3	107.1	105.7	108.6
Buoyancy of revenue expenditure with					
GSDP (ratio) (*)	0.7	0.8	2.0	1.2	0.9
Revenue receipts (ratio)	1.6	0.6	1.4	1.0	1.1

Source : Finance Accounts

(*) change in figures with respect to previous Report is due to adoption of revised GSDP figures

Table 1.18 shows that RE and NPRE have shown a growth of 94 and 98 *per cent* respectively during the last five years. Though the declining growth rate of NPRE after 2011-12 was a good indicator, State's NPRE for the year was ₹15,758 crore more than the projections (₹37,654 crore) made before Thirteenth Finance Commission (ThFC). Significant decline in growth of PRE during 2013-14 indicates the inability of the State to provide sufficient funds for plan schemes.

Table 1.18 also shows that NPRE as a percentage of TE was around 80 *per cent* during the last five years. However, it's percentage with RR indicates that State's RR was not sufficient to meet NPRE during four out of last five years. It is almost three percentage point more during 2013-14 than the previous year and nearly nine *per cent* more than the revenue receipt is a matter of concern for the State Government.

When compared to previous year, buoyancy of revenue expenditure with respect to GSDP was less than one, indicating that growth rate of revenue expenditure was less than the growth rate of GSDP. However, buoyancy with respect to RR was more than one indicating that RR was not growing in pace with RE.

1.6.3.2 Expenditure on salaries, wages, interest payments, pension, etc.

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.19** presents the trends in the expenditure on these components during 2009-14.

Table 1.19: Components of committed expenditure

(₹in crore)

Components of committed expenditure	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE	Actuals
Salaries* and Wages,	**9894**	**11178**	**16229**	**17505**	**19884**	**19554**
Non-plan head	9529	10815	15681	16939	19127	18954
Plan heads**	365	363	548	566	757	600
Interest payments (MH 2049)	**5292**	**5690**	**6294**	**7205**	**7673**	**8265**
Expenditure on pensions (MH 2071)	**4706**	**5767**	**8700**	**8867**	**9438**	**9971**

Components of committed expenditure	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE	Actuals
Subsidies	**442**	**627**	**1 014**	**1 268**	**954**	**1279**
Total	**20334**	**23262**	**32237**	**34845**	**37949**	**39069**
Revenue Expenditure	**31132**	**34665**	**46045**	**53489**	**60327**	**60486**
Revenue Receipts	**26109**	**30991**	**38010**	**44137**	**58058**	**49177**
Percentage of committed expenditure to Revenue expenditure	65	67	70	65	63	65
Percentage of committed expenditure to Revenue receipts	78	75	85	79	65	79

* Salaries include teaching grant paid to aided educational institutions like schools and colleges to meet the salaries of their teaching and non-teaching staff.

**The plan heads also include the salaries and wages paid under Centrally Sponsored schemes

The percentage of committed expenditure of the State with respect to Revenue Expenditure and Revenue Receipt during 2013-14 remained the same as in the previous year. However, consumption of 79 *per cent* of the Revenue receipts for committed expenditure was high when compared to the State's estimation of 65 *per cent*.

During 2013-14, expenditure on salaries and pension showed a growth rate of 12 *per cent* comparing to previous year. This was one percentage point less than the growth rate of revenue expenditure (13 *per cent*). But, expenditure on interest payment showed a higher growth rate (14 *per cent*) due to increased expenditure (₹938 crore) on interest payments of market loans.

Expenditure on pension exceeded the projections made in the Medium Term Fiscal Plan (₹9,438 crore) by ₹533 crore and projections (₹7,321 crore) made before ThFC by ₹2,650 crore. Though the expenditure on interest payments was in line with the projections before the ThFC, it exceeded the projection in the MTFP by ₹592 crore.

1.6.4 Implementation of new pension scheme in the State

GoI introduced (August 2003) a New restructured defined contribution Pension System (NPS) for new entrants to Central Government service, replacing the then existing system of defined benefit pension, General Provident Fund and gratuity. According to the new pension scheme, all those who joined Government of India service from 1 January 2004 are required to contribute monthly 10 *per cent* of the basic pay and dearness allowance to the pension account and the Government has to make an equal contribution to the pension account. The entire contributions and the returns on investments made out of the contributions are required to be kept in a non-withdrawable pension tier-I account of All India Service (AIS) officers of Kerala cadre who joined after 1.1.2004. The State Government also introduced the new system of pension scheme to its employees, who joined service on or after 1 April 2013.

Audit analysed the implementation of NPS among AIS officers and State Government employees and audit observations in this regard are summarised below:

Though the scheme was effective from 1.1.2004 (among AIS officers serving in the State), State Government did not initiate any steps to recover the contribution from officials and deposit in pension fund along with Government contribution till 2010. However, based on the detailed instructions issued by GoI in September 2009, State Government designated (May 2010) Additional Secretary (Pension), Finance Department as State Nodal Officer (SNO) for all NPS related activities in the State. SNO was required to obtain the duly filled in PRAN (Permanent Retirement Account Number) applications from the AIS officers through the appointing authority and forward it to National Security Depository Limited (NSDL)[10]. Out of 71 AIS officers joined the State cadre since 1 January 2004, PRAN has been obtained for only 14 officials till July 2014. This shows laxity on the part of Government in implementing the scheme.

Audit worked out (upto March 2014) the employee and employer contribution towards NPS of AIS officers and information furnished by Finance Department in respect of State Government employees, which are as detailed in **Table 1.20**.

Table 1.20 : Details of pension contribution due and amount recovered

(₹ in crore)

Category	Number covered under the scheme(2)	Employees contribution		State's contribution		Amount to pension account	
		Due	Recovered	Due	Recovered	Due	Remitted
(1)		(3)	(4)	(5)	(6)	7(3+5)	(8)
AIS Officers	71	1.42	0.27[11]	1.42	Nil	2.84	0.03
State Employees	12430	11.99	NA	11.99	Nil	23.98	Nil
Total	12501	13.41	0.27	13.41	Nil	26.82	0.03

Source : Data compiled from the data available in o/o the Prl.AG(A&E)

On being asked by Audit, State Government stated that as the entire system of accounting and investment of subscription (contribution of NPS) is made on-line at national level, the State had to set up necessary infrastructure facilities in treasuries and in the salary processing system (SPARK). These formalities have been completed and subscription towards NPS commenced from February 2014 onwards.

Audit foresees the following adverse impact due to delayed implementation of this scheme:

- Loss of intended social security benefits of savings and related interest that would have accrued due to non-recovery and transfer of employee's contribution as well as matching contribution of Government into pension account.

[10] Agency for central record keeping and accounting infrastructure for management of funds

[11] Amount recovered and credited under the head of account 8342-00-117-99, opened for the purpose as per GO dated 24 May 2010

- Likely financial burden on individuals, especially those who have joined service as early as in 2004, in case they are required to pay the arrears of their contribution.

1.6.5 Subsidies

As per Finance Accounts an amount of ₹1,279 crore was given as subsidy during 2013-14 which was almost the same as in the previous year (₹1,268 crore). It mainly includes amount given to Food Corporation of India in respect of reimbursement of price difference of ration rice and wheat (₹611 crore), for Paddy procurement through Kerala State Civil Supplies Corporation (₹176 crore), to Kerala State Civil Supplies Corporation Limited for market intervention (₹116 crore) and subsidy to the Kerala State Electricity Board towards Power Tariff Concessions (₹150 crore).

1.6.6 Financial assistance to Local Bodies and Other Institutions

The quantum of assistance provided by the Government as grants and loans to local bodies, educational institutions, Government companies, Welfare Fund Boards, etc during the current year relative to the previous years is presented in **Table 1.21**.

Table 1.21: Financial assistance to local bodies, educational institutions, etc.

(₹ in crore)

Financial Assistance to Institutions	2009-10	2010-11	2011-12	2012-13	2013-14
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	3546.61	4087.83	5605.77	6204.36	6934.56
Municipal Corporations and Municipalities	834.46	901.87	1073.78	1177.77	1358.09
Zilla Parishads and Other Panchayati Raj Institutions	2996.66	3411.65	4203.98	5279.31	6421.60
Development Agencies	2.04	5.25	5.50	5.15	6.42
Hospitals and Other Charitable Institutions	76.40	139.02	144.46	153.33	94.19
Other Institutions[12]	1159.47	1252.58	1065.96	896.42	1323.46
Total	**8615.64**	**9798.20**	**12099.45**	**13716.34**	**16138.32**
Assistance as percentage of revenue expenditure	28	28	26	26	27

Source: Finance Accounts and information received from the State Government

The financial assistance to local bodies and other institutions increased (87 *per cent*) from ₹8,615.64 crore in 2009-10 to ₹16,138.32 crore in 2013-14. During 2013-14, financial assistance to all categories except Hospital and other charitable institutions increased over the previous year. Consequently, as a percentage of revenue expenditure it increased from 26 *per cent* in the previous year to 27 *per cent*.

[12] Other institutions, *inter alia,* include Kerala University of Health and Allied Science (₹18.14crore), Kerala Sports Council (₹35 crore), Kerala Water Authority (₹278.89 crore) State Council for Science, Technology & Environment (₹84.07 crore), Welfare fund for Cashew workers (₹34.48 crore), Kerala Industrial Infrastructure Development Corporation (₹91.68 crore), Infopark-Technopark-Land acquisition (₹120.04 crore), Corporation for the welfare of the physically handicapped (₹425 crore), etc.

1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure involves whether adequate funds were provided for public expenditure (i.e. adequate provisions for providing public services) and the fund spent efficiently and effectively to achieve the intended objectives.

1.7.1 Adequacy of public expenditure

The responsibilities relating to expenditure on the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. 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 it is below the respective national average. **Table 1.22** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2010-11 and 2013-14.

Table 1.22: Fiscal priority of the State in 2010-11 and 2013-14

(in per cent)

Fiscal Priority by the State*	AE/ GSDP	DE#/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
General Category States' (@) Average, 2010-11	15.78	65.09	36.88	13.49	17.48	4.37
Kerala's Average, 2010-11	14.71	52.65	32.86	10.64	17.42	5.32
General Category States' Average, 2013-14	15.92	66.45	37.56	13.62	17.20	4.51
Kerala's Average, 2013-14	16.44	51.79	33.37	8.69	17.46	5.49

* As *per cent* to GSDP
AE: Aggregate (Total) Expenditure DE: Development Expenditure
SSE: Social Sector Expenditure CE: Capital Expenditure.
\# Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed (Social and Economic sector).
(@) Delhi, Goa and Puducherry are not included in the General Category States' data

- Comparing to General Category States the State's aggregate expenditure as a proportion of its GSDP was less during 2010-11 but it was higher during 2013-14.
- Development expenditure as a proportion of aggregate expenditure was lower than the General Category States' average during 2010-11 and 2013-14 indicating State's low priority towards developmental expenditure.
- The proportion of capital expenditure to aggregate expenditure has been much lower as compared to General Category States during 2010-11 and 2013-14. Almost two percentage point decrease in its proportion during

2013-14 when compared to 2010-11, indicated State's decreasing priority towards capital expenditure.

- State's expenditure on social sector also less than the General Category States. However, the State had given adequate priority to education and health sectors during 2013-14 compared to other General Category States.

Non-assigning of adequate priority to capital sector and development expenditure would adversely affect the creation of the much needed assets to stimulate socio-economic growth of the State. In the exit meeting, Additional Chief Secretary, Finance Department stated that the main reason for reduced capital expenditure was delay in clearing pending bills of Public Works Department meant for capital works.

1.7.2 Efficiency of expenditure

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[13]. Development expenditure comprised of revenue and capital expenditure including loans and advances in socio-economic services. **Table 1.23** presents the trends in development expenditure relative to the aggregate expenditure of the State during the period 2009-10 to 2013-14. **Chart 1.8** presents component-wise development expenditure during 2009-14.

Table 1.23: Development expenditure

(₹ in crore)

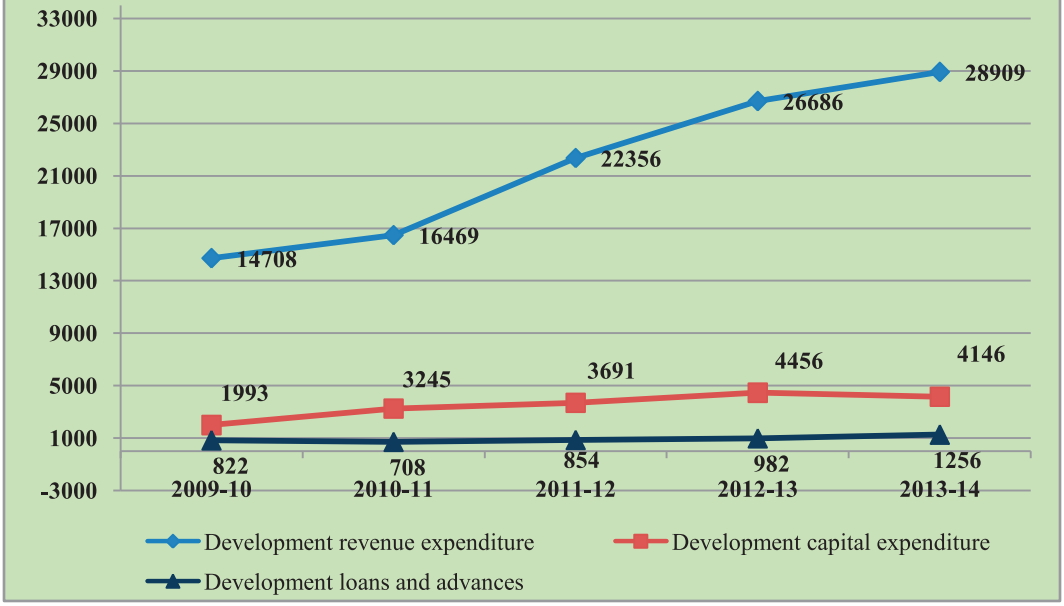
Components of Development Expenditure	2012-13	2013-14	Percentage of increase	Share in Aggregate expenditure
Development revenue expenditure	26686	28909	9	44
Development capital expenditure	4456	4146	(-)7	6
Development loans and advances	982	1256	28	2
Total Development expenditure	**32124**	**34311**	**7**	**52**
Aggregate expenditure	**59228**	**66244**	**12**	

Source: Finance Accounts and Annual Financial Statement of the State Government for 2013-14

[13] *Core public goods* are goods which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc.
Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the Government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

While aggregate expenditure showed a growth rate of 12 *per cent*, the growth rate of development expenditure was only 7 *per cent*. Though 52 *per cent* of the share of aggregate expenditure was utilised for development expenditure, 44 *per cent* was for development revenue expenditure, indicating that adequate priority was not given for infrastructure development.

Chart 1.8 : Components of development expenditure (₹ in crore)



Development expenditure increased by 96 *per cent* (₹16,788 crore) from ₹17,523 crore in 2009-10 to ₹34,311 crore in 2013-14. However, during 2013-14, 84 *per cent* of the development expenditure was development revenue expenditure. Share of development capital expenditure, including loans and advances was only 16 *per cent*.

Development revenue expenditure increased by eight *per cent* (₹2,223 crore) from ₹26,686 crore in 2012-13 to ₹28,909 crore in 2013-14. The increase was mainly due to increase in expenditure under the sub-sectors 'Education, Sports, Art and Culture' (₹1178 crore), 'Health and Family Welfare' (₹395 crore) and Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities (₹422 crore).

Development capital expenditure decreased by seven *per cent* (₹310 crore) from ₹4,456 crore in 2012-13 to ₹4,146 crore in 2013-14. The decrease was mainly under the sub sector 'Capital account on Transport' (₹1051 crore). This decrease was partly offset by increase in the sub-sector 'Capital account on General Economic Services' (₹566 crore).

Apart from improving the allocation towards development expenditure[14], the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure.

Details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services are given in **Table 1.24**.

Table 1.24: Efficiency of expenditure in selected Social and Economic Services

Social/Economic Infrastructure	2012-13			2013-14		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
Social Services (SS)						
General Education	0.6	86.9	0.0	0.3	86.7	0.0
Health and Family Welfare	4.0	72.0	0.3	3.6	72.3	0.3
Water Supply, Sanitation, Housing and Urban Development	7.2	4.9	3.1	5.1	5.7	1.5
Total (SS)	**2.8**	**62.2**	**0.8**	**2.8**	**62.7**	**0.7**
Economic Services (ES)						
Agriculture and Allied Activities	5.4	25.2	0.1	5.8	27.0	0.1
Irrigation and Flood Control	41.4	51.8	48.3	43.1	64.0	38.9
Power and Energy	0.0	0.3	0.0	1.5	0.2	0.0
Transport	59.7	12.0	37.2	47.0	13.6	26.4
Total (ES)	**32.1**	**24.7**	**11.8**	**28.9**	**27.2**	**8.1**
Total (SS+ES)	**13.9**	**51.3**	**4.0**	**12.1**	**53.0**	**2.7**

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure;
S&W: Salaries and Wages; O&M: Operations and Maintenance.

Table 1.24 shows that share of salary and wages in revenue expenditure under Social and Economic services increased when compared to previous year indicating decrease in utilisation of budget allocation for other purposes. Salary and wages expenditure increased under all sub-sectors, except under 'Power and Energy' and 'General Education'.

Though percentage of capital expenditure in total expenditure was same as last

[14] The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

year under Social Services, percentage of sub-sector capital expenditure in its total expenditure decreased in respect of major sectors indicated in the table above. This indicates low priority of the State in activities other than salary and wages. In respect of Economic Services percentage of capital expenditure in total expenditure of the sector reduced by more than three percentage points, indicating decrease in expenditure for activities other than salary and wages.

Major decrease in ratio of Capital Expenditure to Total Expenditure was noticed under the sub-sector 'Transport' (from 59.7 to 47.0 *per cent*) was due to substantial reduction in expenditure under the major head 'Capital outlay on Roads and Bridges'.

1.8 Financial Analysis of Government Expenditure and Investments

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. The State is also required to take requisite steps to infuse transparency in financial operations. 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.

1.8.1 Incomplete projects/works

Department-wise information pertaining to incomplete projects/works (each costing above ₹ one crore) as on 31 March 2014 is given in **Table 1.25**.

Table 1.25: Status of incomplete projects in the State

(₹ in crore)

Sl. No	Name of the department/project	No. of incomplete projects/ works	Initial budgeted cost	Cumulative actual expenditure as on 31 March 2014
1.	Irrigation Department – (Irrigation and Minor Irrigation Works)	14	138.00	67.22
2.	Public Works Department – (Roads)	99	460.77	303.64
3.	Public Works Department – (Bridges)	45	279.30	166.38
4.	Public Works Department – (Buildings)	64	238.17	155.70
5.	Harbour Engineering Department	6	59.49	65.77
	Total	**228**	**1175.73**	**758.71**

Source: Appendix X of Finance Accounts 2013-14

According to information included in the Finance Accounts, 228 projects/works

were not completed within the stipulated time though an expenditure of ₹758.71 crore was incurred up to March 2014. Delay in completion of projects/works may result in cost overrun, besides denying the desired benefit to the people and the State.

1.8.2 Investment and returns

As of 31 March 2014, the State Government had invested ₹5,623.61 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives **(Table 1.26)**. The average return on these investments was 1.5 *per cent* in the last five years while the Government paid an average interest rate ranging from 7.1 *per cent* to 7.5 *per cent* on its borrowings during 2009-2014.

Table 1.26: Return on investments

Investment/Return/Cost of Borrowings	2009-10	2010-11	2011-12	2012-13	2013-14
Investment at the end of the year (₹ in crore)	3328.25	3807.52	4206.43	4511.03	5623.61
Return (₹ in crore)	27.29	75.46	67.44	48.15	100.58
Return *(per cent)*	0.8	2.0	1.6	1.1	1.8
Average rate of interest on Government borrowing *(per cent)*	7.5	7.3	7.2	7.1	7.1
Difference between interest rate and return *(per cent)*	6.7	5.3	5.6	6.0	5.3

Source: Finance Accounts of the State Government

During 2013-14, the State Government invested ₹61.14 crore in Statutory Corporations, ₹ 454.15 crore in Government Companies and ₹ 83.54 crore in Co-operative Banks and Societies.

1.8.3 Loans and advances by the State

In addition to investments in Co-operative Societies, Statutory Corporations and Government Companies, the Government has also been providing loans and advances to many institutions/organisations. **Table 1.27** presents the outstanding loans and advances as on 31 March 2014 and interest receipts *vis-à-vis* interest payments during the last five years**.**

Table 1.27: Average interest received on loans advanced by the State

(₹in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	6910[15]	7749	8461[16]	9394[17]	10360[18]
Amount advanced during the year	877	762	998	1136	1464
Amount repaid during the year	38	44	55	74	103
Closing balance	7749	8467	9404	10456	11721
Net addition	839	718	943	1062	1361
Interest receipts	46	44	23	19	21

Source: Finance Accounts of the State Government.

The total outstanding loans and advances as on 31 March 2014 increased by ₹1,361 crore compared to those of the previous year. The major disbursement of loans during the current year was mainly to the Kerala State Housing Board for the settlement of dues with Housing Development Finance Corporation (₹291 crore), to the Kerala Water Authority for implementing the Water Supply Project assisted by the Japan International Co-operation Agency (₹194 crore), Kerala Industrial Infrastructure Development Corporation (₹92 crore) and to the Kerala State Road Transport Corporation (₹425 crore). Interest received against these loans remained less than one *per cent* during the period 2009-10 to 2013-14 and was 0.2 *per cent* during 2013-14 as against the cost of borrowing of 7.1 *per cent* during the year.

1.8.3.1 Defaulters on loan repayment

Government has been providing loan assistance to Statutory Corporations, Government Companies, Autonomous Bodies/Authorities etc., and the same was treated as assets in the Government accounts. As per Finance Accounts, outstanding balance at end of March 2014 was ₹11,721.13 crore. These institutions/organizations defaulted in this regard and arrears in repayment at the end March 2014 from 72 institutions/organizations was ₹7,657.66 crore (Principal: ₹4,648.89 crore and Interest: ₹3,008.77 crore). About 86 *per cent* of the above arrears pertain to five institutions/organizations viz. Kerala Water Authority (₹3,294.04 crore), Kerala State Electricity Board (₹1,728.62 crore), Kerala State Road Transport Corporation (₹648.97 crore), Kerala State Housing Board (₹618.24 crore) and Kerala State Cashew Development Corporation (₹295.64 crore). In spite of this arrears in repayment, State Government released

[15] Difference of ₹318 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (pp) of Statement no.16 of Finance Accounts 2009-10.

[16] Difference of ₹ six crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (Z) of Statement no.16 of Finance Accounts 2011-12.

[17] Difference of ₹10 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (q) of Statement no.16 of Finance Accounts 2012-13.

[18] 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.16 of Finance Accounts 2013-14.

₹1,018.05 crore to 23 institutions/organizations (defaulted loanees) during the current year. This includes Kerala State Housing Board (₹296.10 crore), Kerala Water Authority (₹193.67 crore) and Kerala State Road Transport Corporation (₹425 crore).

It was also observed that State Government released 99 loans to 31 institutions/ organizations amounting to ₹165.59 crore, during the period from 1991-92 to 2013-14, without specifying the terms and conditions for repayment. In order to provide a true and fair status to the balance sheet of the State Government, Government needs to take effective steps to reduce these non-performing assets.

1.8.4 Cash balances and investment of cash balances

The cash balances and investments made by the State Government out of the cash balances during the year are shown in **Table 1.28**.

Table 1.28: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2013	As on 31 March 2014	Increase/ Decrease(-)
Cash balances	**4692.73**	**2279.82**	**(-)2412.91**
Investments from cash balances (a + b)	**3201.71**	**764.31**	**(-)2437.40**
a. GOI Treasury Bills	3194.48	757.08	(-)2437.40
b. GOI Securities	7.23	7.23	…
Fund-wise break-up of investments from earmarked balances (a to d)	**1402.19**	**1511.72**	**109.53**
a. Reserve funds bearing interest			…
b. Reserve funds not bearing interest	1402.19	1511.72	**109.53**
c. Deposit bearing interest			…
d. Deposit not bearing interest			…
Interest realised during the year on investment of cash balances	**123.38**	**78.39**	**(-)44.99**

Source: Finance Accounts of the State Government

During the year, though investments in Reserve Funds (not bearing interest) increased by ₹109.53 crore, State's cash balance investment in GOI Treasury Bills reduced by ₹ 2437.40 crore. Consequently, substantial decrease was noticed in State's cash balance at the end of the year.

- Cash balance as on 31 March 2014 was ₹2,279.82 crore, decrease of ₹2,412.91 crore over the previous year.

- The interest received during the year on investment of cash balances also decreased by ₹44.99 crore as compared to the previous year.

1.8.4.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial recording of transactions which are to be cleared eventually. As per accounting rules, when a cheque is

issued, the functional head is debited and the Major Head-8670-Cheques and Bills is credited. On clearance of the cheque by the bank, the minus credit is given to Major Head 8670-Cheques and Bills by crediting the Major Head- 8675-Deposits with Reserve Bank and thereby reducing the cash balance of the Government. Thus, the outstanding balance under the Major Head 8670-Cheques and Bills represents the amount of un-encashed cheques.

As on 31 March 2014, there was an outstanding balance (cumulative) of ₹1,371.42 crore. Audit scrutinised status of un-encashed cheques at the end of the financial year and observed that out of ₹1,371.42 crore, cheques for ₹1,168.11 crore encashed during the month of April 2014, leaving a balance of ₹203.31 crore under 8670-cheques and bills at the end of April 2014.

As per the existing system, validity of a Pay Order Cheques (POC) expires after completion of three months. The amount on these time-barred POCs has to be drawn by the Treasury Officer, by presenting a separate bill for the amount. Information collected from 17 out of 22 district treasuries, revealed that 866 time barred POCs for ₹2.41 crore were remaining unadjusted as on 31 March 2014. Out of the above 793 POCs were more than one year old.

The Director of Treasuries (DoT) informed that treasuries have a system of Internal Audit to examine the unencashed cheques and major reason for pending payments was the 'loss of POC' or failure to encash POC in time by the beneficiaries for the reason of their own. The fact, however, remains that in spite of the inspections as stated by the Director of Treasuries, POCs remained unencashed in the above treasuries. DoT informed that fresh direction has also been given to all Deputy Directors, District Treasury Officers and Sub Treasury Officers to conduct a review separately.

1.9 Assets and Liabilities

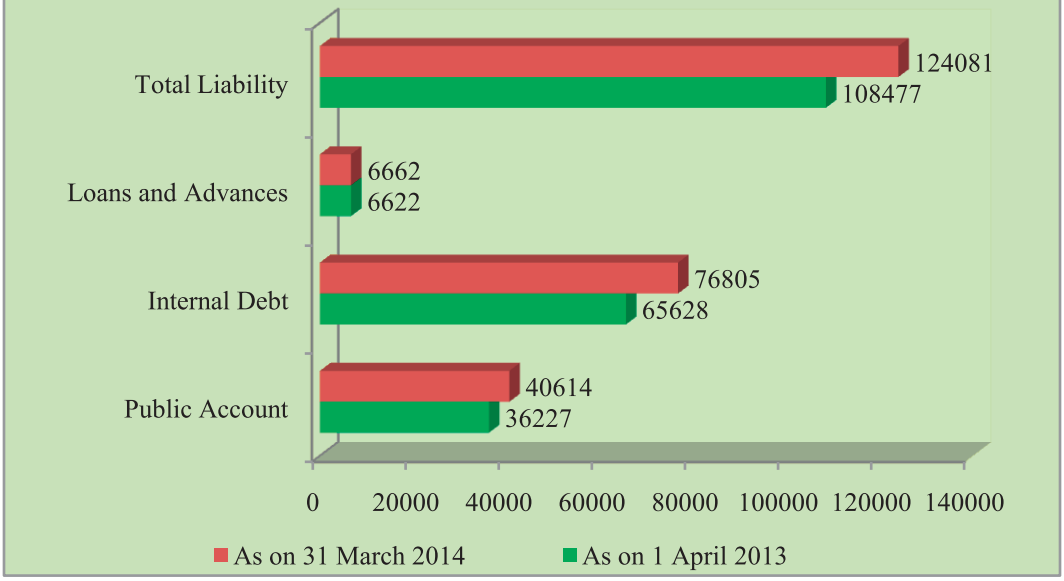
1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2014, compared with the corresponding position as on 31 March 2013. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise of the capital outlay and loans and advances given by the State Government and its cash balances.

1.9.2 Fiscal liabilities

The trends of outstanding fiscal liabilities of the State are presented in **Appendix 1.5.** The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart 1.9.**

Chart 1.9 : Composition of Fiscal Liabilities *(₹ in crore)*



The overall fiscal liabilities of the State increased from ₹1,08,477 crore in 2012-13 to ₹1,24,081 crore in 2013-14, a growth rate of 14 *per cent*, this was two *per cent* less than the growth rate shown in the previous year. Fiscal liabilities of the State comprised of Consolidated Fund liabilities and Public Account liabilities. At the end of March 2014, the Consolidated Fund liabilities (₹83,467 crore) comprised of Market Loans (₹60,183 crore), Loans from the Government of India (₹6,662 crore) and Other Loans (₹16,622 crore). The Public Account liabilities (₹40,614 crore) comprised of Small Savings, Provident Funds, etc., (₹35,542 crore)[19], interest bearing obligations (₹78 crore) and non-interest bearing obligations like Deposits and other earmarked funds (₹4,994 crore). During the year, fiscal liabilities as a percentage of GSDP was 30.8 *per cent* against 31.1[20] *per cent* in the previous year. This is almost in line with the target fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011. As in the previous year, fiscal liabilities stood at 2.5 times of the revenue receipts.

The overall liabilities of the State include balance under Reserve Funds amounting to ₹1881.16 crore (as on 31 March 2014). The details in respect of two of the reserve funds are given in succeeding paragraphs:

[19] This includes liabilities from the Treasury Savings Bank Account (₹8,106 crore) and Treasury Fixed Deposits (₹6,594 crore).

[20] Change in figure is due to adoption of new series of GSDP figures.

(a) State disaster response fund

The State Disaster Response Fund (SDRF) was set up on 1 April 2010 replacing the existing Calamity Relief Fund. At the beginning of the year, there was ₹112.20 crore as opening balance in the Fund. The size of the Fund for Kerala for the year 2013-14 fixed by the ThFC was ₹151.74 crore, 75 *per cent* (₹113.81 crore) of which was to be contributed by the Central Government and 25 *per cent* (₹37.93 crore) by the State Government. During the year, the State Government credited ₹258.02 crore to the Fund. This includes ₹151.74 crore (being the contribution fixed by ThFC) and ₹10.27 crore (GOI share: ₹7.70 and State share: ₹2.57 crore) pertaining to 2012-13. In addition, ₹61.74 crore and ₹34.27 crore from National Disaster Response Fund for the years 2013-14 and 2012-13 respectively. After setting off the expenditure for disaster relief operations to the extent of ₹292.49 crore, the balance in SDRF as on 31 March 2014 was ₹77.73 crore.

According to the guidelines issued by the Government of India, the accretions to SDRF were to be invested in Central Government dated securities and/or Auctioned Treasury Bills and/or interest earning deposits and Certificates of deposits with Scheduled Commercial Banks. However, no such investments were made by the State Government so far. The interest payable on the uninvested balances of earlier years has also not been estimated.

(b) Consolidated sinking fund

The State Government had set up a Consolidated Sinking Fund with effect from the financial year 2007-08, according to which the Fund was to be utilised as an Amortisation Fund for redemption of all outstanding liabilities of the Government commencing from the financial year 2012-13. The Fund was to be credited with contributions from revenue at the prescribed rate and interest accrued on investments made out of the Fund. Only the interest accrued and credited in the Fund was to be utilised for redemption of the outstanding liabilities of the Government. As per paragraph 5 of revised model scheme for the constitution and administration of Consolidated Sinking Fund of Kerala, the rate of contribution to the Consolidated Sinking Fund was 0.5 *per cent* of the outstanding liabilities as at the end of the previous year. According to this, the State Government had to contribute ₹ 542.38 crore during 2013-14 to the Consolidated Sinking Fund. However, the State Government did not contribute any amount to the Fund, during the current year. The balance outstanding in the Sinking Fund as on 31 March 2014 was ₹1,497.16 crore.

1.9.3 Study on Government Guarantees – contingent liabilities

(i) Introduction

Article 293 of the Constitution of India empowers the State Governments to give guarantee on the security of the consolidated fund of the State within such limits

as may be fixed by the State Legislature. According to 'The Kerala Ceiling on Government Guarantees Act, 2003'(KCGG Act, 2003), the total outstanding Government guarantees as on 1 April of each year shall not exceed ₹14000 crore. Government gives guarantee on funds raised by Government companies, public sector undertakings, statutory bodies and cooperative bodies, from financial institutions and the nature of debt may be Term loans, Cash credit, overdraft, Bonds, fixed deposits, etc. The guarantee is liable to be invoked if the principal debtor fails to repay loans, bonds, etc., so guaranteed. According to the KCGG Act, 2003 the Government shall charge a minimum of 0.75 *per cent* of the actual outstanding balance of loan as on 31 March of the preceding year, as guarantee commission (GC) and this shall not be waived under any circumstances.

The maximum amount guaranteed and the outstanding amount on guarantees at the end of the year from 2009-10 to 2013-14 are given in **Table 1.29.**

Table 1.29 Guarantees given by the State

(₹ in crore)

Guarantees	2009-10	2010-11	2011-12	2012-13	2013-14
Maximum amount guaranteed during the year	10225.78	12625.07	11332.11	11482.25	12275.21
Outstanding amount of guarantees at the end of the year (includes interest and penal interest)	7495.00	7425.79	8277.44	9099.50	9763.36
Percentage of maximum amount guaranteed to total revenue	39	41	30	26	25
Maximum amount of ceiling as per Kerala Ceiling on Government Guarantees Act, 2003	14000	14000	14000	14000	14000

According to data furnished by Finance Department, the Government provided guarantee to 35 institutions (as on 31 March 2014) and the outstanding guarantee for 11 institutions were more than ₹100 crore each. Out of the total outstanding guarantee of ₹9763.36 crore, 62 *per cent* (₹6087.55 crore) pertains to Kerala State Financial Enterprises (KSFE) (outstanding ₹3000 crore) and Kerala State Co-operative Agricultural and Rural Development Bank (outstanding ₹3087.55 crore)

Audit conducted a study covering Finance Department, seven Administrative Departments and 20 beneficiary institutions to ascertain the efficacy of the system relating to management of guarantee and audit observations are summarised below:

(ii) Guarantee management

All matters involving financial implications are sanctioned by Finance Department. Therefore, Finance Department is required to maintain a record of the Government's commitment towards guarantee extended to various institutions. Further, based on the recommendations of Public Accounts

Committee[21], Finance Department issued (July 2011) detailed guidelines to Administrative Departments for the maintenance of registers for monitoring of Government guarantee and recording of transactions relating to guarantee commission.

Audit observed that National University of Advanced Legal Studies (NUALS) obtained a loan of ₹20 crore (2012) from Kerala State Cooperative Bank and Kerala State Handicapped Persons Welfare Corporation Ltd obtained a loan of ₹eight crore from National Handicapped Finance and Development Corporation (March 2013) on Government guarantee without the concurrence of Finance Department. Hence the GC was not collected from the institutions as the details of the guarantee given to these institutions were not available with the Finance Department. Audit also noticed that the Administrative Departments were not keeping registers as mentioned in the Government circular (July 2011) for monitoring guarantees. This indicates lapse in internal control mechanism which resulted in loss of revenue on account of guarantee commission.

While admitting the audit observations, the Finance Department stated (October 2014) that the Administrative Departments sanctioned the Government guarantee without consulting Finance Department and assured that necessary corrective measures would be taken to avoid such instances in future. Finance Department also stated that the process of developing software is on for monitoring of guarantee and guarantee commission.

(iii) Guarantee commission

During the year, an amount ₹72.85 crore was received as guarantee commission and an amount of ₹257.44 crore was outstanding as on 31 March 2014. As per the information furnished by the Finance Department, the major defaulters of GC were Kerala State Housing Board (KSHB) (₹89.95 crore), Kerala Water Authority (₹28.04 crore), Kerala State Electricity Board (₹76.07 crore) and Kerala State Co-operative Hospital and Centre for Advanced Medical Studies Limited (₹26.23 crore). Audit scrutiny revealed the following:

- Government did not receive any GC from eight out of 35 institutions for the last four years.

- An interest free loan of ₹125.53 crore was sanctioned (August 2010) to Kerala State Co-operative Agriculture and Rural Development Bank for payment of GC dues towards the State Government, to avail fresh loan on Government guarantee. This loan was subsequently waived (March 2013) by the Government, thereby indirectly waiving the GC dues, which was not permissible under KCGG Act, 2003.

[21] 145th report of Public Accounts Committee (2008-11)

- GC due (₹89.95 crore) to the Government, remained unadjusted in the accounts of KSHB (March 2014) when the liability of ₹1122.68 crore was taken over by the Government.

The Finance Department accepted the observations of Audit and stated (October 2014) that directions were given to the institutions to clear the GC dues and if they fail, the dues would be adjusted from the budgetary provisions of the respective institutions.

(iv) Guarantees becoming liabilities

Guarantees become liabilities of the guarantor if the debtor fails to repay the amount. As guarantees result in increase in liability, they should be examined in the same manner as a proposal for a loan, taking into account, inter alia, the credit-worthiness of the borrower, the amount and risks sought to be covered by a sovereign guarantee, the terms of the borrowing, the justification and public purpose to be served, probabilities that various commitments will become due and possible costs of such liabilities, etc. Instances of guarantees that became liabilities of the State are detailed below:

- According to Finance Accounts (2013-14), the State Government sanctioned loan amounting to ₹61.69 crore (15 institutions) on loans invoking guarantee. The institutions have not made any repayment so far.
- Based on Government guarantee (2003), Kerala State Housing Board (KSHB) availed (₹1184.42 crore) two loan packages[22] from Housing and Urban Development Corporation for implementation of housing schemes. As KSHB failed to repay the loan, State Government had to take over the liability and Government released an amount of ₹1122.68 crore as loan to KSHB to settle the dues.
- Data furnished by the Finance Department showed that eight[23] institutions did not repay any loan amount (loans availed against Government guarantee) to financial institutions during the past four years and the total outstanding for these institutions was ₹128.59 crore as on 31 March 2014.
- Invocation process for ₹7.47 crore was initiated against the Government by the banks as National University of Advanced Legal Studies (₹2.04 crore) and Kerala Automobiles Limited (₹5.43 crore) failed to repay the loans taken by them.

Thus, decision of the Government to stand as guarantor without ensuring the financial capacity of the institution resulted in a liability of ₹1184.37 crore (items

[22] ₹744.34 crore in respect of economically weaker section loans and ₹440.08 crore in respect of low income group, middle income group, high income group loans and commercial loans.

[23] Meat Products of India (₹0.20 crore), Malappuram Spinning Mills (₹2.3 crore), The Quilon Co-operative Spinning Mills (₹2.50 crore), Priyadarshini Co-operative Spinning Mills (₹3.36 crore), Kerala State Co-operative Milk Marketing Federation (₹20.01 crore) Travancore rayons (₹41.72 crore), Marketfed (₹12 crore) and Kerala State Co-operative Hospital Complex (₹46.50 crore)

(i) and (ii)). An amount of ₹141.49 crore (items (iii) and (iv)) would also become a liability in the near future as the banks had initiated invocation process.

While admitting the audit observations, the Finance Department stated (October 2014) that currently there was no mechanism to monitor the loan repayment by the institutions. It was also stated that strict directions were given to the defaulters to clear the loan arrears and that the Department would ensure the clearance of the loan by obtaining half yearly remittance details from the institutions in future.

(v) Guarantee redemption fund

As per Section 6 of the KCGG Act, 2003, the Government was to constitute a Guarantee Redemption Fund. The guarantee commission charged under Section 5 of the Act was to form the corpus of the Fund. However, the Fund had not been constituted and consequently, guarantee commission of ₹583.13 crore collected during 2003-04 to 2013-14 had not been credited to the Fund but was treated as non-tax revenue in the relevant years and used for meeting the revenue expenditure of the Government. As per Finance Accounts 2013-14, ₹257.44 crore was outstanding from various entities towards guarantee commission since the inception of the Act. This amount would also have to be part of the Fund.

1.10 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability[24] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[25]; sufficiency of non-debt receipts[26]; net availability of borrowed funds[27]; burden of interest payments (measured by interest payments to

[24] Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficits should match the increase in the capacity to service the debts.

[25] A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or the cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt x Interest spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or that debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling, which is a positive sign.

[26] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

[27] Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.30** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2009-10.

Table 1.30: Debt sustainability: indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2009-10	2010-11	2011-12	2012-13	2013-14
Debt Stabilisation (Quantum Spread[28] + Primary Deficit)	1981	2709(*)	1309(*)	(-)1837(*)	325
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 1525	141	(-)5084	(-)2187	(-)1942
Net Availability of Borrowed Funds	2834	2507	4426	8154	7350
Burden of Interest Payments (Interest Payment/Revenue Receipts *per cent*)	20	18	17	16	17
Maturity Profile of debt					
Up to one year	1587.67 (3.2)	2566.98 (4.7)	2154.64 (3.5)	2569.25 (3.6)	2674.90 (3.2)
One to three years	4503.59 (9.1)	5205.33 (9.5)	8401.13 (13.6)	5791.05 (8.0)	6829.83 (8.2)
Three to five years	5215.70 (10.5)	6260.17 (11.4)	9100.09 (14.7)	9100.72 (12.6)	12058.34 (14.4)
Five to seven years	6786.36 (13.7)	9314.78 (17.0)	13156.00 (21.3)	13181.39 (18.2)	13165.08 (15.8)
Seven years and above	27363.90 (55.1)	28162.37 (51.3)	24240.81 (39.2)	36932.83 (51.1)	44048.78 (52.8)
Maturity profile details not furnished by State Government	4216.09 (8.4)	3377.55 (6.1)	4740.42 (7.7)	4674.95 (6.5)	4689.63 (5.6)

Figures in parentheses indicate the percentage to total State debt
Source: Finance Accounts of the State Government
(*) change in figure is due to adoption of new series of GSDP figures

During 2010-11 to 2012-13, the quantum spread together with primary deficit decreased steadily and became negative during 2012-13 indicating a declining trend in Debt-GSDP ratio and disproportionate growth of debt when compared to growth rate of GSDP. However, it increased during 2013-14, due to marginal reduction in growth rate of debt compared to GSDP growth. The resource gap (sufficiency of non-debt receipts) was negative from 2011-12 onwards, which showed that the incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden.

During 2013-14, total borrowed funds under 'Public Debt' was ₹14,342 crore (including open market borrowings of ₹12,800 crore). After providing for interest and repayment of principal, the net availability was only ₹5,065 crore. Similarly, the accumulations in 'Public Account' (Small savings, Provident Fund, Reserve Fund, Deposit Account, etc. which were used by the State for bridging the fiscal resource gap), were ₹39,832 crore during the year. Under this sector, net availability of funds after disbursement with interest was only ₹2,285 crore. As

[28] Quantum spread = Debt x Interest spread.

the non-debt receipt of the State was also insufficient, some portion of this borrowing was also used for bridging revenue deficit. Consequently, State Government was left with ₹7,350 crore, for developmental activities from the total borrowings.

The maturity profile of State debt indicates that the Government will have to repay 38.4 *per cent* of its debt between one and seven years. A well thought out debt management strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

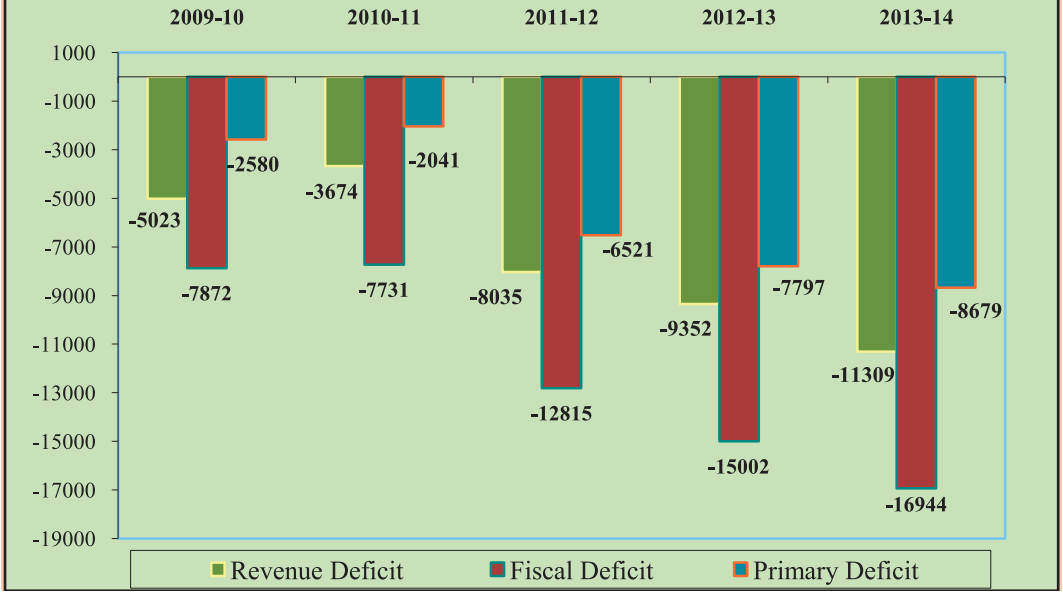
1.11 Fiscal Imbalances

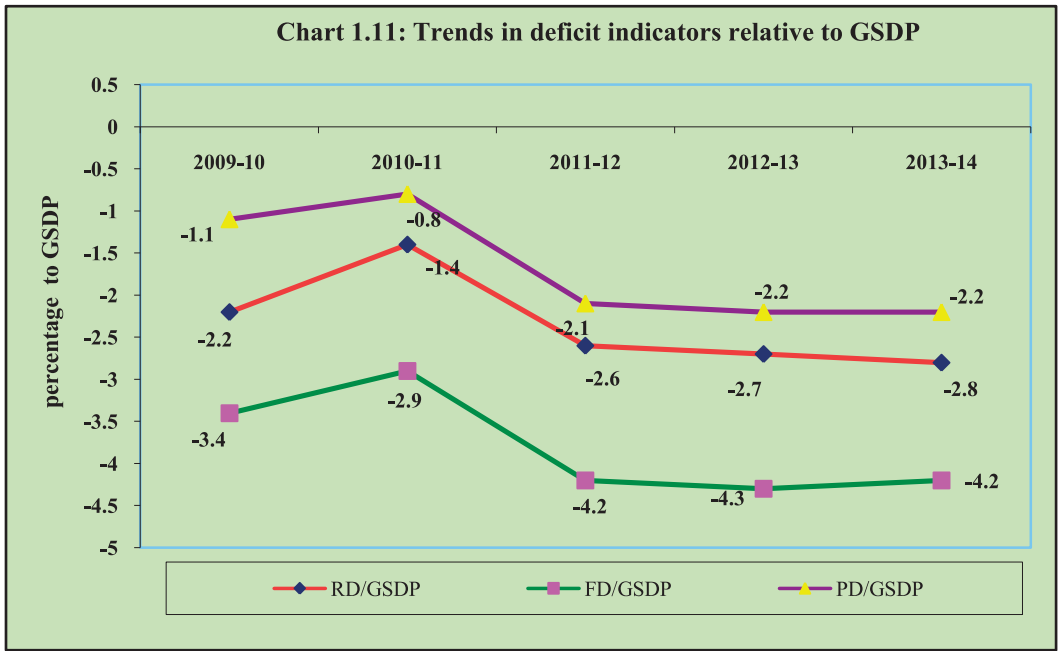
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources are raised and applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under the Fiscal Responsibility Act/Rules for the financial year 2013-14.

1.11.1 Trends in deficits

Charts 1.10 and **1.11** present the trends in deficit indicators over the period 2009-14.

Chart 1.10 : Trends in deficit indicators *(₹in crore)*





The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts, which increased steadily since 2010-11 indicating disproportionate growth of revenue expenditure or low growth rate of revenue receipts. Revenue deficit increased more than three times during 2010-11 to 2013-14, in contrary to State's targets (reduce revenue deficit to 'Nil' by 2014-15) envisaged in Fiscal Responsibility (Amendment) Act, 2011.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap also increased steadily since 2010-11. It increased from ₹7,731 crore in 2010-11 to ₹16,944 crore in 2013-14.

More than four times increase was also noticed in primary deficit, since 2010-11 and it increased from ₹2,041 crore in 2010-11 to ₹8,679 crore in 2013-14. Increase in revenue deficit, fiscal deficit and primary deficit indicate the disproportionate growth of expenditure with regard to revenue receipts.

As a proportion of GSDP, the revenue deficit (1.4 *per cent*) and fiscal deficit (2.9 *per cent*) in 2010-11 were the lowest during the last five year period. These percentages increased to 2.8 *per cent* and 4.2 *per cent* respectively in 2013-14. These were more than the targets fixed (0.5 *per cent* and 3 *per cent*) in the Kerala Fiscal Responsibility (Amendment) Act, 2011 and (0.54 *per cent* and 2.82 *per cent*) in the Medium Term Fiscal Plan for 2013-14 to 2015-16.

1.11.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.31.** Receipts and disbursements under the components of financing the fiscal deficit during 2013-14 are given in **Table 1.32.**

Table 1.31: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2009-10	2010-11	2011-12	2012-13	2013-14
Decomposition of fiscal deficit						
1.	Revenue deficit	5023	3674	8035	9352	11309
2.	Net capital expenditure	2010	3339	3837	4588	4275
3.	Net loans and advances	839	718	943	1062	1360
Total fiscal deficit		**7872**	**7731**	**12815**	**15002**	**16944**
Financing pattern of fiscal deficit*						
1.	Market borrowings (net)	4710	4770	7496	10571	11373
2.	Loans from Government of India	297	54	36	226	40
3.	Special Securities Issued to National Small Savings Fund	(-) 140	42	(-)491	32	(-)42
4.	Loans from Financial Institutions	(-) 16	348	(-)7	(-)118	(-)77
5.	Small Savings, PF etc	2849	2490	3839	3686	4231
6.	Deposits and Advances	437	469	(-)52	1141	188
7.	Suspense and Miscellaneous	370	(-) 197	852	712	(-)946
8.	Remittances	57	27	(-)157	31	(-)168
9.	Others	(-) 31	399	32	(-)379	(-)68
10.	**Total (1 to 9)**	**8533**	**8402**	**11548**	**15902**	**14531**
11.	Increase (-)/Decrease (+) in Cash Balance	(-) 661	(-) 671	1267	(-)900	2413
12.	**Overall deficit**	**7872**	**7731**	**12815**	**15002**	**16944**
*All these figures are net of disbursements/outflows during the year.						

Source: Finance Accounts of the State Government

Table 1.32: Receipts and disbursements under components financing the fiscal deficit during 2013-14

(₹ in crore)

Sl. No.	Particulars	Receipt	Disbursement	Net
1.	Market borrowings	12800	1427	11373
2.	Loans from Government of India	392	352	40
3.	Special Securities Issued to National Small Savings Fund	565	607	(-)42
4.	Loans from Financial Institutions	501	578	(-)77
5.	Small Savings, PF etc	29473	25242	4231
6.	Deposits and Advances	9866	9678	188
7.	Suspense and Miscellaneous	75729	76675	(-)946
8.	Remittances	8923	9091	(-)168
9.	Others	469	537	(-)68
10.	**Total (1 to 9)**	**138718**	**124187**	**14531**
11.	Increase (-)/Decrease (+) in Cash Balance			2413
12.	**Overall deficit**			**16944**

Source: Finance Accounts of the State Government

Table 1.31 reveals that during the last five years market borrowings and net accretions in Public Account (especially in Small Savings, PF etc.) are the main source utilised by the State Government to finance the fiscal deficit. During 2013-14, ninety two *per cent* of the fiscal deficit was financed through net Market borrowings (₹11,373 crore) and accretions in the Small Savings, PF, etc. (₹4,231 crore).

During 2013-14, the State Government raised ₹12,800 crore as market loans at an average interest rate of 9.06 *per cent*, loans amounting to ₹501.25 crore from NABARD at an interest rate of 7.78 *per cent*, ₹565.14 crore from National Small Savings Fund at an interest of 9.5 *per cent* and ₹105.21 crore from NCDC at interest rates of 12.14 *per cent*. The State Government also received loans amounting to ₹392.01 crore from the Government of India during the year for which the details of interest rate on all loans were not available.

The State Government has been mobilising deposits from its employees, pensioners, institutions and general public through treasuries. During 2013-14, the State Government received ₹20,705.20 crore as deposits through Treasury Saving Bank accounts at an average interest rate of five *per cent* and ₹2,688.90 crore as Treasury Fixed Deposits at interest rates ranging between 7.25 *per cent* and 9 *per cent*. The balance of such deposits as on 31 March 2014 was ₹14,699.84 crore. This is ₹1,801.13 crore more than the previous year's balance

1.11.3 Quality of deficit

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit **(Table 1.33)** indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.33: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts (NDR)	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2009-10	26196	25840	2059	877	28776	(+) 356	(-) 2580
2010-11	31060	28975	3364	762	33101	(+) 2085	(-) 2041
2011-12	38081	39751	3853	998	44602	(-) 1670	(-) 6521
2012-13	44226	46284	4603	1136	52023	(-) 2058	(-) 7797
2013-14	49300	52221	4294	1464	57979	(-) 2921	(-) 8679

Source: Finance Accounts of the State Government

The bifurcation of the factors leading to primary deficit or surplus of the State reveals that since 2011-12 non-debt receipts (NDR) of the State were not enough to meet the primary revenue expenditure[29] of the State. This indicates disproportionate growth of primary revenue expenditure with respect to NDR.

1.12 Conclusion

Revenue Receipts: Against estimated amount of ₹58,057.88 crore as Revenue receipts, the actual receipt was ₹49,176.93 crore showing an increase (₹5,039.63 crore) of 11 *per cent* over the previous year. The increase was mainly under Tax revenue (₹1,918.40 crore), Non-tax revenue (₹1,376.52 crore), Share of Union Taxes/Duties (₹628.03 crore) and Grants from Government of India (₹1,116.68 crore). Though, State's tax revenue collected (₹31,995.01crore) for the year was less than the projections made in the Medium Term Fiscal Plan, non-tax revenue for the year (₹5575.03 crore) was higher than the above projections.

Deficiency was observed in revenue estimation which led to increase in revenue deficit to the extent of ₹ 5100 crore with respect to Revised Estimates. In budget estimates and actual receipts, variations from 16 to 38 *per cent* were noticed in respect of major tax revenue sources indicating failure in the estimation process.

Revenue Expenditure: Compared to previous year (16 *per cent*), growth rate of revenue expenditure was 13 *per cent* during the year. As in the previous year major portion of the revenue expenditure (₹60,485.50 crore) was incurred on non-plan revenue expenditure (₹53,411.84 crore), leaving only 12 *per cent* to plan expenditure (₹7,073.66 crore). Also 65 *per cent* of the revenue expenditure was incurred on salaries, wages, pensions, interest payments and subsidies. While non-plan revenue expenditure shown a growth rate of 14.5 *per cent,* plan revenue expenditure growth rate was only three *per cent*, which is a matter of concern for the State.

[29] Primary revenue expenditure represents revenue expenditure less expenditure on interest.

Capital Expenditure: During the year State Government had not given adequate priority to Capital expenditure (₹4,294.33 crore) and it decreased by ₹308.96 crore over the previous year (₹4,603.29 crore). Against the Original Budget Outlay of ₹8,635.03 crore, the actual capital expenditure incurred was only ₹4,294.33 crore (50 *per cent*).

Investment and Returns: As of 31 March 2014, the State had invested ₹5,623.61 crore in Statutory Corporations, Government companies, Joint Stock Companies and Co-operatives. The average return on these investments was only 1.5 *per cent* during the last five years, while the Government paid an average interest rate ranging from 7.1 *per cent* to 7.5 *per cent* on its borrowings during the same period.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increase in non-developmental expenditure like salaries, interest payments, pension and subsidies year after year reduces the net availability of funds from the borrowings for infrastructure development. The State's low return on investments indicates an implicit subsidy and use of high cost borrowings for investments, which yields low return and is not sustainable.

Loans and Advances: Outstanding loans and advances given by the State Government to Statutory Corporations, Government companies and Co-operative Societies at the end of March 2014 was ₹11,721 crore, recording an increase of ₹ 1,265 crore over the previous year. Arrears in repayment of loan continued to accumulate as in the previous year and as on 31 March 2014 an amount of ₹7,657.66 crore from 72 institutions was in arrears.

Deficit: All the key fiscal parameters, i.e. revenue, fiscal and primary deficits increased during 2013-14 when compared to previous year. The downward trend of fiscal parameters observed during the last three years is a matter of concern for the State Government. More than four times increase was noticed in primary deficit during 2010-11 to 2013-14. Increasing revenue and fiscal deficits show growing fiscal imbalance of the State. Similarly, increase in the ratio of revenue deficit and fiscal deficits indicate that the application of borrowed funds has largely been to meet current expenditure.

Debt Management: Overall fiscal liabilities at the end of the year increased from ₹ 1,08,477 crore in 2012-13 to ₹1,24,081 crore and this was two *per cent* less than the growth rate shown in the previous year. This was 30.8 *per cent* of GSDP which was almost in line with the target (30.7) fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011. The net availability of borrowed funds (including market borrowings) after providing interest and repayment of principal was ₹7,350 crore which was around 50 *per cent* of the funds borrowed during the year. Since 2011-12 the resource gap (sufficiency of non-debt receipts) was negative which indicate that the incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden. The

maturity profile of State shows that the State will have to repay 38.4 *per cent* of its debt between one and seven years.

Funds transferred directly from GOI to the State Implementing Agencies: Government of India directly transferred an amount of ₹9,751.14 crore to the 12 implementing agencies of the State during 2009-14. Though, matching contribution was to be released to these agencies for implementation of the schemes, short release of ₹83.95 crore was noticed in respect of implementation of three programmes. Implementing agencies furnished utilisation certificate without ensuring actual utilisation of funds released by them to sub-level agencies.

Implementation of New Pension Scheme: State Government introduced new pension scheme among All India Services officers who joined service on or after 1 April 2004. But, individual contribution to be recovered, matching contribution of State Government due etc were not credited to the pension account of the officials. The same pattern of pension scheme was also implemented in respect of State Government employees, who joined service on or after 1 April 2013. Progress in this regard was also not satisfactory.

Management of Guarantee given by the State: Outstanding guarantee at the end of March 2014 was ₹9763.36 crore. Guarantees were given to institution without properly ascertaining their financial stability, which led to guarantee becoming liabilities of the Government. In certain cases guarantee were given without the concurrence of Finance Department.

1.13 Recommendations

- Government may consider putting in place a monitoring mechanism to ensure revenue mobilization as per the estimates.
- Government may consider introducing an online computerised monitoring system to track fund flow transferred to various district/sub level agencies in order to monitor the actual utilisation of funds in respect of Central/State plan schemes.
- Government may ensure that arrear contributions are credited to pension account of employees covered under New Pension Scheme without further delay.