

**Report of the
Comptroller and Auditor General of India
on
State Finances**

for the year ended March 2012

**Government of Karnataka
Report No. 1 of 2013**

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Preface

This Report has been prepared for submission to the Governor under Article 151 of the Constitution.

Chapters 1 and 2 of this Report respectively contain audit observations on matters arising from examination of Finance Accounts and Appropriation Accounts of the State Government for the year ended 31 March 2012. Information has also been obtained from the Government of Karnataka, wherever necessary.

Chapter 3 on 'Financial Reporting' provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.

The Report has been prepared taking into account replies of the State Government. It also includes recommendations of the PAC for the Report on State Finances for the year ending 31 March 2010.

The Reports containing the findings of performance audits, results of audit of transaction in various departments, observations arising from audit of Government Companies, Statutory Corporations, Boards, Panchayat Raj Institutions and Urban Local Bodies and points arising from audit of revenue receipts are presented separately.

EXECUTIVE SUMMARY

Background

In Karnataka, fiscal reforms and consolidation were brought to the forefront with the State Government formulating the first Medium Term Fiscal Plan (MTFP) for the period 2000-05, based on broad parameters of fiscal correction laid down by the Eleventh Finance Commission (EFC). MTFP became a rolling annual document and the fiscal targets and policies set out in MTFP were dovetailed to the annual budgetary exercise to operationalise the restructuring plan. Karnataka was the first State to enact (September 2002) the Fiscal Responsibility Act (FRA) providing statutory backing to MTFP. The Act aims at ensuring fiscal stability and sustainability, enhancing the scope for improving social and physical infrastructure and human development by achieving revenue surplus, reducing fiscal deficit, removing impediments to effective conduct of fiscal policy and prudent debt management through limits on borrowings, debt and deficits and greater transparency in fiscal operations by the use of medium-term fiscal framework.

The Report

Based on the audited accounts of the Government of Karnataka for the year ending March 2012, the report provides an analytical review of the annual accounts of the State Government. The financial performance of the State has been assessed based on the FRA, budget documents, Thirteenth Finance Commission Report (XIII FC) and other financial data obtained from various Government departments and organizations. The report is structured in three chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of Government of Karnataka's fiscal position as at 31 March 2012. It, *inter-alia*, provides an insight into trends in committed expenditure and borrowing pattern, besides a brief account of Government of India funds transferred directly to the State implementing agencies through off-budget route.

Chapter 2 is based on the audit of Appropriation Accounts and gives description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of Karnataka Government's compliance with various reporting requirements and financial rules.

The report also includes appendices of additional data collected from several sources in support of these findings. A glossary of selected terms has been given at the end of the Report.

Audit findings and recommendations

• Fiscal position

The state continued to maintain revenue surplus during 2007-12 and kept fiscal deficit relative to GSDP below the limit laid down under FRA as amended from time to time. During 2011-12, the State had a revenue surplus of ₹ 4,521 crore, an increase of ₹ 349 crore over previous year. This was on account of increase in revenue receipts by 20 *per cent* over previous year. Further, compression of expenditure on account of delay in government sanctions, limiting transfers to fund accounts, non release of funds etc., also contributed to increase in revenue surplus over previous year.

Fiscal deficit during the year was ₹ 12,470 crore, an increase of ₹ 1,782 crore over previous year. Primary deficit increased by ₹ 819 crore during the year from ₹ 5,047 crore in 2010-11.

Incremental non-debt receipts of ₹ 11,697 crore was less than the incremental primary expenditure of ₹ 12,346 crore and could not cover the incremental interest burden (₹ 963 crore). The State Government got relief of ₹ 170.14 crore under debt waiver wherein all Central loans contracted by the State Government with the Central Ministries, other than those relating to Finance Ministry and outstanding as at 31 March 2010, were waived.

• State's own resources

The ratio of the State's tax revenue to GSDP which had shown an increasing trend since 2009-10 was at 10.70 *per cent* during the year.

Ratio of non-tax revenue to GSDP was insignificant, implying the need for mobilizing non-tax revenue in the coming years by revising user charges, as recommended by Expenditure Reforms Commission.

• Revenue expenditure

There was 14 and 29 *per cent* growth under social and economic services sectors of expenditure over the previous year, while the growth in general services was 17 *per cent*. The share of plan expenditure in total revenue expenditure increased from ₹ 15,188 crore in 2010-11 to ₹ 18,567 crore in 2011-12. Fifty *per cent* of revenue expenditure consisted of committed expenditure on salaries, pensions, interest payments and subsidies. Total subsidy of ₹ 7,390 crore presented a partial picture as it excluded implicit subsidy of around ₹ 4,204 crore during 2011-12. As per the recommendation of TFC, expenditure forming implicit subsidy should be brought out for transparency.

• Quality of expenditure

The share of capital expenditure to total expenditure during the current year was 21 *per cent* which was one percentage point less than the previous year. Funds aggregating ₹ 1,047 crore were blocked in incomplete projects as at the end of 2011-12. The return from investment of ₹ 44,295 crore as of March 2012 in companies / corporations was negligible (₹ 60.56 crore). The investment included ₹ 18,924 crore (43 *per cent*) in Companies/ Corporations under perennial loss.

The State Government should review the working of State public sector undertakings incurring huge losses and take suitable decisions. The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor time and cost over runs with a view to taking corrective action.

- **Oversight of funds transferred directly from the Union to the State implementing agencies**

The Central Government transferred a sizeable quantum of funds (₹ 7,140 crore during 2011-12) directly to the State implementing agencies for implementation of Central plan schemes. Funds flowing directly to the implementing agencies through off-budget route inhibit FRA requirements of transparency and, therefore, escape accountability. There is no single agency monitoring its use and there is no readily available data on the amounts spent in any particular year on major flagship and other important schemes.

Though a system has been proposed to ensure accounting of these funds a system is required to validate this information by the State Government.

- **Funds and other Liabilities**

Reserve funds of the State viz., corpus fund of Consumer Welfare Fund, Guarantee Redemption Fund etc., were not created/ revived through contributions from general revenues/earmarked revenues. No rules have been framed regarding administration of Fiscal Management Fund.

Rules with regard to administration and investment pattern of various reserve funds require to be framed.

- **Debt sustainability**

The repayment obligation of the State would increase enormously from 2018-19 onwards, due to huge market borrowings in 2008-10. Further, repayment obligations of the borrowings made in 2011-12 (₹ 7,500 crore) would become due from 2021-22.

The Government should consider reviving the sinking fund as it would help to meet the sudden increase in the amount of debt servicing from 2018-19 onwards.

Financial Management and Budgetary Control

Against total provision of ₹ 99,744.66 crore during 2011-12, an expenditure of ₹ 86,829.62 crore was incurred. This resulted in an unspent provision of ₹ 12,915.04 crore (13 *per cent*). Excess expenditure of ₹ 4,793.28 crore relating to the period 1989-90 to 2010-11 required regularization under Article 205 of the Constitution. Expenditure aggregating ₹ 430.13 crore in 43 cases which should have been treated as 'New Service/New instrument of service' was incurred without the approval of the Legislature. While, supplementary provision of ₹ 165.79 crore in 23 cases was unnecessary, re-appropriation of funds in 60 cases was made injudiciously, resulting in either un-utilised provision or excess over provision. In 25 grants, ₹ 4,830.68 crore was surrendered in the last two working days of the financial year. Contingency Fund drawals sanctioned in one case for ₹ 4.50 crore was utilized to the extent of 30 *per cent* during the year 2011-12.

Budgetary control should be strengthened in all departments to avoid cases of provision remaining unutilized. The departmental budgets should be more realistic and cases of persistent non-utilisation of funds, excessive provision of funds should be avoided.

- **Financial Reporting**

Detailed bills, against abstract contingent bills, were wanting since long and large sums of money were being retained in PD Accounts against the principle of Legislative financial control. Non-reconciliation of expenditure and receipts was to the extent of 34 *per cent* of total expenditure and two *per cent* of total receipts, respectively. There were adverse balances under certain DDR heads which required remedial action for their clearance.

The internal controls in various departments should be strengthened to prevent recurrence of misappropriation/losses. Accounting reforms are required to capture salary expenditure (PR Institutions), implicit subsidies as recommended by the Finance Commission. Review of suspense heads needs to be done to bring the transactions to the final heads in the year of accounts itself.

Chapter 1

Finances of the State Government

Profile of the State

Karnataka is the eighth largest State in terms of geographical area and accounts for around five *per cent* of India's population. As indicated in **Appendix 1.1**, in the last ten years, the density of population in Karnataka has increased from 276 persons per sq km to 319 persons per sq km. However, the State still has lower density of population as compared to all India average.

The State has shown higher economic growth in the past decade as the compounded annual growth rate of its GSDP for the period 2002-03 to 2011-12 has been 15.59 *per cent* against 14.46 *per cent* of the General Category States. During this period, the population growth rate of the State (16.50 *per cent*) was higher than that of the General Category States (13.90 *per cent*) and higher *per capita* income in the State was on account of higher GSDP growth rate.

The social indicators *viz.*, literacy rate and rate of infant mortality at birth indicated that the State was better off than the all India average and life expectancy (male, female) was lower. (**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 rate of India's GDP and that of the State's GSDP at current prices are indicated below:

Annual growth rate of GDP and GSDP at current prices

Year	2007-08	2008-09	2009-10	2010-11 (QE)*	2011-12 (AE)*
India's GDP (₹ in crore)	45,82,086	53,03,567	60,91,485	71,57,412	82,79,975
Growth rate of GDP (percentage)	15.9	15.7	14.9	17.5	15.7
State's GSDP (₹ in crore)	2,70,628	3,10,312	3,45,235	4,05,123	4,65,552
Growth rate of GSDP (percentage)	19.1	14.7	11.3	17.3	14.9

Source: Karnataka Economic Survey 2011-12

*QE-Quick Estimates, AE-Advance Estimates

In the years 2010-11 and 2011-12 Karnataka's GSDP growth rate at current prices were slightly lower than that of India's.

However, the GSDP amount conveyed by the Ministry of Finance, GOI with respect to State for the years 2010-11 and 2011-12 and accepted by the Government was ₹ 3,98,893 crore and ₹ 4,34,270 crore respectively. This varied from the figures released by Directorate of Economics and Statistics and adopted in the Karnataka Economic Survey- 2011-12.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Karnataka during 2011-12. It analyses important changes in the major fiscal indicators compared to the previous year and keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and

information obtained from the State Government. The structure of the Government Accounts and the layout of the Finance Accounts have been explained in **Appendix 1.2**.

1.2 Summary of fiscal transactions

Table 1.1 and Appendix.1.3 presents the summary of the State Government's fiscal transactions and provides details of receipts and disbursements as well as the overall fiscal position, respectively, during 2011-12 *vis-à-vis* the previous year.

Table 1.1: Summary of fiscal transactions

(₹ in crore)

Receipts			Disbursements				
	2010-11	2011-12		2010-11	2011-12		
Section-A: Revenue				Total	Non Plan	Plan	Total
Revenue receipts	58,206.22	69,806.27**	Revenue expenditure	54,033.84	46,548.33	18,566.74	65,115.07
Tax revenue	38,473.12	46,475.96	General services	14,055.09	16,292.44	153.04	16,445.48
Non-tax revenue	3,358.28	4,086.86	Social services	22,107.82	14,111.26	11,060.47	25,171.73
Share of union taxes/ duties	9,506.31	11,075.04	Economic services	14,892.44	13,374.74	5,779.16	19,153.90
Grants-in-aid & contributions from GOI	6,868.51	8,168.41	Grants-in-aid and contributions	2,978.49	2,769.89	1,574.07	4,343.96
Section-B: Capital and others							
Misc. Capital receipts	71.81	89.19	Capital outlay	13,355.17	583.88	14,921.77	15,505.65
			General services	465.46	24.62	600.87	625.49
			Social services	2,616.70	25.91	2,669.28	2,695.19
			Economic services	10,273.01	533.35	11,651.62	12,184.97
Recoveries of loans and advances	161.37	240.40	Loans and advances disbursed	1,737.93	84.74	1,730.81	1,815.55
Public debt receipts*	6,713.74	9,357.95	Repayment of public debt*	2,807.13	3,319.88	----	3,319.88
Contingency Fund	-	12.53	Contingency Fund	12.53	0.51	----	0.51
Public Account receipts	80,313.64	94,408.53	Public Account disbursements	75,626.38			86,216.03
Opening cash balance	9,773.51	7,667.31	Closing cash balance	7,667.31			9,609.49
Total	1,55,240.29	1,81,582.18	Total	1,55,240.29			1,81,582.18

*Excluding net transactions under ways and means advances and overdraft.

** Includes ₹ 170.14 crore (treated as non-tax revenue), the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the Thirteenth Finance Commission (XIII FC). The said amount has not been reckoned for arriving at fiscal indicators viz., revenue surplus, fiscal deficit, primary revenue surplus, primary deficit and their comparison with GSDP and interest payment to revenue receipts. It has been considered for calculation of other variables like revenue receipts and non-tax revenue receipts (to GSDP, total receipts, total expenditure, capital expenditure, revenue expenditure, budget estimate and MTFP), growth rate, buoyancy parameters and sufficiency of incremental non-debt receipts.

Source: Finance Accounts

The following are the significant changes during 2011-12 over the previous year:

- Revenue receipts grew by ₹ 11,600.05 crore (20 per cent) due to increase in own tax revenue (₹ 8,002.84 crore), non-tax revenue (₹ 728.58 crore), share of Union taxes/duties (₹ 1,568.73 crore) and grants-in-aid and contributions from GOI (₹ 1,299.90 crore). The revenue receipts for the year 2011-12 exceeded the projection made in the Medium Term Fiscal Plan (MTFP) 2010-14 by ₹ 9,043 crore.
- Revenue expenditure increased by ₹ 11,081.23 crore (21 per cent). Increase was under economic services sector (₹ 4,261.46 crore), social services sector (₹ 3,063.91 crore), general services sector (₹ 2,390.39 crore) and grants-in-aid

and contributions (₹ 1,365.47 crore). It exceeded the MTFP projections for the year by ₹ 5,468 crore.

- Capital outlay increased by ₹ 2,150.48 crore (16 *per cent*). Increase was mainly under economic services sector (₹ 1,911.96 crore). Increase under general services sector and social services sector was ₹ 160.03 crore and ₹ 78.49 crore, respectively.
- Public debt receipts (excluding ways and means advances) increased by ₹ 2,644.21 crore (39 *per cent*) while repayment of public debt increased by only ₹ 512.75 crore (18 *per cent*).
- Public Account receipts and disbursements increased by ₹ 14,094.89 crore (18 *per cent*) and ₹ 10,589.65 crore (14 *per cent*), respectively.
- Cash balance of the State Government increased by ₹ 1,942.18 crore (25 *per cent*).

1.3 Fiscal reforms path in Karnataka

In Karnataka, fiscal reforms and consolidation were brought to the forefront with the State Government formulating the first MTFP for the period 2000-05 on the basis of broad parameters of fiscal correction laid down by the Eleventh Finance Commission (EFC) and enacted (September 2002) and operated the Fiscal Responsibility Act (FRA) from 1 April, 2003 which provided statutory backup to MTFP.

The State Government has been on a fiscal consolidation path since passing the FRA and Karnataka Ceiling on Government Guarantees Act, 1999. It has recorded revenue surplus since 2004-05. During 2008-09 and 2009-10, as per the recommendations of GOI, the State deviated from the fiscal consolidation path and borrowed more money for public spending to tide over economic slowdown. The XIII FC suggested a roadmap for medium term fiscal correction to the State Government and assigned a new set of ceilings relating to fiscal deficit and outstanding debt as percentage of GSDP for the years 2010-15.

In accordance with the XIII FC recommendations the State Government, with an amendment to the FRA (May 2011), laid down the following fiscal targets.

- Ensuring that the outstanding debt (including off-budget borrowings) is gradually reduced and, at the end of 2014-15, be at 25.20 *per cent* of the estimated GSDP for the year. During 2011-12 the outstanding debt was to be at 26 *per cent*.
- Fiscal deficit during 2011-12 not to exceed more than 3 *per cent* of GSDP
- Constituting Fiscal Management Review Committee (FMRC) which shall meet at least twice a year to review fiscal and debt position of the State.

The FMRC, headed by Chief Secretary to Government, was constituted in July 2011 and had met twice in December 2011 and March 2012. The committee has to review fiscal and debt position of the State, the State's progress on the fiscal correction path and advise on corrective measures, if required. Some of the measures recommended by the committee, which are detailed below, were aimed at increasing the capital expenditure, lowering priority to revenue expenditure, increasing non tax revenue and pursuing prudent investment appraisal methods.

Finances of the State Government

- No new additions to grants-in-aid commitments.
- Shifting from beneficiary orientation to capital investment (five *per cent* of GSDP) for mobilising more resources for power, roads and drinking water.
- Revision of user fee every alternate year.
- Setting up of a mechanism for ex-ante appraisal of new schemes and projects.

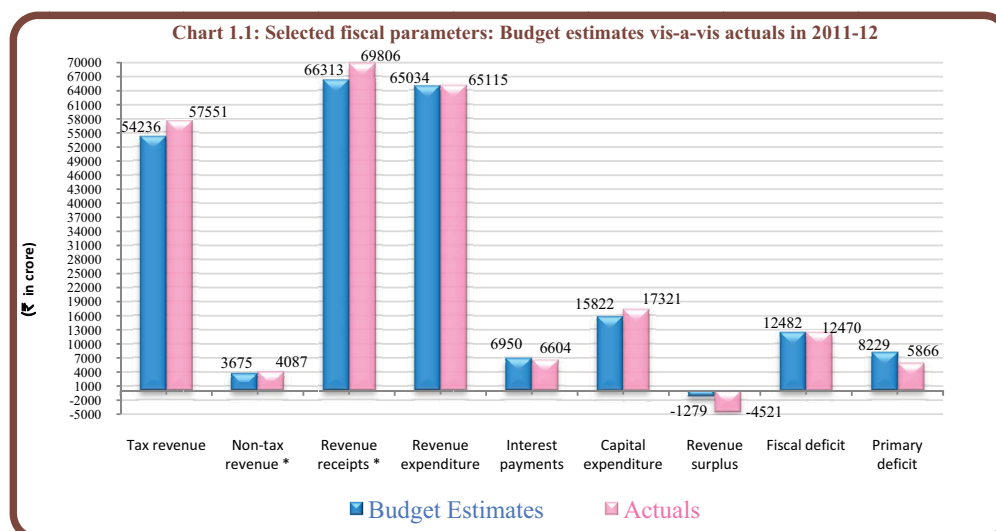
The outstanding debt and fiscal deficit during 2011-12 were 23.72 *per cent* and 2.87 *per cent*, respectively, of the GSDP which was well within the prescribed limit. However, inclusive of off-budget borrowings, the outstanding debt stood at 24.16 *per cent*.

1.4 Budget 2011-12

1.4.1 Actuals vis-à-vis budget estimates

Budget papers presented by the State Government provide estimation of revenue and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from budget estimates are indicative of non-attainment and non-optimization of desired fiscal objectives.

Chart 1.1 presents the budget estimates and actuals of some important fiscal parameters for the year 2011-12.



Source: Annual Financial Statement and Finance Accounts

**refer footnote below Table 1.1*

The State's revenue receipts during 2011-12, were estimated at ₹ 66,313 crore. In order to meet increasing developmental expenditure, tax collection efforts were improved during 2011-12 rather than increasing tax rates/proposing new rates. However, to raise additional resources, VAT on jewellery, articles of gold, noble metals, semi-precious stones were increased by one *per cent* and tax on goods increased by 0.5 *per cent* by taxing only on those who could afford to pay such increased tax. While the composition amount payable in respect of betting tax was increased from four *per cent* to eight *per cent*, the additional excise duty was doubled across all the 17 slabs. Further, stamp duty was revised in respect of

various categories and additional revenue of ₹ 300 crore was expected to be realized. The efforts of the Government at mopping up increased tax revenue have been heartening.

The revenue expenditure was estimated at ₹ 65,034 crore. To bring about progress in the agriculture sector, allocation for the irrigation sector was increased by 50 *per cent* from that of previous year. Other top priority areas were education, energy and urban developmental infrastructure which play a decisive role in the State's growth. Further, since the peak electricity consumption per day increased drastically, the State Government planned to increase the quantum of per capita availability of electricity.

The State's revenue receipts were more than the budget estimate by ₹ 3,493 crore (five *per cent*) due to increase in tax as well as non tax revenue. The State's tax revenue (inclusive of State's share of Union taxes and duties) was more than the budget estimate by ₹ 3,315 crore (six *per cent*). Further, non-tax revenue exceeded the budget estimate by ₹ 412 crore (11 *per cent*). Revenue expenditure and capital expenditure were more than the budget estimate by ₹ 81 crore and ₹ 1,499 crore (nine *per cent*), respectively. Though the revenue and capital expenditure were inclusive of supplementary estimates, the expenditure was brought very close to the budget estimates (excluding supplementary estimates) by compression of expenditure etc. (as detailed in Chapter 2 and discussed in paragraph 1.12.1 – Revenue surplus). Interest payments were less than the budget estimate by ₹ 346 crore (five *per cent*). While revenue surplus was more than the budget estimate by ₹ 3,242 crore, the fiscal deficit had been contained within the budgeted level and primary deficit was less than the budget estimate by ₹ 2,363 crore. These are indeed praiseworthy efforts.

1.4.2 Gender Budgeting

Gender budget of the State discloses the expenditure proposed to be incurred within the overall budget on schemes which are designed to benefit women fully or partly. Based on the Finance Minister's proposal (Budget speech 2006-07), the State had created the Gender Budget Cell (January 2007) and gender budgeting was introduced in 2007-08. The year-wise allocations in the gender budget document are detailed in **Table 1.2**.

Table 1.2: Gender budgetary allocations during 2007-12

Year	Outlay under			Expenditure under			Demands covered
	Category A*	Category B^	Total	Category A*	Category B^	Total	
2007-08	562.63	17,235.88	17,798.51	551.66	16,280.36	16,832.02	20
2008-09	661.77	20,764.82	21,426.59	637.92	19,470.44	20,108.36	25
2009-10	845.10	22,285.31	23,130.41	645.22	21,818.97	22,464.19	27
2010-11	870.70	25,417.95	26,288.65	924.30	25,700.05	26,624.35	27
2011-12	879.54	29,683.39	30,562.93	850.28	31,219.61	32,069.89	27

*Budgetary allocations to schemes designed to benefit women to the extent of 100 per cent of allocation.

^Budgetary allocations for schemes designed to benefit women to the extent of 30 per cent of allocations

The Gender Budget Cell has been entrusted with implementation of the gender budget by coordinating between various departments, while the Department of Women and Child Development has been entrusted with the monitoring of the impact analysis. Study of the functioning of the above during 2009-10 had showed that while the Gender Budget Cell was not involved in assessing and working out budgetary requirement of category A and B, the Department of Women and Child Development had not conducted any impact analysis. This position continued in 2011-12 also.

State Government had informed (July 2011) that the Gender Budget Cell, in order to strengthen analysis and analytical inputs, had improved the format of the MPIC and a circular was issued to validate the categorization of schemes, assess the impact and analyse the allocation. Further, a study viz., 'Monograph on the Status of Women in Karnataka' had been commissioned (May 2011), which was to be carried out jointly by Institute of Social Economic Change, Bangalore and Institute of Social Studies Trust, Bangalore. The Department of Women and Child Development stated (June 2012) that the study report was yet to be received.

The Public Accounts Committee in its 13th report on CAG's Report on State Finances – 2009-10, (December 2011) (report) placed before the Legislative Assembly had recommended proper identification of schemes to be undertaken under both category A and B of the Gender Budget.

Gender Budget document (2011-12) stated that categorization was being fine-tuned every year in consultation with departments. Further, the document also stated that generation of gender disaggregated data through MPIC, during implementation of the scheme would further the cause of gender budgeting for deeper analysis. The Finance Department stated (October 2012) that the rationale for categorization was based on 'Ashok Lahiri Committee Report'.

Analysis of schemes of Gender Budget document (2011-12) under category A and B of Department of Forest and Tourism showed the following:

Forest:

The Gender Budget Document of 2011-12 reflected seven schemes with respect to Department of Forest under category B which is detailed in **Table 1.3**. However, no schemes were selected under category A.

Table 1.3: Schemes under category B of Department of Forest

(₹ in crore)						
Schemes	Allocations	Expenditure [#]	30% Allocation	Actual allocation [*]	Expenditure [*]	Percentage to expenditure
Training institutions	4.16	4.13	---	---	---	--
Development of degraded forests	4.12	4.10	1.37	0.82	0.56	14
Greening of Urban areas	5.00	9.46	1.67	1.00	1.92	20
Development of Bio-fuel plantations	0.10	0.10	0.03	0.02	0.02	20
Raising of seedlings for Public distribution	5.00	4.98	1.67	1.00	1.00	20
Re-imburement of medical expenses	0.52	0.04	---	---	---	--
Environment management & policy research institute	1.76	1.76	---	---	---	--

**as furnished by the Department of Women and Child Development*

#as per Appropriation Accounts

Against the minimum 30 per cent expenditure to be incurred under category B, the amount expended ranged between 14 per cent and 20 per cent. Also, the three schemes viz., Training institutions, re-imburement of medical expenses and Environment management and policy research institute, included under category B did not benefit women. It was seen that the expenditure under 3 schemes was even less than 30 per cent allocation and in respect of scheme of greening of urban areas, the expenditure exceeded 30 per cent allocation. The Department of Women and Child Development in their progress report for the year 2011-12 also did not reflect the said schemes. Hence, the Gender Budget allocation was overstated to this extent.

Further, the other four programmes viz., development of degraded forests, greening of urban areas, development of bio-fuel plantation and raising of seedlings for public distribution also did neither empower women nor alleviated the position of women.

The department in its reply (July 2012) stated that there were no schemes meant specifically for women and since more than 30 per cent of the work force for watering the saplings, weeding, transplanting the saplings etc., were women, the schemes were categorized as falling under category 'B'. It also stated that as 40 per cent of allocation was incurred towards cost of materials, the allocation was less than 30 per cent.

However, the annual plan of the department for the year 2011-12 with respect to scheme 'Raising of seedlings for public distribution' and 'Greening of urban area' did not allocate 30 per cent of its manual work to women.

Tourism:

The Gender Budget Document of 2011-12 reflects only one scheme under category B with respect to Department of Tourism and the details of it are indicated in **Table 1.4**.

Table 1.4: Scheme under category B of Department of Tourism

Schemes	Allocations	Expenditure	30%	Actual	Expenditure	Percentage to
	(As per Appropriation Accounts)		Allocation	allocation		expenditure
Tourist infrastructure at various places	115.43	133.44	38.48	---	---	--

Though the department incurred ₹ 133.44 crore as expenditure during 2011-12, which was in excess of ₹ 18.01 crore over provision, it did not take up any programmes which benefited women under Category B exclusively. The department in its reply (September 2012) stated that it had not planned any programme for the benefit of women. This indicated lack of effective co-ordination/ monitoring while preparing the estimates.

The Gender Budget Cell of Finance Department stated that a 'Gender Budget Monitoring Cell' was proposed to be set up by the Department of Women and Child Development. It also stated that nodal officers of Karnataka Mahila Abhivridhi Yojane (KMAY) were expected to monitor the performance of the schemes shown in Gender Budget document. The reply of the Department of Women and Child Development (June 2012) also indicated that, while the schemes under category A were fully monitored, the schemes under category B were monitored only with respect to certain schemes identified by KMAY. Hence, against 759 schemes under category B in Gender Budget document, only 254 schemes were being monitored.

1.4.3 Major policy initiatives of Budget 2011-12

In 2011-12 for the first time an exclusive agriculture budget was presented to the Legislature along with the general budget. Agriculture and the related irrigation sectors were allocated ₹ 17,857 crore and other sectors were allocated ₹ 69,880 crore.

Some of the major initiatives announced in the budget are detailed in **Table 1.5**.

Table 1.5: Major initiatives as per budget 2011-12

Agriculture budget	General budget
₹ 1,000 crore earmarked for improvement of lives of 10 lakh agricultural families under the Suvarna Bhoomi Yojane.	Allocation to rural development increased to ₹ 4,385 crore with allocations of ₹ 1,000 crore for drinking water and ₹ 400 crore for Suvarna Gramodaya.
Agriculture loan made available for farmers at an interest of one per cent through co-operative societies.	Devolution of funds to local bodies increased to 42 per cent of Non Loan Net Own Revenue Receipts (NLNORR).
₹ 3,900 crore for supplying quality power to irrigation pumpsets.	₹ 500 crore as equity support to the ESCOMs for separation of the electricity feeders under Niranthara Jyothi project.
For taking up rejuvenation of tanks and for filling up dried tanks with water, earmarking an amount of ₹ 1,000 crore.	₹ 4,770 crore from various sources for infrastructure development and overall development of Bangalore.
₹ 100 crore provided for regularization of one lakh illegal pump sets.	₹ 750 crore provided in 2011-12 for improving urban infrastructure in urban areas under the three year Mukhya Mantri Nagarothana Yojane.
Organising Global Agro Investment Meet for the first time in the country and framing of Karnataka Agri-Business development policy.	₹ 400 crore for distribution of bonds to beneficiaries under Bhagyalakshmi scheme.
Providing ₹ 7,800 crore exclusively for irrigation sector.	Pooled funds for Special Component Plan / Tribal Sub Plan increased to ₹ 1,000 crore.

During 2011-12, the action taken by the Government to implement the said major initiatives, as enumerated in the Action Taken Report (2011-12), are summarized below:

Agriculture	: Total amount released under the scheme 'Suvarna Bhoomi Yojane' was ₹ 518.78 crore. Against this, ₹ 361.32 crore has been expended to 6.50 lakh beneficiaries. Further, interest subvention of ₹ 11.10 crore was re-imbursed in respect of two lakh farmers who availed crop loans at three per cent rate of interest. During 2011-12, Karnataka Agri-Business Development Policy has been brought out for Global Agro Investment Meet. Provision of ₹ 7,800 crore was made for implementation of 'Jala Kranthi' which included rejuvenation of tanks and filling dried tanks with water. While around 40,899 IP sets were regularized, ₹ 4,117 crore were released as subsidy to ESCOMs for providing power to irrigation pumpsets.
General	: Action plan for ongoing rural development schemes had been carried out. Government order for increase in devolutions to local bodies was issued during October 2011. Action plan has been initiated to speed up the work of both 1 st and 2 nd phase of Niranthara Jyothi project. As at the end of December 2011, 100 feeders have been charged and put to use. Further, action to provide basic infrastructure in Bangalore city, widening and upgrading of city roads and flyovers, construction of underpasses have been taken up by Government. Action plan in respect of 10 ULBs of North Karnataka has been approved in respect of 'Mukhya Manthri Nagarothana Yojane' where the administrative / technical approvals for these works were in various stages. ₹ 407.59 crore has been provided during 2011-12 for the Bhagyalakshmi scheme. Also, Government orders have been issued for various programmes under SCP / TSP.

Detailed scrutiny of action taken by the Government as enumerated in the Action Taken Report 2011-12 with respect to Department of Energy and Housing was initiated in audit. The observations on the action taken by the Government are brought out in **Appendix 1.4**.

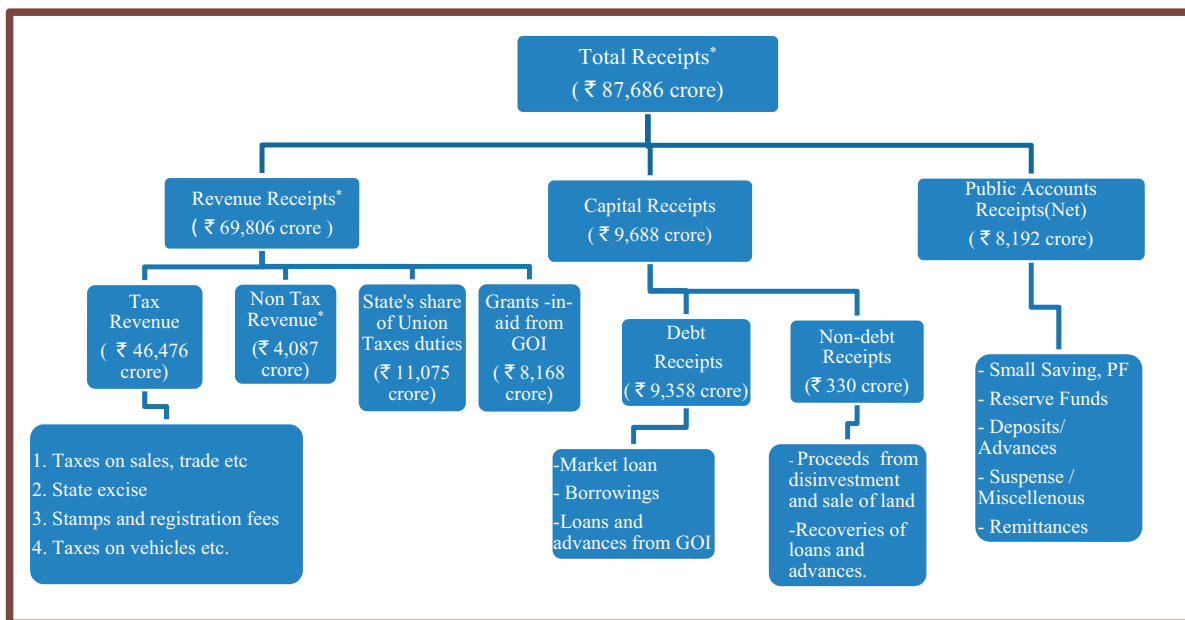
1.5 Resources of the State

1.5.1. Resources of the State as per Finance Accounts

The progress of the Government's programmes depends on its resources and the quantum of resources in any particular financial year determines the expenditure threshold of the Government.

The components of the State's receipts have been categorized in **Chart 1.2**

Chart 1.2: Components and sub-components of Resources

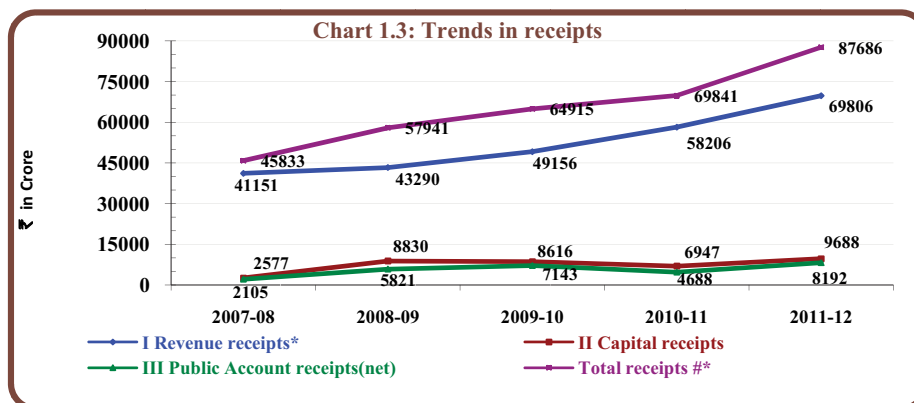


* refer note below Table 1.1

Table 1.1 depicting *inter-alia* the receipts of the State during 2011-12, as recorded in Finance Accounts, may also be referred to on page 2.

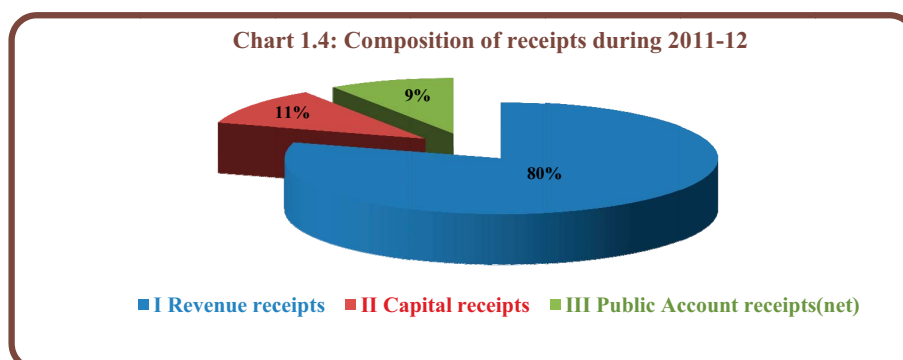
Chart 1.3 depicts the trends in various components of receipts during 2007-12, while **Chart 1.4** depicts the composition of resources of the State during the year 2011-12.

Total receipts (excluding contingency fund receipts) increased by 91 per cent from ₹ 45,833 crore in 2007-08 to ₹ 87,686 crore in 2011-12. Further, there was an increase of receipts over the previous year by ₹ 17,845 crore (26 per cent excluding contingency fund receipts).



Excluding Contingency Fund receipts

*refer note below Table 1.1



Source: Finance Accounts

Public Account receipts refer to those receipts for which the Government acts as a banker/trustee for the public money. On an average, it constituted 8 per cent of the total receipts during 2007-2012. Net Public Account receipts which totaled ₹ 2,105 crore in 2007-08 increased to ₹ 8,192 crore in 2011-12. During 2011-12, there was 75 per cent growth in Public Account receipts compared to previous year. The growth was maximum in Reserve Fund (101 per cent). Analysis of Reserve Funds is provided in paragraph 1.10.3.

The share of revenue receipts in total receipts during 2011-12 was at 80 per cent. Further details are provided in paragraph 1.6.

Capital receipts increased by 276 per cent from ₹ 2,577 crore in 2007-08 to ₹ 9,688 crore in 2011-12. During 2011-12, the capital receipts accounted for 11 per cent of total receipts. Debt receipts, which was the main constituent of capital receipts, increased by ₹ 2,644 crore from the previous year. Internal Debt and Loans and Advances from GOI are the two components of debt receipts whose share was 86 per cent and 14 per cent of the total debt receipts respectively. In 2011-12, there was a growth of 55 per cent in internal debt over the previous year while there was a negative growth of 16 per cent in Loans and Advances over the previous year. This was due to short release of loans under State plan schemes.

Apart from debt receipts, capital receipts include non-debt receipts such as recovery of loans and advances and receipts through sale of land, etc. In the year 2011-12, non-debt capital receipts showed a growth of 42 per cent over the previous year.

1.5.2 Funds transferred by Central Government to the State implementing agencies outside the State budget

Government of India transferred ₹ 7,140.32 crore during 2011-12 directly to the State implementing agencies¹ for implementation of various schemes/programmes in social and economic services sectors recognized as critical against the transfer of ₹ 7,594.32 crore and ₹ 7,342.27 crore during 2009-10 and 2010-11 respectively. There has been a decrease in transfer of such funds consistently since 2009-10. During 2011-12, the decrease was by three *per cent* over previous year. As these funds were not routed through the State budget/State treasury system, Finance Accounts did not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/ parameters thereto could not be ensured. However, an appendix giving details of funds transferred directly to State implementing agencies outside State budget is included in Finance Accounts by capturing data from CGA website. Details in respect of major Central plan schemes are furnished in **Table 1.6**.

Table-1.6: Funds transferred directly to the State implementing agencies for major plan schemes

Programme / scheme	Implementing agency in the State	₹ in crore)		
		2009-10	2010-11	2011-12
Pass/Equity /Sub-ordinate Debt to Metro Rail Corporation under MoHD	Bangalore Metro Rail Corporation Limited	386.01	101.21	1,480.00
National Rural Health Mission (NRHM) including hospitals and dispensaries	Karnataka State Health and Family Welfare Society	308.80	450.95	692.06
National Rural Drinking Water Programme	Karnataka Rural Water Supply and Sanitation Agency	467.46	703.80	667.78
Mahatma Gandhi National Rural Employment Guarantee Scheme	Zilla Panchayats	2,769.98	1,573.05	662.57
Sarva Shiksha Abhiyan (SSA)	Sarva Shiksha Abhiyan Samithi	442.21	669.03	627.88
Rural Housing (IAY)	Zilla Panchayats	356.27	448.80	294.03
Integrated Watershed Management Programme (IWMP)	Zilla Panchayats and State Level Nodal Agency	219.23	156.43	154.85
Member of Parliament Local Area Development Scheme (MPLADS)	Deputy Commissioners	88.50	90.93	120.07
Micro Irrigation	State Micro Irrigation Committee	63.81	92.54	109.65
National Horticulture Mission	Karnataka State Horticulture Mission Agency	80.02	93.25	99.96
Central Rural Sanitation Scheme	State Water and Sanitation Mission, Karnataka Rural Water Supply and Sanitation Agency	55.71	44.59	87.09
National AIDS Control Programme	Karnataka State AIDS Prevention Society	28.14	59.51	79.25
National Food Security Mission	State Agriculture Management Agency and Karnataka State Seeds Corporation Limited	47.71	72.64	73.31
Pradhan Mantri Gram Sadak Yojana (PMGSY)	Karnataka Rural Roads Development Agency	438.00	927.67	----

Source: Finance Accounts.

State Government in this context has decided (April 2012) to account for these direct releases by the GOI to implementing agencies by incorporating the same as 'receipts to' and 'expenditure out' of the Consolidated Fund in the budget for the financial year 2012-13. Further, a circular along with direction for the adjustment orders has been issued to all the administrative departments. The said accounting adjustments would have considerable effect on the fiscal parameters and also have a bearing on accounts. Further, though directions have been issued for such adjustment of data, no explicit instructions have been issued for validation of data which has a bearing on certification of accounts.

¹ State implementing agency includes any organization/institution including non-governmental organizations and central autonomous bodies which are authorized by the State Government to receive funds from GOI for implementing specific programmes in the State, e.g., State implementation society for Sarva Shiksha Abhiyan.

State Government replied (November 2012) that since the adjustment orders would be issued both of receipt of GOI funds and its expenditure at the same time and as both receipt and expenditure would be similar in nature i.e., either revenue or capital, there would be no net effect on fiscal parameters like revenue surplus/fiscal deficit on account of such adjustments. However, for certain schemes like PMGSY, APDRP and RGGVY where receipts are budgeted as revenue grants and expenditure as capital in nature, these have been kept outside the scope of adjustments and the concerned administrative departments have been advised not to carry out adjustments. Regarding validation of data for adjustments, the administrative departments have been advised to issue adjustment orders after verifying the GOI release order.

In the present dispensation all the accounting transactions taking place in the treasury/account rendering authorities are reported with relevant documentation to Pr. AG (A&E) for compilation of accounts. Though the efforts of the State Government in bringing transparency in accounts are laudable, in the present case the accounting adjustment is to be done only on the basis of reporting by the Administrative departments without the backup of expenditure details. Therefore, a system should be put in place to take care of the accuracy of/responsibility for such accounting adjustments and its validation.

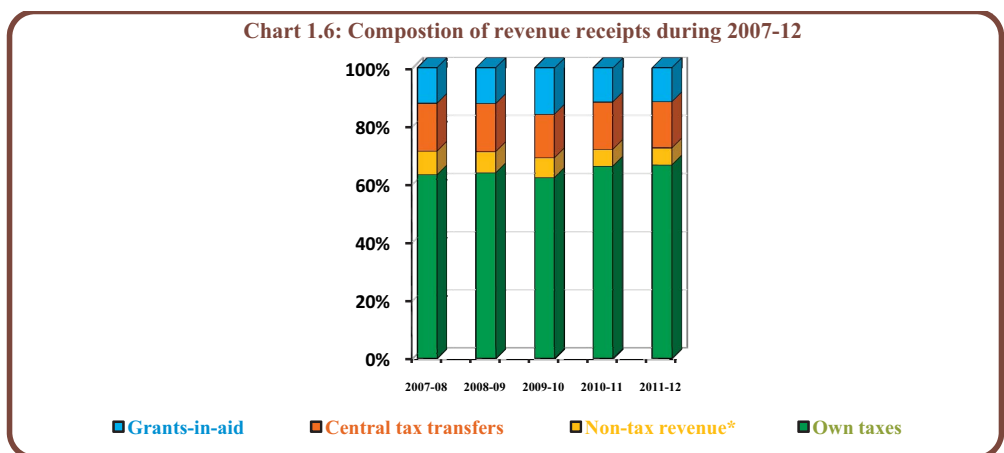
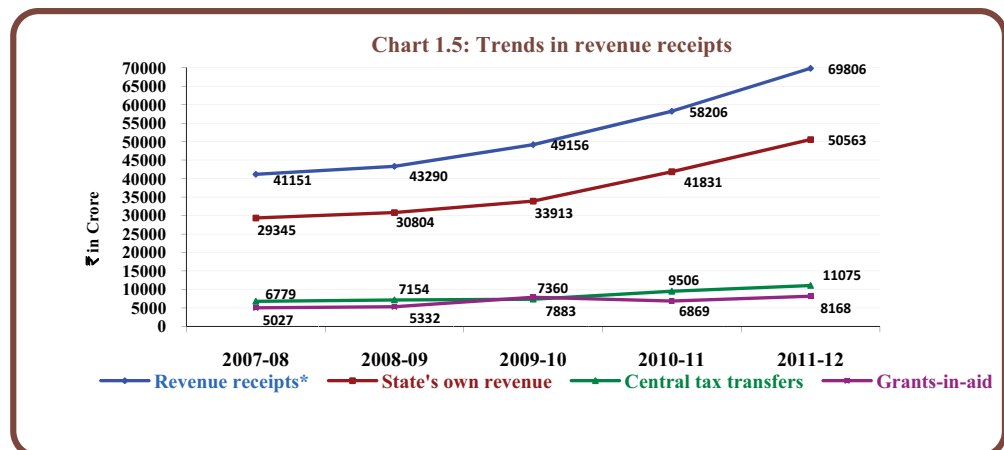
Direct transfer from the Union to the State implementing agencies runs the risk of poor oversight of utilisation of funds by these agencies. Unless uniform accounting practices are diligently followed by all these agencies with proper documentation and timely reporting of expenditure, it is difficult to monitor the end use of these direct transfers. Malpractices and misuse of funds cannot also be ruled out.

1.6 Revenue receipts

The trends and composition of revenue receipts over the period 2007-12 are presented in **Appendix 1.5** and are also depicted in **Charts 1.5** and **1.6**, respectively.

Revenue receipts showed progressive increase from ₹ 41,151 crore in 2007-08 to ₹ 69,806 crore in 2011-12. On an average, 71 *per cent* of the revenue came from State's own resources during the period 2007-12. The balance was from transfers from GOI in the form of State's share of taxes and grants-in-aid and contributions.

State's own resources consist of tax revenue and non-tax revenue. The share of tax revenue in revenue receipts was between 62 and 66 *per cent* during 2007-12. Though, the State had already achieved a high tax to GSDP ratio the growth of tax revenue, which was 66 *per cent* in 2010-11, was maintained in 2011-12 also. Non-tax revenue as a *per cent* of revenue receipts had decreased from eight *per cent* in 2007-08 to six *per cent* in 2010-11. The percentage remained the same in the year 2011-12 also.



Source: Finance Accounts
*refer note below Table 1.1

The trends in revenue receipts relative to GSDP are presented in Table 1.7.

Table 1.7: Trends in revenue receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue receipts (RR) (₹ in crore)	41,151	43,290	49,156	58,206	69,806*
Rate of growth of RR (per cent)	9.5	5.2	13.6	18.4	19.9
Rate of growth of State's own tax (per cent)	11.5	6.4	10.6	25.8	20.8
R R/GSDP (per cent)	15.2	14.0	14.2	14.6	16.1
Buoyancy ratios²					
Revenue buoyancy w.r.t GSDP	0.5	0.4	1.2	1.2	2.2
State's own tax buoyancy w.r.t GSDP	0.6	0.4	0.9	1.7	2.3
Revenue buoyancy with reference to State's own taxes	0.8	0.8	1.3	0.7	0.9
GSDP (₹ in crore)	2,70,628	3,10,312	3,45,235	3,98,893	4,34,270
Rate of growth of GSDP	19.1	14.7	11.3	15.5	8.9

Source: Finance Accounts.
GSDP: MTFP 2011-15
*Refer note below Table 1.1

² Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.4 implies that revenue receipts tend to increase by 0.4 percentage points, if the GSDP increases by one per cent.

Revenue buoyancy, which is directly proportionate to growth of revenue receipts and GSDP, widely fluctuated during the period due to fluctuations in the growth rate of revenue receipts. During 2007-09, the lower growth rate of revenue receipts relative to GSDP pushed the revenue buoyancy ratio down. Revenue buoyancy ratio, which was lowest at 0.4 in 2008-09, increased to 1.2 in 2009-11 due to high increase in the growth rate of revenue receipts. During 2011-12, the revenue buoyancy ratio increased exorbitantly and was at 2.2. This was on account of increase in growth rate of revenue receipts and decrease in growth rate of GSDP from that of previous year.

During 2007-12, the State's own tax revenue was the largest component of the revenue receipts and its growth trend influenced the trends in revenue receipts. During this period, rate of growth of own tax revenue was lowest in 2008-09. During 2011-12, there was decrease in growth rate of own tax revenue. However, due to decrease in growth rate of GSDP, the buoyancy ratio of own tax revenue with respect to GSDP increased to 2.3. The buoyancy ratio of own tax revenue with respect to GSDP was lowest in 2008-09 and highest in 2011-12. The growth rate of own tax revenue influenced the growth rate of revenue receipts, revenue buoyancy with respect to GSDP and the State's own tax buoyancy with respect to GSDP also. In 2011-12, the increase in growth rate of revenue receipts along with decrease in growth rate of GSDP over the previous year influenced the revenue buoyancy with respect to GSDP and the State's own tax revenue buoyancy with respect to GSDP.

1.6.1 State's own resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes etc, the State's performance in mobilization of additional resources should be assessed in terms of revenue from its own tax and non-tax sources.

The State's actual tax and non-tax receipts for the year 2011-12 vis-à-vis assessment made by XIII FC and MTFP (2010-14) are given in **Table 1.8**

Table 1.8

	XIII FC projection	Budget Estimates	MTFP projection	(₹ in crore) Actual
Tax revenue	46,974	43,817	41,120	46,476
Non-tax revenue	5,471	3,675	2,996	4,087*

*refer footnote below Table 1.1

The tax revenue of the State in 2011-12 fell short of the projection made in the XIII FC by ₹ 498 crore. It exceeded the MTFP projection by ₹ 5,356 crore and budget estimates by ₹ 2,659 crore. Non-tax revenue was less than the XIII FC projection by ₹ 1,384 crore but exceeded the MTFP projection and budget estimates by ₹ 1,091 crore and ₹ 412 crore respectively.

Tax revenue as well as non-tax revenue of the State was overstated due to the following aspects:

- Pooling of cess
- Relief under DCRF / debt waiver

These issues are dealt with in detail in paragraph on non-tax revenue.

Tax revenue

Taxes on sales, trade, etc. were the main sources of the State's tax revenue with a contribution of 54 *per cent* followed by State excise (21 *per cent*), stamps and registration fees (10 *per cent*) and taxes on vehicles (six *per cent*). The trends in the major constituents of tax revenue during the period 2007-12 are shown in **Table 1.9**.

Table 1.9: Tax revenue

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Taxes on sales, trade, etc.	13,894	14,623	15,833	20,235	25,020
Rate of growth	18.13	5.25	8.27	27.80	23.65
State excise	4,767	5,749	6,946	8,285	9,776
Rate of growth	6.05	20.60	20.82	19.28	18
Stamps and registration fees	3,409	2,927	2,628	3,531	4,623
Rate of growth	6.33	(-14.14)	(-10.21)	34.36	30.93
Taxes on vehicles	1,650	1,681	1,962	2,550	2,957
Rate of growth	20.00	1.88	16.72	29.97	15.96

Source: Finance Accounts

During the period 2007-12, the rate of growth of taxes on sales, trade, etc., which had decreased during 2008-10 due to general slowdown of economy revived in 2010-11 and was highest at 27.80 *per cent*. Even though, better tax monitoring and collection efforts undertaken by the Government by introducing 'Karsamadhan Scheme' was continued in 2011-12, the rate of growth was at 23.65 *per cent* in 2011-12. However, in the year 2011-12, against budget estimate of ₹ 24,170 crore, revenue realization was ₹ 25,020 crore. The excess collection of ₹ 850 crore was due to increase in VAT rate on goods currently taxed at 13.5 *per cent* to 14 *per cent* and one *per cent* increase on jewellery/article of gold, noble metals, precious and semi-precious stones. Also, MTFP (2012-16) attributed the excess on account of positive response of the tax payers (80 *per cent* of realisation) to the extensive computerization programme, undertaken by the department.

The growth rate of State excise which was at its lowest in 2007-08 at 6.05 *per cent* was 20.82 *per cent* during 2009-10. The increase was due to increase in the consumption of Indian made foreign liquor of lower price band. Since 2009-10, there has been a steady downfall in the growth rate and the rate of growth was 18 *per cent* in 2011-12. The revenue realization was estimated at ₹ 9,115 crore during 2011-12 by increasing the rates of additional excise duty by 10 *per cent* and declared price by ₹ 25 across all 17 slabs. With the increase and strict enforcement measure a revenue growth of 12 *per cent* was expected over the previous year. Against the said expectation, there was a welcome increase in growth rate of 18 *per cent*.

The economic slowdown in 2008-10 had resulted in fall in the number of registrations and negative growth in stamps and registration fees. In 2010-11, on account of an overall growth in economy and reforms initiated by GOI to allow direct investment by foreign players in the real estate sector, there was a huge increase in growth rate over the previous year. There was decrease in rate of growth by 3.46 *per cent* during 2011-12 over the previous year. However, against budget estimate of ₹ 4,030 crore, the revenue realized was ₹ 4,623 crore. The revision of guidance value (November 2011) in line with market rates along with significant improvement in the real estate sector, enhanced better revenue receipts.

Due to economic slowdown, the growth rate of taxes on vehicles was the least in 2008-09. The various measures of GOI to stimulate the automobile industry resulted in higher rate of growth during 2009-10. The demand for motor vehicles which re-bounded strongly in 2010-11 resulted in a steep growth of 29.97 *per cent*. During 2011-12, due to economic slowdown once again there was decrease in sale of motor vehicles which resulted in decrease in growth rate by 14.01 *per cent*. However, against estimate of ₹ 2,630 crore the revenue realized was ₹ 2,957 crore. Against expected growth rate of motor vehicles taxes of 15 *per cent*, the growth rate during 2011-12 was 15.96 *per cent*.

Cost of collection

The gross collection of taxes on motor vehicles, taxes on sales, trade etc., stamp duty and registration and State excise, expenditure incurred on their collection and its percentage to gross collection during the years 2009-12 along with their all-India average cost of collection for the respective previous years are indicated in **Table 1.10**.

Table 1.10: Details of cost of collection

Receipt	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the preceding year
		(₹ in crore)			
Motor vehicles	2009-10	1,962.62	36.81	1.87	2.93
	2010-11	2,551.40	41.45	1.62	3.07
	2011-12	2,958.43	47.50	1.61	3.71
Taxes on sales, trade etc.	2009-10	16,546.34	84.46	0.51	0.88
	2010-11	21,252.97	92.87	0.44	0.96
	2011-12	26,203.81	99.24	0.38	0.75
Stamp duty and registration	2009-10	2,650.17	53.18	2.01	2.77
	2010-11	3,554.48	53.52	1.51	2.47
	2011-12	4,644.46	58.75	1.26	1.60
State excise	2009-10	6,948.72	60.55	0.87	3.66
	2010-11	8,286.83	68.35	0.82	3.64
	2011-12	9,778.38	79.77	0.82	3.05

It is heartening to note that the percentage of cost of collection to the gross collection was significantly less than the all India average for the period 2009-11.

In MTFP (2011-15), State Government, while acknowledging the fact, had stated that in the coming years the State Government would continue with better enforcement measures for raising revenue, review and monitoring of tax efforts and intense use of information technology.

During 2011-12, while the percentage of cost of collection to the gross collection with respect to motor vehicles, taxes on sales, trade etc., and stamp duty / registration was less than the previous year, it was same as in the previous year with respect to State excise.

Non-tax revenue

During 2007-12, 72 *per cent* of the non-tax revenue on an average was on account of interest receipts, dividends, fees and fines and user charges for socio-economic services. The balance 28 *per cent* on an average represented the amounts received from GOI under the scheme of DCRF, amounts written back from Public

Account³ and pooling of cess collection under the head 1475-Other General Economic Services. These transactions had no cash realisation and also did not account for any services provided / user charges and fees levied by the State Government but only represented inter account adjustment. Thus non-tax revenue reflected in Finance Accounts stood inflated by 28 *per cent* as revealed by the details of composition of non-tax revenue shown in **Table 1.11**.

Table 1.11: Composition of non-tax revenue

	2007-08	2008-09	2009-10	2010-11	2011-12	Average percentage composition during 2007-12	
						Interest, dividends, user charges, fees, fines	Others
Interest receipts, dividends and profits	399 (12)	377 (12)	413 (12)	618 (18)	495 (12)	13	
General services	679 (20)	675 (21)	846 (26)	98 (3)	634 (16)		
Relief under DCRF/debt waiver	358 (11)	358 (11)	358 (11)	---	170 (4)		8
Fees, fines etc,	321 (10)	317 (10)	488 (15)	98 (3)	464 (12)	10	
Economic services	2,099 (63)	1,921 (61)	1,836 (55)	2,312 (69)	2,576 (63)		
Write-back from Public Account	749 (22)	484 (15)	2 (-)	---	2 (-)		7
Pooling of cess collections	377 (11)	365 (12)	386 (12)	516 (15)	634 (16)		13
User charges	973 (29)	1,072 (34)	1,448 (43)	1,796 (53)	1,940 (47)	41	
Social services –user charges	181 (5)	186 (6)	239 (7)	330 (10)	382 (9)	8	
Total	3,358	3,159	3,334	3,358	4,087 *	72	28

Figures in brackets denote percentage composition in non-tax revenue

*refer footnote below Table 1.1

Source: Finance Accounts.

The State Government in its reply to PAC (July 2011) had stated that though relief under DCRF was not received in cash, it contributed to the total revenue receipts of the State and hence was accounted as non-tax revenue.

During the year 2011-12, 20 *per cent* of the non tax revenue was inflated on account of pooling of cess collection under the major head 1475 and relief under DCRF/debt waiver.

In this regard, the PAC in its report has proposed the following:

- To identify and bring out the non cash transactions separately for the purpose of transparency.
- Elimination of all non cash transactions for working out the fiscal indicators.
- Representatives of State Accountant's General and Finance Department to work towards strengthening the system.

³ The Balance under the Zilla Panchayat Fund/Taluk Panchayat Fund under category II (in Public Account) which accounts receipts and expenditure in respect of all State plan schemes (other than matching share of CPS/CSS and all non-plan assistance received from State Government) as at the end of March each year have to be written back to the Consolidated Fund in the next financial year. During past three years, the balances have not been written back to the Consolidated Fund of the State resulting in over statement of expenditure to that extent.

It may be mentioned here that the XIII FC had opined that accounting of debt waiver as non-tax revenue was not desirable as it artificially overstated the non-tax revenue of the State. Further, accounting of debt-waiver as non-tax revenue allowed the State to spend more within the same fiscal deficit cap, artificially reducing the intended impact on the debt stock of the State. Hence the XIII FC had recommended accounting of such transactions in such a manner that it did not artificially affect the revenue/fiscal deficit of the State.

However, during 2011-12, cess collection of ₹ 634.28 crore continued to be pooled under non-tax receipt head 1475 as non-tax revenue even though the State Government had committed in the MTFP 2012-16 that in order to standardize accounting, cess would be classified as tax receipts instead of non-tax receipts. Further, central loans of ₹ 170 crore to the State Government for CSS/CPS, outstanding as at the end of 2009-10, was written off during 2011-12 based on the XIII FC recommendations, treating this adjustment as non tax revenue. However, this particular accounting adjustment has not been reckoned for working out the fiscal indicators like revenue surplus/fiscal deficit as per the instructions of the Government of India.

The State Government in its reply (November 2012) stated that the MTFP was the last document placed before the State Legislature while the supplementary estimates (final installment) for the year was placed much earlier resulting in non provision for giving effect to MTFP commitment. However, this has been taken care of in budget 2012-13. The reply is to be viewed in the light of the fact that the commitment for treating the cess as tax revenue existed in the MTFP (2012-16) and that the Finance Department should have adhered to this commitment while placing the supplementary estimates.

Total non tax revenue increased by ₹ 729 crore from ₹ 3,358 crore in 2010-11 to ₹ 4,087 crore in 2011-12. Out of ₹ 729 crore, the actual increase accounted for was only ₹ 58 crore. Remaining ₹ 671 crore was on account of loans written off, non-withdrawal of debt waiver and pooling of cess under non-tax receipt head 1475. During 2011-12, there was a growth of 16 and 11 *per cent* over the previous year in social services and economic services, respectively. However, there was a negative growth of 20 *per cent* over the previous year under interest receipts, dividend and profits. Huge increase (₹ 536 crore) of non-tax revenue under general services over the previous year was on account of the debt waiver amount of ₹ 358.33 crore pertaining to the year 2008-09 being recovered and deducted from the non-tax revenue of 2010-11. This had resulted in lower non-tax revenue under general services in that year. In 2011-12, the revenue realized (₹1,269.69 crore) in royalty receipts was higher by nine *per cent* than the previous year (₹ 1,161.70 crore). The decrease in the rate of growth was due to the ban imposed on mining in the State, which constituted 31 *per cent* of the total non-tax revenue of the State.

According to FRA, the State Government had to pursue non-tax revenue policies with due regard to cost recovery and equity. In MTFP (2011-15) and also in MTFP (2012-16), State Government has stated that apart from enforcement and monitoring of own tax efforts, special emphasis was required to be given on mobilizing non-tax revenues in the coming years. State Government further stated that it was committed to rationalize user charges and review the same regularly.

In this regard, Expenditure Reforms Commission (ERC) as well as FMRC has suggested remedial measures to check the slide in growth of non-tax revenue. The recommendations of ERC in its third and fourth reports are mainly on the revision of user charges. Some of the suggestions were in the following areas:

- The Government should articulate a clear policy on user charges and draft a detailed user charges policy.
- Government should expedite the constitution of a State Water Regulatory authority which could function as a regulator for water use in the State (drinking, irrigation and industrial projects).
- Government to review road related taxes/toll and to constitute State Road Regulatory Authority.

The State Government in MTFP (2012-16) has stated that the Department of Rural Development and Panchayat Raj would propose a water O&M policy which would look at tariff structure.

The ratio of non-tax revenue to non-plan revenue expenditure is considered as an indicator of cost-recovery from socio-economic services. The details of recovery of current cost as ratio of non-tax revenue receipts to non-plan revenue expenditure in respect of Education, Health and Family Welfare, Water Supply and Sanitation and Irrigation during 2011-12 are given in **Table 1.12**.

Table 1.12: Cost-recovery from socio-economic services

Service	(₹ in crore)		
	Non tax revenue receipts (NTR)	Non plan revenue expenditure (NPRE)	Cost recovery (ratio of NTR/ NPRE in per cent)
Education, sports, art and culture	130.58	9,270.99	1.41
Health and family welfare	87.86	1,754.24	5.01
Water supply and sanitation	0.41	31.53	1.30
Irrigation	41.90	332.33	12.61

Source: Finance Accounts.

In this connection, the XIII FC had recommended to the States to increase power tariff rates to bridge the gap between cost and recovery. It also recommended water sector grants, in addition to maintenance expenditure grants, which were subject to stepping up of the above mentioned recovery rates.

In the irrigation sector, the receipts which were ₹ 28.32 crore during 2010-11 increased to ₹ 41.90 in 2011-12 (48 per cent).

1.6.2 Grants-in-aid from GOI

Grants-in-aid from GOI increased from ₹ 5,027 crore in 2007-08 to ₹ 8,168 crore in 2011-12 as shown in **Table 1.13**.

Table 1.13: Grant-in-aid from GOI

		(₹ in crore)				
		2007-08	2008-09	2009-10	2010-11	2011-12
Non-plan		1,531	1,694	3,429	2,257	2,129
	State	1,916	2,020	2,973	2,839	3,626
Plan	Central	71	94	61	145	76
	Centrally sponsored	1,509	1,524	1,420	1,628	2,337
Total		5,027	5,332	7,883	6,869	8,168

Source: Finance Accounts.

The increase of GOI grants by ₹ 1,299 crore in 2011-12 over the previous year was due to increase in State plan schemes (₹ 787 crore) and Centrally Sponsored Plan Scheme (₹ 709 crore), offset by decrease in mainly non plan scheme

(₹ 128 crore). The increase in State plan schemes was mainly under block grants and XIII FC grants while the decrease was under other grants.

1.6.3 Central tax transfers

The XIII FC had recommended the State's share of Central Taxes to be increased to 32 per cent from 30.50 per cent as recommended by Twelfth Finance Commission. The State's share in the net proceeds of Central Tax (excluding Service Tax) and net proceeds of Service Tax has been fixed at 4.33 and 4.40 per cent, respectively. The share of Union Taxes received during 2011-12 (₹ 11,075 crore) exceeded the estimate (₹ 10,419 crore) by ₹ 656 crore.

Increase of the State's share of Union Taxes and duties by ₹ 1,569 crore over the previous year was mainly under Corporation Tax (₹ 644 crore), Customs Duty (₹ 258 crore) and Taxes on Income other than Corporation Tax (₹ 251 crore) and Service Tax (₹ 374 crore).

1.6.4 Optimization of XIII FC grants

The Commission had recommended ₹ 2,039.96 crore as transfer to the State in the areas indicated in **Table 1.14** during 2011-12.

Table 1.14: Transfers recommended and actual release of Grants-in-aid

(₹ in crore)					
Sl. No.	Transfers	Recommendation of FC	Actual Releases	Expenditure under relevant revenue heads of account	Unutilized amount
1	Local Bodies				
	(a) Grants to PRIs	486.40			
	(b) General Performance Grant to PRIs	166.27	464.73	4,342.24*	---
	(c) Grants to ULBs	215.10			
	(d) General Performance Grant to ULBs	73.53	653.99		
2	Disaster Relief				
	(i) Disaster Relief Fund	126.76	126.76	126.76	Nil
	(ii) Capacity Building	4.00	4.00	Nil	4.00
3	Improving outcome grants				
	(i) Improvement in Justice Delivery	53.94	26.98	16.50	10.48
	(ii) Incentive for issuing UIDs	27.78	Nil	Nil	Nil
	(iii) Statistical Systems Improvement	5.80	5.80	1.73	4.07
	(iv) Employee and Pension Data Base	2.50	Nil	Nil	Nil
	(v) District Innovation Fund	7.25	14.50	0.83	13.67
4	Environment Related Grants				
	a) Forest	27.63	27.63	27.14	0.49
	b) Water Sector Management	32.00	Nil	Nil	Nil
5	Elementary Education	119.00	119.00	119.00	Nil
6	Roads and Bridges	367.00	367.00	256.47	110.53
7	State Specific grants				
	a) Restoration of Tanks	87.50	87.50	17.79	69.71
	b) Drinking Water	75.00	60.91	166.27*	---
	c) Infrastructure in Bangalore - Solid waste and Traffic management	100.00	70.00	Nil	70.00
	d) Heritage	25.00	25.00	Nil	25.00
	e) Police Training	37.50	37.50	37.50	Nil
	Total	2,039.96	2,091.30	5,112.23*	307.95

*inclusive of State's share as per the recommendations of Third State Finance Commission

As of March 2012, the State Government had received grants aggregating ₹ 2,091.30 crore against recommendation of ₹ 2,039.96 crore. This was on account of excess release of ₹ 184.67 crore under Local Bodies (₹ 177.42 crore) and District Innovation Fund (₹ 7.25 crore) offset by short release of ₹ 133.33 crore under Pooling to improvement in Justice delivery (₹ 26.96 crore), Incentive for issuing UIDs (₹ 27.78 crore), Employee and Pension Data Base (₹ 2.50 crore), Water Sector Management (₹ 32.00 crore) and State Specific Grants (₹ 44.09 crore).

In the above cases where there were short releases, the first transfer/installment was to be released during 2010-11 without any condition and the subsequent installments were to be released on fulfillment of certain conditions as detailed against each in the **Table 1.15**. As the State did not fulfill the conditions stipulated by the XIII FC, subsequent installments were not released.

Table: 1.15: Conditions for release of XIII FC grants

Transfer	Condition for release of subsequent installment
Incentive grant for UID	To be released on a re-imburement basis based on various criteria.
Improvement of Justice delivery	To be released after the State puts in place a State Litigation Policy.
Database for Government Employees and Pensioners	Database to be completed in three years. Balance to be released after the State certifies that it has created a database.
Water Sector Management*	State to set up the Water Regulatory Authority by 2011-12 which is to be notified latest by 31.03.2012.
State Specific grant	To be withheld for the period during which a State is in violation of the agreement. If a State is in violation for only the part of a year, its grants to be reduced to a proportionate extent.

* Condition for release of first installment

Against the release of ₹ 2,091.30 crore, ₹ 307.95 crore remained unutilized. The unspent provision was mainly on account of delayed approval of action plan (₹ 4.07 crore and ₹ 69.71 crore), late release of fund (₹ 25 crore), non-approval of action plan (₹ 70 crore), non-commencement of morning and evening courts and non-recruitment of court managers (₹ 10.48 crore) and non-adherence to the guidelines of the Central Government (₹ 13.67 crore).

1.6.5 Foregone revenue

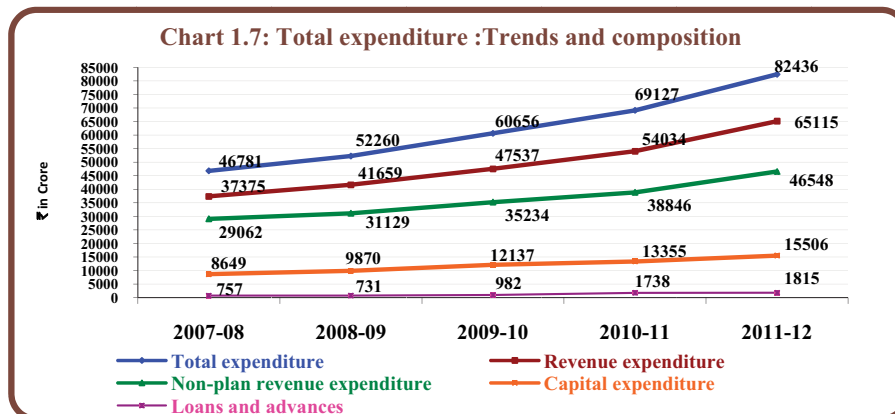
PAC in its report, while recommending a system to oversee the collection of revenue had suggested to the State Government to discontinue the practice of giving discounts, waivers and exemptions while collecting taxes. However, as per MTFP (2012-16), the revenue foregone during 2011-12 by way of stamp duty and entry tax exemptions, re-imburement of CST etc., was ₹ 304.09 crore. Further, the amount of tax exemptions and tax deferments availed by industries were ₹ 307.21 crore and ₹ 325.89 crore respectively. Tax exemptions under industrial policy are discussed in detail in **Paragraph 1.7.6**.

1.7 Application of resources

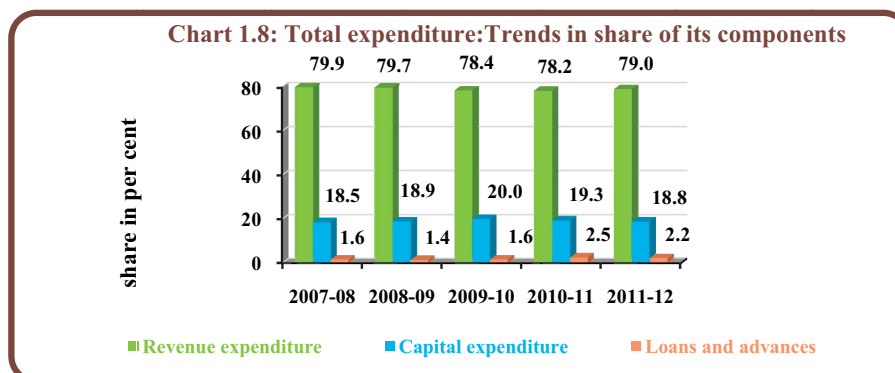
Analysis of the allocation of expenditure at the State Government level assumes significance as it is an important aspect of fiscal policy to achieve developmental goals. Within the framework of fiscal responsibility legislations, there are budgetary constraints on raising public expenditure financed by deficit or borrowings. At the same time, it is important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure directed towards development and social sectors.

1.7.1 Growth and composition of expenditure

Chart 1.7 presents the trends in total expenditure under revenue, capital and loans and advances, while **Chart 1.8** exhibits the share of these components in total expenditure.



Source: Finance Accounts



Source: Finance Accounts.

Total expenditure increased by 76 per cent from ₹ 46,781 crore in 2007-08 to ₹ 82,436 crore in 2011-12 due to increase in revenue expenditure (₹ 27,740 crore), capital outlay (₹ 6,857 crore) and disbursement of loans and advances (₹ 1,058 crore).

During the period 2007-12, on an average, 79 per cent of the total expenditure was revenue expenditure. The share of revenue expenditure in the total expenditure, which had decreased from 80 per cent in 2008-09 to 78 per cent in 2009-11, increased to 79 per cent in 2011-12. However, the share of capital expenditure (including loans and advances) which had increased from 20 per cent in 2008-09 to 22 per cent in 2009-11 decreased marginally and was 21 per cent in 2011-12. ERC (Expenditure Reforms Commission) in their first report (February 2010) had recommended capital investments to be stepped up and protected from fiscal uncertainties through prudent allocations. It had also recommended maintaining the capital expenditure (excluding debt servicing) at five per cent of GSDP. However, the capital expenditure (excluding debt servicing) which was four per cent of GSDP in 2010-11 continued at that level in 2011-12 also.

The revenue expenditure during 2011-12 included ₹ 93.74 crore provided to Bangalore Metro Rail Corporation Limited (₹ 50 crore) as 'reimbursement of taxes and duties', Bharath Earth Movers Limited (₹ 40.99 crore) as

'reimbursement of sales tax to eligible industries' and cashew dealers (₹ 2.75 crore) as waiver of central sales tax. Also, the capital expenditure included ₹ 50 crore provided to Bangalore Metro Rail Corporation Limited as 'reimbursement of taxes and duties'. The State Government took the approval of legislature stating that neither the Karnataka Value Added Tax Act nor the Central Sales Tax Act had any proviso for re-imburement / waiver of tax. This resulted in overstatement of revenue receipts and also revenue / capital expenditure to that extent.

State Government stated (November 2012) that once the Legislature's approval was obtained for any taxation provision, Executive had no authority to refund the tax collected in the absence of enabling provision. Therefore the payments were made under the prevailing development policies. It was generally felt that the reimbursement route for support to industries would be a better option than outright provision of tax exemption.

Though the concession by way of tax reliefs to promote industry is laudable, the treatment is technically incorrect. The proper recourse will be bringing in suitable legislation under the relevant Act before the Legislature for granting concession/exemption. Further, the absence of such a provision in the relevant Act does not give the Executive the authority to treat it as an item of expenditure requiring the approval of the Legislature.

1.7.2 Buoyancy of expenditure

Buoyancy of total expenditure

The trends in expenditure relative to GSDP and revenue receipts during 2007-12 are presented in **Table 1.16**.

Table 1.16: Total expenditure – Basic parameters

	(₹ in crore, rate & ratio in per cent)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Total expenditure (TE)*	46,781	52,260	60,656	69,127	82,436
Rate of growth	10.5	11.7	16.1	14.0	19.2
GSDP	2,70,628	3,10,312	3,45,235	3,98,893	4,34,270
Rate of growth	19.1	14.7	11.2	15.5	8.9
TE/GSDP	17.3	16.8	17.6	17.3	19.0
Revenue receipts ** / TE	88.0	82.8	81.0	84.2	84.7
Revenue expenditure	37,375	41,655	47,527	54,034	65,115
Rate of growth	11.8	11.5	14.1	13.7	20.5
Capital expenditure	9,406	10,605	13,129	15,093	17,321
Rate of growth	5.7	12.7	23.8	15.0	14.8
Buoyancy of total expenditure with					
GSDP	0.5	0.8	1.4	0.9	2.1
Revenue receipts	1.1	2.2	1.2	0.8	1.0
Buoyancy of revenue expenditure with					
GSDP	0.6	0.8	1.2	0.9	2.3
Revenue receipts	1.2	2.2	1.0	0.7	1.0
Buoyancy of capital expenditure with					
GSDP	0.3	0.9	2.1	1.0	1.7
Revenue receipts	0.6	2.4	1.8	0.8	0.7

*Total expenditure includes revenue expenditure, capital expenditure including loans and advances

**refer footnote below Table 1.1

Source: Finances Accounts.

The rate of growth of total expenditure which was 10.5 per cent in 2007-08 grew consistently and was 16.1 per cent in 2009-10. However, during 2010-11 there was a slight decrease in its growth and in 2011-12 the growth was maximum at 19.2 per cent.

In 2011-12 as in 2010-11, total expenditure was 1.2 times the revenue receipts. The buoyancy ratio of total expenditure to revenue receipts was around 1.0 *per cent* and the growth rate of total expenditure was almost the same as the growth rate of revenue receipts.

The growth rate of total expenditure (19.2 *per cent*) in 2011-12 was 2.1 times the growth rate of GSDP (8.9 *per cent*) and the buoyancy of total expenditure to GSDP which was 0.5 *per cent* in 2007-08 fluctuated during the period 2009-12. The buoyancy of total expenditure to GSDP which had decreased to 0.9 in 2010-11 increased to 2.1 on account of increase in growth rate of total expenditure and decrease in growth rate of GSDP. During 2011-12, 85 *per cent* of the total expenditure could be met out of revenue receipts.

Buoyancy of revenue expenditure

The growth in revenue expenditure, which was higher than the growth of revenue receipts during 2007-10, had decreased in 2010-11. During 2011-12, once again the growth of revenue expenditure was highest at 20.5 *per cent*. Also, the growth of revenue expenditure, which was less than the growth of GSDP in 2007-09 and 2010-11, increased during 2009-10 and 2011-12. For every one *per cent* growth in GSDP during 2008-09, revenue expenditure grew only by 0.8 *per cent*. However, during 2011-12, revenue expenditure growth was 2.3 times the growth of GSDP. This trend was reverse with respect to buoyancy of revenue expenditure to revenue receipts as the rate of growth of revenue receipts was least in 2008-09 due to economic slowdown and highest in 2011-12. Hence, for every one *per cent* growth in revenue receipts during 2008-09, the growth of revenue expenditure was 2.20 times. During 2011-12, growth of the revenue receipts was almost the same as growth of revenue expenditure and hence its ratio was 1.0 *per cent*.

Buoyancy of capital expenditure

During 2009-10, the rate of growth in capital expenditure which was highest at 23.8 *per cent* was also higher than the rate of growth of GSDP as well as revenue receipts. In 2011-12, while the rate of growth capital expenditure (14.8 *per cent*) was more than the growth of GSDP, it was less than the growth of revenue receipts. The buoyancy of capital expenditure with respect to revenue receipts has shown decreasing trend during 2008-12 and was least at 0.7 *per cent* in 2011-12. The buoyancy of capital expenditure with respect to GSDP which was highest at 2.1 in 2009-10 had decreased to 1.0 in 2010-11. During 2011-12, it once again increased to 1.7 due to decrease in growth rate of GSDP.

1.7.3 Plan and non-plan expenditure

Finance Accounts provide a further classification of expenditure into plan and non-plan. Plan expenditure normally relates to incremental developmental expenditure on new projects or schemes and involves both revenue and capital expenditure. In order to maintain the level of services already achieved, non-plan expenditure is normally utilized. **Table 1.17** presents the growth and composition of plan and non-plan expenditure over the last five years.

Table 1.17 Growth in plan and non-plan expenditure

		₹ in crore)				
		2007-08	2008-09	2009-10	2010-11	2011-12
Plan	Revenue	8,313	10,526	12,293	15,188	18,567
	Capital	7,199	9,139	11,128	12,582	14,922
	Loan	751	224	916	1,736	1,731
	Total	16,263	19,889	24,337	29,506	35,220
	Percentage of plan to total expenditure	35	38	40	43	43
Non-plan	Revenue	29,062	31,129	35,234	38,846	46,548
	Capital	1,450	735	1,019	773	584
	Loan	6	507	66	2	84
	Total	30,518	32,371	36,319	39,621	47,216
	Percentage of non-plan to total expenditure	65	62	60	57	57
Total expenditure	46,781	52,260	60,656	69,127	82,436	

Source: Finance Accounts

The share of plan expenditure in the total expenditure had exhibited increasing trend during 2007-11, which indicated the productive quality of expenditure. During 2011-12, however, the share of plan expenditure was the same as in the previous year.

During the period 2007-12, while plan expenditure increased by 117 per cent from ₹ 16,263 crore in 2007-08 to ₹ 35,220 crore in 2011-12, non-plan expenditure increased by 55 per cent from ₹ 30,518 crore to ₹ 47,216 crore.

Increase of plan revenue expenditure by ₹ 3,379 crore over the previous year indicated that more emphasis was given on developmental expenditure and schemes/programmes. The increase was mainly under Education, Sports, Art and Culture (₹ 119 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 344 crore), Social Welfare and Nutrition (₹ 577 crore), Health and Family Welfare (₹ 206 crore) and Agriculture (₹ 1,162 crore) offset by decrease in Transport (₹ 136 crore). Plan revenue expenditure included devolutions to Panchayat Raj Institutions (PRIs) (₹ 4,944 crore) and Urban Local Bodies (ULBs) (₹ 1,480 crore), Subsidies (₹ 635 crore) and Salaries (₹ 1,550 crore).

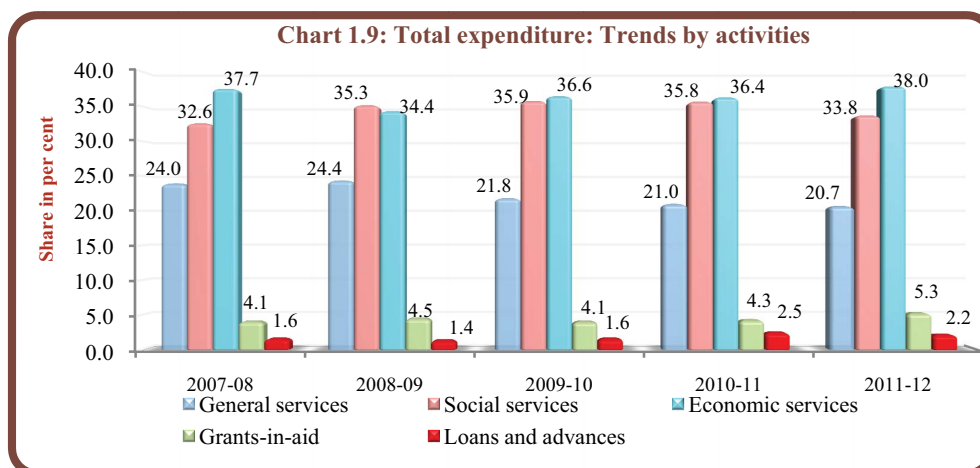
Non-plan revenue expenditure (NPRE) was 71 per cent of revenue expenditure during 2011-12. It included devolutions to PRIs (₹ 10,268 crore), ULBs (₹ 2,768 crore), interest payment (₹ 6,604 crore), subsidies (₹ 6,478 crore), pension payments (₹ 5,436 crore), salaries (₹ 11,446 crore) and maintenance expenditure (₹ 1,056 crore).

Non-plan revenue expenditure (₹ 46,548 crore) exceeded projections made by XIII FC for 2011-12 (₹ 38,040 crore) by ₹ 8,508 crore.

In the year 2011-12, plan expenditure included conversion of equity of ₹ 2.99 crore into capital grant (₹ 1.68 crore) and subsidy (₹ 1.31 crore). The said equity, which was released under plan in earlier years, was converted into capital/revenue in the current year by withdrawing the debit under non-plan. Thus, while the non-plan was understated, the plan expenditure was overstated.

1.7.4 Trends in expenditure by activities

In terms of 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 total expenditure are indicated in **Chart 1.9**.



Source: Finance Accounts.

In the MTFP 2011-15 and 2012-16, the Government stated that to have quality expenditure, outlays for social and economic services (including loans and advances) were to be enhanced while expenditure on general services were to be moderated. The State Government also stated that during the last three years, expenditure on social services accounted for the largest expenditure. The expenditure on social services, which was at 34 per cent of total expenditure in 2007-08, had increased to 38 per cent in 2010-11. However, during the year 2011-12, it decreased by two per cent and was at 36 per cent. Meanwhile expenditure on general services decreased from 24 per cent in 2007-08 to 21 per cent in 2011-12.

The share of economic services to total expenditure which was at 38 per cent in 2007-08 decreased to 35 per cent in 2008-09. However, it once again increased to 38 per cent in 2011-12.

MTFP 2012-16 envisaged increase of 15 per cent during 2011-12 over the previous year on social services (including loans and advances) against which the increase was 12.20 per cent. The increase was on account of higher expenditure in critical sectors such as Education, Welfare of SCs/STs/OBCs, Medical and Public Health, Woman and Child Development.

1.7.5 Incidence of revenue expenditure

The bulk of total expenditure goes towards revenue expenditure. Revenue expenditure is incurred to maintain the current level of services and make payment for past obligations and, as such, does not result in any addition to the State's infrastructure and services network.

Revenue expenditure increased by 74 per cent from ₹ 37,375 crore in 2007-08 to ₹ 65,115 crore in 2011-12. The predominance of revenue expenditure has been primarily on account of a conscious shift in plan priorities on programmes under education, social welfare and nutrition, agriculture etc., and systematic rigidity in

non-plan revenue expenditure in the short term, particularly arising from committed expenditure such as salaries, pensions, interest payments and subsidies. Further, the grants given to various bodies/organizations are classified as revenue expenditure, regardless of the purpose for which it is used by the bodies/organizations.

In this regard, the High Level Expert Committee on Efficient Management of Public Expenditure in its report recommended revenue-capital classification to be continued. Further, it recommended that while all transfers were to be treated as revenue expenditure in accounts, the merit of classifying revenue expenditure by end-use may also be considered for FRA compliance and grants for creating assets may be classified as capital grant. Also an adjusted revenue deficit was recommended only for the purpose of FRA compliance and it opined that the FRA would require some amendments to allow for adjusted revenue deficit.

Karnataka Legislators' Local Area Development Scheme was introduced (2001-02) for asset creation, infrastructure development and employment generation for the benefit of the poor and weaker sections. The scheme aimed to follow a participatory demand responsive development approach to address infrastructure development requirements of the local area within a Legislator's constituency. While the expenditure for the period 2001-2010 was classified as revenue, the expenditure for 2010-11 (₹ 377.39 crore) and 2011-12 (₹ 298.63 crore) was classified as capital. The unspent balance as on March 2012 lying in personal deposit account was ₹ 499.25 crore. The State Government in its reply (July 2012) stated that classification of expenditure was not dependent on the source of financing, but determined by ownership criteria. Since, the scheme created assets owned by State Government, classification of expenditure was appropriate as per the accounting norms.

The reply is not acceptable as the fund provided to the Legislator's was a grant as per the XIII FC report and as per the Indian Government Accounting Standard-2, the expenditure on grants for the purpose of creating assets shall not, except in cases specifically authorized by the President on the advice of the C&AG of India, be debited to a capital head of account. Further, since it is part of the operating expenditure of the grantor, it has to be accounted for as revenue irrespective of its ultimate application.

The revenue expenditure also included ₹ two crore being the contribution of Government to the State Energy Conservation Fund kept outside the Government Account. The fund, which consisted of all grants and loans made by Government of Karnataka or Central Government or any other State Government or Quasi Central/State Government organizations or Central / State PSUs etc., was to be administered and operated by the State designated agency through Personal Deposit account. However, during March 2010, contrary to the above, a savings bank account in a nationalized bank was opened for the said purpose.

1.7.6 Committed expenditure

Committed expenditure of the State Government on revenue account traditionally consisted of interest payments, expenditure on salaries, pensions and subsidies. **Table 1.18** and **Chart 1.10** present the trends in the expenditure on these components during 2007-12.

Table 1.18: Committed expenditure

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries*, of which	8,169 (19.8)	9,912 (22.9)	10,342 (21.04)	11,948 (20.52)	12,996 (18.6)
Non-plan head	7,705	9,254	9,501	10,593	11,446
Plan head**	464	658	841	1,355	1,550
Interest payments	4,506 (10.9)	4,532 (10.5)	5,213 (10.6)	5,641 (9.70)	6,604 [#] (9.5)
Expenditure on pensions	3,241 (7.9)	4,113 (9.5)	3,408 (6.9)	4,070 (7)	5,436 (7.8)
Subsidies	5,420 (13.2)	3,399 (7.8)	4,118 (8.4)	6,303 (10.82)	7,390 (10.6)
Total committed expenditure	21,336 (51.85)	21,956 (50.72)	23,081 (46.9)	27,962 (48.04)	32,426 (46.4)
Other than committed expenditure ***	16,039 (39.0)	19,703 (45.5)	24,456 (49.7)	26,072 (44.8)	32,689 (46.8)
Total revenue expenditure	37,375	41,659	47,537	54,034	65,115
Revenue receipts	41,151	43,290	49,156	58,206	69,806 [@]

Figures in the brackets indicate percentage to revenue receipts

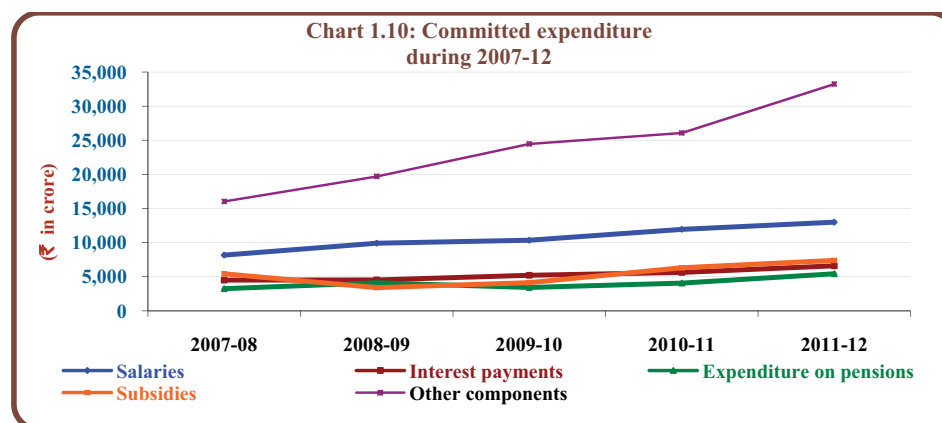
* Includes salaries paid out of grants-in-aid released to PRIs and others

** Includes the salaries paid under centrally sponsored schemes.

***Includes expenditure on financial assistance/relief (₹ 1,177 crore), special component plan (₹ 1,845 crore), other expenses (₹ 5,193 crore), grants-in-aid (₹ 4,132 crore), maintenance (₹ 1,233 crore), pensions under social sector (₹ 1,067 crore), inter account transfer (₹ 890 crore)

[#] includes (₹ 542 crore interest payments in respect of off-budget borrowings)

[@] refer foot note below Table 1.1



Source: Finance Accounts.

The MTFP (2011-15), in order to provide a realistic picture, envisaged committed expenditure to comprise expenditure on salaries, interest, pension, subsidies, grants-in-aid which included devolutions to PRIs and ULBs, expenditure on operation and maintenance of assets, administrative expenditure and State's share of Centrally sponsored schemes and Centrally planned schemes. It was further envisaged that until a major policy intervention was made, this committed expenditure would be in excess of 90 per cent of the uncommitted revenue receipts. In 2011-12, this committed expenditure amounted to ₹ 59,048 crore, which formed 91 per cent and 85 per cent of revenue expenditure and revenue receipts, respectively. The committed expenditure exceeded the projection and was 117 per cent of the uncommitted revenue receipts (State's tax and non-tax receipts). This indicated that the State's own revenue was insufficient to take care of the committed expenditure.

Expenditure on salaries

Expenditure on salaries as a percentage of revenue receipts which had increased from 20 in 2007-08 to 23 in 2008-09 due to implementation of Fifth Pay Commission (FPC) award decreased to 19 during 2011-12. The expenditure on salaries for 2011-12 exceeded the MTFP (2010-14) projection of ₹ 12,858 crore by margin of ₹ 138 crore. The salary expenditure in the Finance Accounts captured data in respect of State sector only. The salaries in respect of district sector (Employees of PR Institutions) are released as grants-in-aid to those bodies. Thus, the total salary expenditure is not captured in accounts.

The State Government in its reply to the earlier reports had indicated its inability to furnish the salary details of district sector accounts in the absence of any mechanism for consolidation of such details. However, the PAC in its report has recommended to the Finance Department to depict total salaries, taking into account the district sector also, if possible, by opening a separate sub-head to capture the data. On the basis of XIII FC recommendations, the State Government brought out a separate budget document during 2011-12 which indicated allocations to ULBs. However, the document indicated the transfers to the object head with the same classification numbers given to various heads at the State level. For example, the object head for payment of salaries of staff of ULBs overlapped with payment of salary of constitutional dignitaries. Further, the expenditure data captured were the releases made to ULBs and not the actual expenditure. Thus, the understatement of salary expenditure continued even during 2011-12.

Pension payments

Expenditure on pension (₹ 5,436 crore) was eight *per cent* of total revenue receipts of the State during the year. The expenditure on pension during the year exceeded MTFP (2010-14) projection by ₹ 261 crore. Increase of ₹ 1,366 crore over the previous year was on account of pay revision for the State Government employees.

Pension payments post 2009-10 have been projected by XIII FC to grow at 10 *per cent* and the estimated pension payment for 2011-12 was ₹ 5,260 crore. The pension expenditure overshoot the projection by ₹ 176 crore.

Defined Contribution Pension Scheme for all employees who joined the State Government service on or after April 1, 2006 was to be implemented from April 1, 2010 as per Pension Fund Regulatory and Development Authority. According to the scheme, the monthly contribution would be 10 *per cent* of basic pay and dearness allowance thereon to be paid by the employee and matched by the Government in equal proportion. In MTFP (2012-16), Government stated that a separate New Pension Scheme Cell was been created for implementation of the Scheme. It also stated that regular Government matching share was around ₹ 185 crore and the Government was committed to pay its share of backlog contribution with a compound interest of eight *per cent*. Further, it stated that the Government had already contributed ₹ 125 crore as its backlog share. However, in 2011-12, though a provision of ₹ 250 crore was made to meet the State Government's contribution, expenditure of ₹ 4.13 crore only was incurred which was also not towards the Government matching contribution. Further, List of Major and Minor Heads of account prescribed opening of minor head 117 under 8342 – Other deposits for the said scheme. The Public Account in Finance Accounts reflected the scheme under Minor head 120 with three tiers for

Employee's contribution, Government's contribution and Interest on Government contribution respectively. While the fund reflected both debit and credit under the three tiers, no investment out of the scheme was made.

XIII FC recommended a grant of ₹ 10 crore for setting up a database for Government employees and pensioners. An amount of ₹ 2.50 crore was released during 2010-11 without any precondition. However, for release of balance of ₹ 7.50 crore, the State was required to certify that it had created a database and integrated it with the treasury on a transactional basis. This database would enable speedier implementation of the New Pension Scheme and also provide the basis for payroll linked deduction and transfer of contribution to the service providers. As at the end of March 2012, the State was yet to complete setting up of the database.

The payment of pension and other retirement benefits to All India Service officers prior to 1 April 2008 was a liability which was to be borne by the State Government. As per the new procedure introduced from 1 April 2008, the payments made to the officers were to be booked under suspense head 8658 and a demand raised for re-imburement from GOI. During 2011-12, a demand for ₹ 5.22 crore, being the pensionary benefits disbursed to All India Service officers for the year 2010-11, was raised and hence the suspense head included the dues from the GOI for the years 2010-11 and 2011-12. However, as the amount authorized for the years 2008-10, which was part of revenue expenditure in those years, were yet to be assessed, the suspense head 8568 was understated to that extent.

Interest payments

Interest payments increased by ₹ 2,098 crore from ₹ 4,506 crore in 2007-08 to ₹ 6,604 crore in 2011-12. Interest payments during 2011-12 constituted interest on internal debt (₹ 4,186 crore), interest on small savings, provident fund etc., (₹ 1,100 crore), interest on loans and advances from Central Government (₹ 776 crore) and interest on off-budget borrowings (₹ 542 crore).

The interest on internal debt increased by seven *per cent* from ₹ 3,928 crore in 2010-11 to ₹ 4,186 crore in 2011-12 on account of increase in payment of interest on market loans and on special securities issued to NSSF of the Central Government by the State Government by four and nine *per cent* respectively with respect to the previous year.

The interest on small savings, provident funds etc increased by 14 *per cent* from ₹ 962 crore during 2010-11 to ₹ 1,100 crore in 2011-12 mainly on account of increase in interest on State provident funds and insurance and pension funds by 18 and 10 *per cent*, respectively, relative to the previous year.

The interest payment of ₹ 542 crore towards off budget borrowings which was being classified as capital expenditure was classified as revenue expenditure for the first time in 2011-12 in terms of section 2(f) of FRA. The PAC in its report had observed that borrowings based on availability rather than necessity also contributed to the increase in the interest payments.

The ratio of interest payments to revenue receipts determines the debt sustainability of the State. It was heartening to note that during the year, ratio of interest payments to total revenue receipts of the State was nine *per cent*, which was well within the TFC norm of 15 *per cent*.

Subsidies

In any welfare State it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies.

Finance Accounts (**Appendix III**) showed an explicit subsidy of ₹ 7,390 crore during the year which was ₹ 1,087 crore more than the previous year. The increase in its growth rate was 17 *per cent*. Subsidy payments during the year were mainly in the areas of power (₹ 5,303 crore), food (₹ 791 crore), transport (₹ 309 crore) and co-operation (₹ 447 crore). The details are given in **Box 1.1**.

In MTFP (2012-16) Government stated that subsidy scheme in the energy sector consistently required higher allocation in budget every year. It also stated that there has been large increase in the number of beneficiaries under schemes such as social security pensions and Bhagyalakshmi scheme.

In MTFP (2011-15) the State Government had averred that certain immediate steps were needed to be taken in order to prevent the subsidy from reaching unsustainable levels in the future. In the MTFP (2012-16) it was once again reiterated and it was felt that subsidies needed to be moderated in the medium term. Further, Government opined that the Resident Data Hub scheme and UID scheme would help in better identification of beneficiaries and targeting of subsidies directly, which meant that the ineligible and bogus beneficiaries under various schemes would be weeded out.

Box – 1.1

Major subsidies

Power

During the year, subsidy to power sector (₹ 5,303 crore) accounted for 72 per cent of the total subsidy (₹ 7,390 crore). It included financial assistance to electricity supply companies to cover loss due to rural electrification (₹ 4,853 crore) and contribution towards pension (₹ 450 crore).

Subsidy on rural electrification during the year, however, did not include subsidy of ₹ 17 crore (net) given to the Karnataka Power Transmission Corporation Limited (KPTCL) for meeting its debt servicing obligations to Power Finance Corporation (PFC) and Rural Electrification Corporation (REC). Finance Accounts did not show this liability as these loans were not taken over by the Government. The State Government had also paid subsidy of ₹ 421 crore in 2007-11. Though the Government had stated (November 2007) that borrowings would be included on off-budget side in 2008-09, neither did MTFPs 2007-11 to 2012-16 nor overview of budget 2009-10 to 2011-12 exhibited this liability on off-budget side. The State Government in reply (July 2011) to PAC, had accepted the fact and promised to include it on off-budget side, in the next MTFP. The reply is not acceptable as the KPTCL is not a Special Purpose Vehicle and its borrowings cannot be termed as 'off budget borrowings'.

Food

Food subsidy to meet the differential cost of food grains under Public Distribution System (PDS), which had decreased to ₹ 926 crore in 2010-11 from ₹ 1,164 crore in 2009-10, further decreased to ₹ 791 crore during the current year.

Co-operation

Subsidy in the co-operative sector predominantly represented waiver of overdue loans (principal as well as interest) given to farmers. Such waiver of loans and interest aggregated ₹ 2,885 crore in 2007-08 (₹ 1,793 crore), 2008-09 (₹ 186 crore), 2009-10 (₹ 124 crore), 2010-11 (₹ 335 crore) and 2011-12 (₹ 447 crore).

According to Vaidyanathan Committee Report (March 2008) and as reiterated by the PAC, the Governments both at the Centre and in the States should desist from the practice of waiver of recovery of loans and interest to prevent deterioration of co-operative credit system.

Transport

Transport subsidy which had increased from ₹ 157 crore in 2009-10 to ₹ 316 crore in 2010-11 decreased marginally and was ₹ 309 crore during the current year. This was towards fare concession extended to students, freedom fighters, physically challenged, etc.

The PAC had recommended that the said subsidy be borne by the corporations with-in their resources as these were earning profits and were working on commercial lines.

The State Government in its reply (August 2012) stated that Transport Corporations were incurring heavy expenditure on account of the above bus passes and also stated that if the Corporations had to bear the entire subsidy expenditure, then they would incur heavy losses.

The subsidies present a partial picture as these are exclusive of the implicit subsidies. Implicit subsidies *inter-alia* arise when the Government is unable to recover the costs it incurs in the provision of social and economic goods/services, which are mainly private goods/services in nature, even though sometimes these may have extended benefits. It can be indirect, can also be in kind or take the shape of tax concessions. Some of the implicit subsidies extended during 2011-12 are detailed in **Table 1.19**.

Table: 1.19 Details of some of the implicit subsidy

Sl. No.	Schemes/Subsidy	Amount in crore
1	Bhagya Lakshmi	486.09
2	Milk Subsidy	334.78
3	Bicycle to School Children	296.63
4	Social Security Pension	1,067.14
5	Interest subsidy on Crop Loans	450.00
6	Failed Well Compensation Fund Scheme	1.00
7	Weavers' Package	33.82
8	Capitative Assistance to Rural Banks	1,534.67
9	Subsidies to Statutory Corporations/Government Companies	(Appendix 1.8)
10	Tax concession to industries	Discussed below

Subsidies to Industries by way of tax concession

The State Government relies on concession as an instrument to promote industry. Karnataka has also been announcing various industrial policies since 1968. In 2009 the State had brought out 'New Industrial Policy 2009-14', where the incentives and concessions offered for investment were a mix of fiscal and financial incentives. Some of the major incentives / concessions were:

- a. Exemption from stamp duty
- b. Concessional registration charges
- c. Waiver of conversion fine
- d. Exemption from entry tax
- e. Interest free loan on VAT
- f. Interest subsidy
- g. Support to sugar sector

Most of the incentives are in the nature of tax concessions and hence is not budgeted. Incentives viz., interest free loan on VAT, interest subsidy, support to sugar sector etc., are budgeted. Apart from the above refund of Sales Tax and reimbursement of Central Sales Tax, which are not part of the industrial policy, has also been given, and also budgeted.

The various types of revenue which have been foregone by the State on account of industrial policies or otherwise in the past three years are detailed in **Table 1.20**.

Table 1.20: Revenue foregone on account of industrial policies

Type of concession	(₹ in crore)		
	2009-10	2010-11	2011-12
Conversion of MVT due as interest free loan	42.00	29.04	NA
Support to sugar sector – conversion of purchase tax to interest free loans	43.56	100.99	27.73
Re-imbursalment of CST	93.73	60.59	40.99
Waiver of CST	NA	NA	2.40
Re-imbursalment of taxes and duties	NA	NA	100.00
Interest free loan on VAT	NA	NA	14.91
Exemption from stamp duty / concessional registration charges	NA	NA	6.86
Exemption from entry tax	NA	NA	85.19

Source: Appropriation Accounts and MTFP (2012-16)
NA – Not available

The financial incentives – interest free loan on VAT/purchase tax/MVT dues-given by Government is fraught with a number of risks, such as, reduction of future VAT inflows, foregone interest and also failure of repayment of principal starting between five years to 12 years range. Further, 50 per cent of fixed assets

are provided by Government as loan and in case of default, the Government has to fall back upon assets which are depreciated from time to time. Also, in respect of sugar industries the Government, apart from interest free loan, has been providing loans to co-operatives / companies consistently every year for repayment of their other loans from various banks.

Reflecting upon the huge fiscal burden, the Tax Reforms Commission, Government of Karnataka, way back in 2001 had recommended to the State Government to discontinue all forms of incentives and, instead, to strengthen infrastructure, streamline administration and create an investor friendly climate to attract investment.

The State Government has not undertaken any study on the impact of the 'New Industrial Policy' in terms of employment generation, upliftment of economy of the district in which the industry is located, contribution to exports etc.

The ERC has recommended the following with respect to industrial concessions:

- Interest free loans to be provided only for small and medium industries.
- If the Government wants to attract large industries by giving incentives, it should be some selected industry, for which the State does not bestow any special advantage such as availability of raw materials i.e. it should not give incentives for cement and steel industries.
- State Government should strengthen the infrastructure in the State – particularly power and road network, as it plays a greater role in the industrial development of a region rather than incentives and concessions.

The State Government in its earlier reply had stated that there were no specific norms for classifying expenditure as implicit subsidy. However, the XII FC in November 2004 itself had recommended to the States to identify the expenditure forming implicit subsidy and bring out the same in Finance Accounts for transparency. Further, the ERC in its fourth report has identified some of the implicit subsidies given by the State. However, during the year 2011-12 also implicit subsidies have not been identified.

ERC in its report submitted to the State Government gave recommendations in respect of various subsidies sanctioned by the State Government. Some of the major recommendations are:

- Efforts to streamline the identification of below poverty line household through proper verification and computerization to be expediated.
- Government should comprehensively evaluate various subsidies offered in the agriculture sector on their cost effectiveness and impact on relieving distress of farmers.
- Government to examine alternative options such as insurance to farmers.
- Government to identify all subsidies other than budget head '106' and report total subsidy bill.
- Government to target housing subsidy to districts where there is need and not in all the districts.
- Government to provide subsidized medical treatment only to below poverty line households.
- Government to review all the subsidies from the standpoint of alternative delivery mechanism to optimize their outcomes.

Subsidy provided by the State may also be classified as merit and non-merit subsidy. Subsidy (₹ 395 crore)⁴ on education, housing, health, social welfare and nutrition, rural and urban development, agriculture and village and small scale industries, considered to be merit subsidy, constituted around five *per cent* of the total explicit subsidy expenditure of the State during 2011-12.

1.7.7 Financial assistance to local bodies and others

The quantum of assistance provided by way of grants to local bodies and others during the year 2011-12, relative to the previous years, is presented in **Table 1.21**.

Table 1.21: Financial assistance to local bodies and other institutions

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Panchayat Raj Institutions	9,122.39	10,804.46	11,406.81	12,554.65	15,211.83
Urban Local Bodies	2,468.20	2,339.11	2,471.69	2,976.02	4,247.90
Educational Institutions (including universities)	878.23	379.23	387.57	501.69	630.47
Co-operative societies and co-operative institutions	1,895.60	119.00	239.41	304.43	357.79
Other institutions and bodies (including statutory bodies)	2,361.00	1,620.24	1,914.55	2,704.11*	3,486.31
Assistance as a percentage of revenue expenditure	45	37	35	35	37
Total	16,725.42	15,262.04	16,420.03	19,040.90	23,934.30

Source: Finance Accounts

**includes assistance to ULBs for urban local election (₹ 3 crore) and XIII FC grants – incentive for issuing unique identification (₹ 13.89 crore)*

The assistance to PRIs increased from ₹ 9,122 crore in 2007-08 to ₹ 15,212 crore in 2011-12 while the assistance to ULBs increased from ₹ 2,468 crore to ₹ 4,248 crore.

Out of the total devolution of ₹ 15,212 crore to PRIs during 2011-12, ₹ 6,928 crore (46 *per cent*) were towards salaries as the State Government's functions viz., education, water supply and sanitation, housing, health and family welfare etc., were transferred to PRIs.

The assistance to ULBs, co-operatives and other institutions increased by ₹ 1,272 crore, ₹ 53 crore and ₹ 782 crore, respectively, during the year 2011-12 from the previous year. The increase in respect of ULBs was 43 *per cent* over the previous year and was towards schemes such as 'Mukhya Manthri Nagarothana Yojane' and 'Swarna Jayanti Shahari Rozgar Yojana'. It also included XIII FC grants of ₹ 308 crore. The assistance to ULBs included ₹ 2,498 crore towards creation of capital assets. However, the nature of assets created out of grants released was not available.

Assistance to other institutions (₹ 3,486 crore) included *inter-alia* assistance to Development Authorities (₹ 481 crore), NGOs (₹ 1,268 crore) and various other boards and institutions (₹ 1,737 crore).

Government in MTFP (2011-15) stated that with the revision of UGC, AICTC pay scales, the assistance to other institutions would increase in 2011-12. It also stated

⁴ Education - ₹ 2.39 crore, housing - ₹ 25.69 crore, urban development - ₹ 106.50 crore, social welfare - ₹ 26.90 crore, village and small scale industries - ₹ 76.40 crore, agriculture - ₹ 156.88 crore.

that with such huge amounts of Government money being spent outside the Government sector, it was important for better enforcement mechanisms to be created to regulate and monitor the aided institutions.

The other assistance (₹ 389 crore) included *inter-alia* assistance to temples and other religious institutions (₹ 137 crore), schemes such as Rashtriya Krishi Vikasa Yojane – Animal Husbandry (₹ 38 crore), Integrated Child Protection Scheme (₹ Seven crore), subsidy scheme of ₹ one crore under failed well compensation fund and grants under XIII FC for roads and bridges (₹ 44.42 crore).

1.7.8 Local bodies

The position of major issues related to Local Bodies i.e. Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) are summarized in following paragraphs.

1.7.8.1 Panchayat Raj Institutions (PRIs)

(i) Introduction: There are 30 Zilla Panchayats (ZPs), 176 Taluk Panchayats (TPs), 5628 Gram Panchayats (GPs) in the State as on 31 March 2012. At the State level, Rural Development and Panchayat Raj Departments (RDPR) are presently headed by the Principal Secretary and the Secretary (PR) to the Government, respectively.

(ii) Audit: State Accounts Department (SAD) is the statutory external auditor for GPs. Its duty *inter-alia* is to certify correctness of accounts, assess internal control system and report cases of loss, theft and fraud to audit entities and to the State Government. The State Government entrusted (May 2011) the audit of GPs under Technical Guidance and Support (TGS) Module to the Comptroller and Auditor General of India (C&AG) up to the year 2014-15.

The C&AG audits and certifies the accounts of ZPs and TPs as entrusted under Section 19(3) of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

(iii)Accounting: Financial reporting in the PRIs is a key element of accountability. The matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by the ZPs and TPs are governed by the provisions of the KPR Act, Karnataka ZPs (Finance and Accounts) (KZP(F&A)) Rules, 1996, KPR-TP(F&A) Rules,1996.

Annual Accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and Debt, Deposit and Remittance(DDR) heads as prescribed in Rule 33&30(4) of KZP(F&A) and KPR TP(F&A) Rules, 1996. GP accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under KPR GPs (Budgeting and Accounting) Rules, 2006. From 2011-12, the ZPs and TPs adopted Model Accounting system as prescribed by the C&AG of India.

(iv)Devolution: The 73rd amendment to the Constitution of India, envisaged transfer of 29 functions listed in the Eleventh Schedule to the PRIs. The State Government, however, devolved functions under 26 subjects and the remaining three subjects were yet to be transferred. Of these, 'Public Distribution System' is implemented by the Food and Civil Supplies Department. 'Social Welfare' and 'Welfare of the weaker sections' are implemented by both the State Government and PRIs.

(v) Reporting: The audit of accounts of Panchayat Raj Institutions (PRIs) in the State is conducted by the C&AG of India under Section 19(3) of the Duties, Powers and Conditions of Service Act 1971. The report of the C&AG of India is submitted to the Government as envisaged in Section 19A (1) of the DPC Act, 1971 and the State Government places the report before the State Legislature, as per section 19A(3) of the CAG's DPC Act 1971.

As per section 262 and section 253 of the KPR Act, 1993 the accounts of the ZPs and TPs are to be audited by the C&AG of India and the Audit report is to be laid before the State Legislature.

1.7.8.2 Urban Local Bodies (ULBs)

(i) Introduction: In Karnataka, there are eight City Corporations (CCs), 44 City Municipal Councils (CMCs), 94 Town Municipal Councils (TMCs), 68 Town Panchayats (TPs) and four Notified Area Committees (NACs). The CCs are governed by the Karnataka Municipal Corporations Act (KMC Act), 1976 and the other ULBs are governed by the Karnataka Municipalities Act (KM Act), 1964 which specify the obligatory, special and discretionary functions to be discharged by these ULBs. At the State level, Urban Development Department is headed by the Principal Secretary to the Government.

(ii) Audit: The Controller, State Accounts Department (SAD) is the statutory auditor of ULBs in terms of KMC and KM Acts.

The State Government entrusted (May 2010) the audit of accounts of all ULBs (except NACs) to the Comptroller and Auditor General of India (C&AG) under Section 14(2) of C&AG's DPC Act, 1971 from 2008-09 to 2010-11. Subsequently, audit of all ULBs was entrusted (October 2011) to the C&AG based on TGS module from the year 2011-12.

(iii) Accounting: On the recommendations of Eleventh Finance Commission, GOI had entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the CAG of India.

The Ministry of Urban Development, GOI developed the National Municipal Accounts Manual (NMAM) as recommended by the CAGs Task Force. The State Government brought out the Karnataka Municipal Accounting and Budgeting Rules (KMABR), 2006 based on the NMAM with effect from 1 April 2006. KMABR was introduced in a phased manner in all the ULBs except Bruhat Bangalore Mahanagara Palike (BBMP). As of 31 March 2012, all the ULBs were preparing the fund based accounts in double entry system.

The BBMP has adopted Fund Based Accounting System (FBAS) as per the Bangalore Mahanagara Palike (Accounts) Regulations, 2001 and the funds of BBMP are classified into three categories viz., Governmental Funds, Proprietary Funds and Fiduciary Funds based on the objectives, policies and activities.

(iv) Devolution: The 74th Constitutional amendment envisaged devolution of 18 functions to ULBs. Out of 18 functions, 14 functions were transferred to ULBs and two functions were being implemented by ULBs and State Government. The other two functions, namely, Urban Planning and Fire Services have not been transferred to ULBs.

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly through budget to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes.

(v) Reporting: Under Sections 150 and 295 of the Karnataka Municipal Corporations Act, 1976 and the Karnataka Municipalities Act, 1964 as amended the C&AG is to forward the annual technical inspection report of Corporations/Municipalities to the State Government for being placed before the State Legislature.

1.8 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness of expenditure.

1.8.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and 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 category to aggregate expenditure) can be stated to have been attached to a particular sector if the priority given to that particular head of expenditure is below the General Category States average for that year.

Table 1.22 analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure relative to General Category States in 2008-09 and the current year 2011-12.

Table-1.22 Fiscal priority of the State in 2008-09 and 2011-12

Fiscal Priority by the State	(in per cent)					
	AE/ GSDP	# DE/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
*General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Karnataka State's Average (Ratio) 2008-09	16.84	71.05	35.60	20.29	16.63	3.97
*General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Karnataka State's Average (Ratio) 2011-12	18.98	73.91	35.68	21.01	15.24	4.02
AE: Aggregate 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. Source: For GSDP, the information was collected from the State's Directorate of Economics and Statistics. *General category States excludes three States i.e., Delhi, Goa and Puducherry						

Comparative analysis reveals the following:

- The State's spending ratio of aggregate expenditure to GSDP which was marginally lower in 2008-09 increased considerably in 2011-12.
- Development expenditure as a proportion of aggregate expenditure in the State has also been higher than the General Category States' average. Development expenditure consists of both economic and social service sector expenditure. The social sector expenditure as a proportion of aggregate expenditure in the State which was higher than that of the General Category States in 2008-09 has decreased marginally in 2011-12. As observed from the **Table 1.22**, adequate priority needs to be given to both education and health sectors as the ratio under both these sectors are well below the General Category States' average during 2011-12.
- Priority to capital expenditure has been given by the State Government in 2008-09 and 2011-12, as the ratio of capital expenditure to aggregate expenditure has been higher than the average ratio of General Category States.

The State Government in MTFP (2012-16) acknowledged that the State had a huge challenge in matching the Human Development Indices of neighbouring States. It also stated that in the Education and Health Sectors, the scope for improvement in provision of services and translating the services into desired outcomes was large. Further, it emphasized that there was a need for focused investment in these sectors.

1.8.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads for social and economic development, it is imperative for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods⁵. Apart from improving the allocation towards development expenditure⁶, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure and 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, the better would be the quality of expenditure. While **Table 1.23** presents the trends in development expenditure relative to the aggregate expenditure of the State during the year 2011-12 *vis-à-vis* that of previous years, **Table 1.24** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

⁵ Core public goods are those 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 those goods, e.g. enforcement of law and order, security and protection of citizen's 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.

⁶ The analysis of expenditure data is segregated into development and non development expenditure. All expenditure relating to revenue account, capital outlay and loans and advances is categorized into social, economic and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Table-1.23: Development expenditure

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Development expenditure (DE)	33,642	37,134	44,925	51,628	60,930
Percentage of DE to total expenditure	72	71	74	75	74
Components of DE					
Revenue	24,577 (73)	27,006 (73)	32,291 (72)	37,000 (72)	44,326 (73)
Capital	8,310 (25)	9,399 (25)	11,657 (26)	12,890 (25)	14,880 (24)
Loans and advances	755 (2)	729 (2)	977 (2)	1,738 (3)	1,724 (3)

Figures in brackets indicate percentage to development expenditure

Source: Finance Accounts.

Development expenditure comprising revenue expenditure, capital outlay and loans and advances on socio-economic services increased from ₹ 33,642 crore in 2007-08 to ₹ 60,930 crore in 2011-12. As a *percentage* of total expenditure, it increased from 72 in 2007-08 to 75 in 2010-11. In 2011-12, development expenditure as a percentage of aggregate expenditure decreased by one *per cent* relative to the previous year, due to decrease in development loans disbursed. On an average, 73 *per cent* of the development expenditure was on revenue account while capital expenditure including loans and advances accounted for the balance during 2007-12.

In 2011-12 expenditure on salary (₹ 9,548 crore) and subsidy (₹ 7,279 crore) formed two major components of development revenue expenditure.

Table 1.24: Efficiency of expenditure use in selected social and economic services

	(ratios in per cent)			
	2010-11		2011-12	
	Ratio of CE to TE	Share of salaries (excluding wages and O&M) in RE	Ratio of CE to TE	Share of salaries (excluding wages and O&M) in RE
Education, sports, art and culture	0.61	10.27	0.40	8.90
Health and family welfare	0.63	2.20	0.43	2.39
Water supply, sanitation, housing and urban development	4.21	0.04	3.84	0.04
Others	0.49	1.25	0.48	0.68
Total (SS)	5.94	13.78	5.15	12.01
Agriculture & allied activities	0.18	1.44	0.27	1.11
Irrigation and flood control	6.90	0.21	6.90	0.20
Power & energy	2.04	0	1.38	0
Transport	4.44	0.08	4.89	0
Others	1.66	0.81	1.56	1.10
Total (ES)	15.22	2.54	15.00	2.41
Total (SS+ES)	21.16	16.32	20.15	14.42

Source: Finance Accounts

Expenditure on social services

Capital expenditure on social services increased from ₹ 4,106 crore in 2010-11 to ₹ 4,241 crore in 2011-12 while there was decrease in the ratio of capital expenditure to total expenditure from six per cent in 2010-11 to five per cent 2011-12.

The share of salary expenditure (under social services) in total revenue expenditure decreased from 14 per cent in 2010-11 to 12 per cent in 2011-12.

Expenditure on economic services

Capital expenditure on economic services increased from ₹ 10,520 crore in 2010-11 to ₹ 12,363 crore in 2011-12 with a growth rate of 18 per cent.

The priority sectors identified by the Government in respect of economic services were agriculture, rural development, special area programmes, irrigation and flood control and transport. In 2011-12, capital outlay on irrigation and flood control, industries and minerals and transport was higher by ₹ 925 crore, ₹ 268 crore and ₹ 962 crore respectively, compared to the previous year.

The share of salary expenditure (under economic services) in total revenue expenditure remained same in 2010-12.

1.9 Analysis of Government expenditure and investments

In the post-FRA framework, the Government is expected to keep its fiscal deficit (borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, the State Government needs to initiate measures to earn adequate return on its investments and recover cost of borrowed funds rather than bearing the same in its budget in the form of implicit subsidy and 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 2011-12 *vis-à-vis* previous years.

1.9.1 Incomplete projects

Blocking of funds, on incomplete works include works stopped due to reasons like litigation, etc., impinge negatively on the quality of expenditure. The department-wise information pertaining to incomplete projects as of March 2012 is given in Table 1.25.

Table 1.25: Incomplete projects

Department	Incomplete projects					Cumulative expenditure as of March 2012
	Number	Budgeted cost	Revised cost	Cost over run ⁷		
				Number	Amount	
Public works						
Buildings	137	520.48	541.89	22	47.14	424.79
Roads & bridges	147	591.14	591.47	19	3.73	470.22
Irrigation	60	171.26	176.01	28	6.61	151.86
Total	344	1,282.88	1,309.37	69	57.48	1,046.87

Source: Finance Accounts

Against the initial budgeted cost of ₹ 1,283 crore in respect of 344 works, stipulated to be completed on or before March 2012, the progressive expenditure was ₹ 1,047 crore as of March 2012, out of which, in 69 cases, the cost overrun aggregated ₹ 57 crore.

No reasons for delay in completion of the works were given by the Public Works and Irrigation Departments.

⁷ Includes only one case where expenditure exceeded the revised cost and the cost overrun was ₹ 2.39 crore.

The ERC in its report has recommended that infrastructure projects above ₹10 crore should be subjected to detailed social cost benefit analysis. Further, it recommended that projects in progress required to be subjected to effective monitoring and evaluation for timely course correction. It also proposed to introduce investment appraisal mechanism for all large projects in a phased manner.

1.9.2 Investment and returns

As of March 2012, Government had invested ₹ 44,295 crore in 87 Government companies (₹ 40,313 crore) including investment of ₹ 52 crore in 17 non-working Government companies, nine statutory corporations (₹ 2,032 crore), 43 joint stock companies (₹ 1,562 crore) and co-operative institutions, local bodies and regional rural banks (₹388 crore). The return from investment was negligible (**Table 1.26**).

Table-1.26: Return on investment

	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	22,279.35	26,672.11	32,483.28	38,420.70	44,294.86
Return (₹ in crore)	23.4	40.2	29.48	43.47	60.56
Return (<i>per cent</i>)	0.1	0.1	0.1	0.1	0.1
Average rate of interest on Government borrowings(<i>per cent</i>)	7.6	6.9	6.7	6.4	6.8
Difference between interest rate and return (<i>per cent</i>)	7.5	6.8	6.6	6.3	6.7

Source: Finance Accounts.

The State Government in MTFP (2012-16) has accepted the fact that the return on these investments was negligible. It was also stated that though the efforts of Government to get due returns out of its investments did not yield satisfactory results, it could not shy away from investing in social infrastructure involving long gestation and pay back periods. It further stated that Government would continue to make efforts to ensure due returns.

In addition, investment of ₹ 1,007.34 crore in respect of four⁸ Companies/Corporations has been lying in Public Account to the end of March 2012 without actual release to the institutions. This has resulted in locking up of funds in the Public Account.

The State in its reply to PAC (July 2011) had stated that the releases from Consolidated Fund were deposited in the Deposit Account to carry out capital works. It had also stated that the said amount enabled the Companies/Corporations to utilize the funds as per their immediate needs.

The reply of the State Government is not acceptable for the reason that while the Appropriation Accounts show the money as expended in a particular year, in reality the amount still remains in the Government account (Public account) without being spent for the purpose for which it was intended.

Though generally borrowings (with interest liability) are utilized for capital expenditure, the amounts released as investments in these cases were parked in Public Account without any returns (both financial and physical).

⁸ Krishna Bhagya Jala Nigam (₹ 128.78 crore), Karnataka Infrastructure Development and Finance Corporation (₹ 362.55 crore), Bangalore City Corporation (₹ 225.27 crore) and Mega Area Development Board (₹ 290.74 crore).

Out of the total investment of ₹ 44,295 crore up to the end of 2011-12, investment of ₹ 42,223 crore (95 per cent) was in 60 Government companies and statutory corporations under irrigation sector (₹ 25,076 crore), transport sector (₹ 4,550 crore), infrastructure sector (₹ 1,790 crore), power sector (₹ 6,133 crore), industries sector (₹ 542 crore), housing sector (₹ 1,321 crore), financing sector (₹ 2,297 crore), construction sector (₹ 2 crore) and social sector (₹ 512 crore).

The investment included ₹ 18,924 crore (43 per cent) in the following Companies/Corporations under perennial loss (Table 1.27).

Table 1.27: Investment in companies/corporations under perennial loss

Company/Corporation	₹ in crore)	
	Investment Up to 2011-12	Cumulative loss as at 2010-11
North Western Karnataka Road Transport Corporation	209	355.55
North Eastern Karnataka Road Transport Corporation	134	338.90
Karnataka State Agro Corn Products Limited, Bangalore	1	12.98
The Karnataka Minorities Development Corporation Limited, Bangalore	185	28.18
Karnataka Urban Infrastructure Development and Finance Corporation	6	0.67*
Rajiv Gandhi Rural Housing Corporation Limited	130	55.59
Krishna Bhagya Jala Nigam Limited	17,619	251.04
Karnataka Silk Marketing Board Limited, Bangalore	3	28.40
The Mysore Sugar Company Limited, Bangalore	165	266.73*
Hubli Electricity Supply Company Limited	472	723.79
Thungabhadra Steel Products Limited	- #	26.76*
Total	18,924	2,088.59

Source: Finance Accounts.

*the cumulative loss is as at 2009-10 in respect of KUIDFC and at 2008-09 in respect of TMSCL and TSPL

Amount is less than ₹ 10,000, hence not indicated.

During the year, Government invested ₹ 255 crore in statutory corporations and ₹ 5,594 crore in Government companies (working). The investment included;

- ₹ 144 crore loan amount converted as equity and details of the same is discussed in paragraph 1.9.4.
- ₹ 4.91 crore released for Mysore Sugar Company Limited for repayment of HUDCO loan.
- ₹ 150 crore provided as support to Karnataka State Finance Corporation in order to facilitate refinance from SIDBI.

During 2011-12 investment of ₹ 2.99 crore made earlier to Karnataka Dairy Development Corporation Limited was partly converted as subsidies (₹ 1.31 crore) and partly as capital expenses (₹ 1.68 crore) under investments, thereby increasing the plan expenditure of both revenue and capital. Further, the expenditure of earlier years was shown as investment (capital expenses) of the current year. The trend in this regard for the last three years is detailed in Table 1.28.

Table 1.28: Conversion details

Type of conversion	₹ in crore)		
	2009-10	2010-11	2011-12
Loan to equity	516	Nil	144
Equity to loan	Nil	31	Nil

Source: Finance Accounts

XIII FC, while reviewing the performance of State Public Sector undertakings with respect to Government investments, had recommended that the State Government should draw up a road map by March 2011 for closure of non-working companies in consultation with the Accountant General. To the end of 2011-12, in Karnataka, the Government has invested ₹ 52.17 crore in 17 non-working Government Companies.

1.9.3 Departmental undertakings

Nineteen undertakings of certain Government departments performed activities of quasi-commercial nature. According to the latest accounts furnished by six undertakings, the State Government's investment was ₹ 9.46 crore. The total loss incurred by these undertakings was ₹ 7.56 crore. Details are furnished in **Appendix 1.7**.

In view of the continued losses sustained by these undertakings, the Government should review their working so as to wipe out their losses in the short term and make these self sustaining in medium to long term.

State Government in its reply to PAC (July 2011) had stated that the Department of Commerce and Industries would be advised to conduct a review of the working of the said undertakings. The outcome of the review is yet to be received.

1.9.4 Loans and advances by the State Government

In addition to investments in companies, corporations and co-operative institutions, Government also provided loans and advances to many institutions/organizations. **Table 1.29** presents the position of outstanding loans and advances as of March 2012 and interest receipts *vis-à-vis* interest payments during the last five years.

Table-1.29: Average interest received on loans advanced by the State Government
(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Opening balance	6,241	6,946	7,620	8,047	9,623
Amount advanced during the year	757	731	982	1,737	1,816
Amount repaid during the year	52	57	555	161	241*
Closing balance	6,946	7,620	8,047	9,623	11,198
Net addition	705	674	427	1,576	1,575
Interest receipts	58	103	74	180	52
Interest receipts as <i>per cent</i> to outstanding loans and advances	0.8	1.3	0.9	1.9	0.5
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.5	6.3	6.2	6.1	6.4
Difference between interest payments and interest receipts (<i>per cent</i>)	-6.7	-5.0	-5.3	-4.2	-5.9

Source: Finance Accounts.

*the amount disbursed differs by ₹ one crore with that shown in appendix 1.3 and 1.6 due to rounding.

Loans outstanding as of March 2012 aggregated ₹ 11,198 crore. Interest spread of Government borrowings was negative during 2007-12 which meant that the State's borrowings were more expensive than the loans advanced by it.

The amount advanced during 2011-12 (₹ 1,816 crore) did not include ₹ 0.15 crore advanced to Karnataka State Forest Industries Corporation under revenue head of account 2406.

Repayment of loans during 2011-12 aggregated to ₹ 241 crore. This included ₹ 144 crore loan converted into equity (60 *per cent*). The details are brought out below:

- ₹ 13.91 crore of loan provided to Karnataka Pulpwood company.
- ₹ 1.16 crore of loan provided to Karnataka State Forest Industries Corporation Limited.
- ₹ 3.00 crore of term loan provided to Karnataka Cashew Development Corporation Limited.
- ₹ 10.00 crore loan provided to Karnataka State Warehousing Corporation for construction of godowns.
- ₹ 15.00 crore loan provided to power utilities.
- ₹ 101.03 crore loan provided to Mysore Paper Mills Limited.

During 2011-12, terms and conditions of repayment were not received for loans amounting to ₹ 1,983 crore.

The Government order of July 2003 indicated the revised interest rate on all the loans sanctioned by the Government on or after 1st April 2003. Further, it stated that all sanction orders should invariably be accompanied by the essential details and the standard terms and conditions of loans appended to the said order. However, the Finance Accounts, since 2006-07, have been including a statement where terms and conditions of repayments have not been received.

The PAC in its recommendation (December 2011) had stated that terms and conditions of repayment have to be invariably issued with respect to all loans and advances sanctioned.

Recovery of loans and advances aggregating ₹ 2,694 crore (principal: ₹ 1,690 crore and interest: ₹ 1,004 crore) was overdue as of March 2012 from 22 institutions⁹ (**Appendix 1.9**). However, the State Government had not reconciled the balances maintained against these 22 institutions.

The controlling officers maintaining loans are required to furnish details of arrears in recovery of loan installments and interest to the Principal Accountant General (Accounts and Entitlement) every year. However, the statements are received from respective bodies / organizations instead of controlling officers. Out of 928 statements from 842 bodies / organizations due, only 70 statements with 27 nil statements were received. Further, recovery of loans and advances aggregating ₹ 567 crore (principal: ₹ 283 crore and interest: ₹ 284 crore) was overdue as of March 2012 from 43 institutions¹⁰.

Around 68 *per cent* of this pertained to three major defaulters viz., Karnataka Agro Industries Corporation, Mysore Lamp Works and Mysore Electrical Industries Limited. In these cases, the overdue interest and principal for recovery aggregated ₹ 192 crore.

The PAC in its recommendation had held that the actual amount due for recovery should be incorporated in the budget estimates.

⁹ Source: Finance Accounts 2011-12

¹⁰ Details accounts kept by State Government.

Test check of records with respect to three companies showed the following:

- ❖ The Finance Accounts reflected the arrears of principal and interest as ₹ 0.30 crore and ₹ 0.86 crore, respectively, with respect to M/s. Hutti Gold Mines Company Limited. The outstanding loan against the company was ₹ 3.05 crore. However, at the time of closure of the company in 1997, the State Government took over the assets of the company in lieu of writing off outstanding loan of ₹ 1.38 crore.
- ❖ The outstanding loan of ₹ 101.03 crore against M/s. Mysore Paper Mills Limited was converted as equity. This included ₹ 56.69 crore of interest bearing loan released between 1994 and 2007. Terms and conditions have not been issued by Government in respect of these loans till date. Further, the Government order converting the loan into equity was silent on the treatment of the interest due on the said loans.
- ❖ The outstanding loan as at the end of March 2012 with respect to M/s. Mysore Lamp Works reflected an amount of ₹ 49.06 crore against major head 6858 and ₹ 52.96 crore against major head 6852, given towards State Renewal Fund, VRS and other relief in Finance Accounts. Against this, the company reflected combined loan of ₹ 96.89 crore. On analysis it was observed that during 1998-99, the State Government had converted the outstanding loan of ₹ 8.06 crore and interest of ₹ 2.38 crore into equity. Further, a sum of ₹ 3.02 crore was sanctioned as loan during 2001-02 for the payment of commercial tax dues by the company, which was not acted upon and hence was not reflected in Finance accounts. Evidently, the data on loan recoveries in arrears required reconciliation. Further, terms and conditions with respect to loans and advances sanctioned during 2009-10 were issued during 2011-12 only.

1.9.5 Cash balances and investment of cash balances

Table 1.30 depicts the cash balances and investments made there from by the State Government during the year.

Table-1.30: Cash balances and investment of cash balances

	(₹ in crore)		
	As of March 2011	As of March 2012	Increase(+)/ Decrease (-)
Cash balances	7,667.31	9,609.49	1,942.18
Investments from cash balances	6,971.51	7,640.61	669.10
GOI treasury bills	6,871.18	7,640.28	769.10
GOI securities	0.32	0.32	---
Other securities	---	---	---
Other investments	0.01	0.01	---
Funds-wise break-up of investment from earmarked balances	1,444.24	1,961.98	517.74
Sinking fund	-0.26	-0.41	0.15
Industrial development fund	0.01	0.01	---
Co-operative development fund	0.49	0.48	-0.01
Other development and welfare fund	1,443.99	1,961.89	517.90
Miscellaneous deposits	0.01	0.01	---
Interest realized	400.28	381.69	-18.59

Source: Finance Accounts.

The cash balance of the State at the end of the year was ₹ 9,609 crore. The increase in cash balances was 25 per cent over the previous year.

Surplus cash balance was mainly due to market borrowings of ₹ 7,500 crore raised during 2011-12.¹¹ Further, there was an increase of ₹ 2,579 crore (net) in suspense and miscellaneous which contributed to the surplus cash balance. The increase was mainly on account of un-encashed treasury cheques.

The PAC in its report has also emphasized the need for revisiting the investment policy of the Government.

In MTFP (2012-16), the State Government has stated that it has invested its surplus cash balance in 91 days' treasury bills and around ₹ 163 crore was expected as interest revenue out of the investment. It further stated that efforts would have to be made for better forecasting of exact requirement and timely release of funds so as to maintain prudent level of cash balance. It also emphasized that it followed the policy of need-based borrowings and kept basic minimum surplus cash balance as buffer.

The surplus cash balance was invested partly in fourteen day intermediate treasury bills of RBI with an average interest rate of five *per cent* per annum and partly in ninety one day intermediate treasury bills of RBI with an average interest rate of 8.3 *per cent* against an average rate of 8.8 *per cent* per annum at which the borrowings were made.

The interest received from investment in ninety one day treasury bill during the current year was ₹ 1, 63.64 crore.

In view of the comfortable position of cash balances, revenue surplus of ₹ 4,521 crore and a low fiscal deficit of 2.87 *per cent* of GSDP, the open market borrowings could have been restricted to ₹ 3,800 crore (approximately).

The XIII FC has also suggested that there should be a directed effort by States with large balances towards utilizing their existing cash balances before resorting to fresh borrowings. Further, it has suggested to consider utilizing their surplus cash balances for bullet repayment of market borrowings raised for debt swap during the period 2002-05, which was likely to become due during the next few years. The Reserve Bank of India also has reiterated the fact and advised the States to manage their cash balance more efficiently.

Following the advice of GOI and RBI, the State Government in MTFP (2011-15) had proposed to utilize part of the cash balance pertaining to various Reserve Funds for financing the fiscal deficit. In other words, the State Government had committed to borrow funds on need basis rather than on availability. Further, it stated that whenever there was a demand on respective reserve funds and Fiscal Management Fund, the GOI would be approached to allow additional borrowings. In the current year, while no expenditure was met out of the Fiscal Management Fund, the balance in the reserve funds increased by ₹ 2,761 crore over the previous year. Also, the statement of State Government clearly indicated that it could approach GOI for additional borrowings in future on the expenditures which were not transferred to public account during 2008-12 but could be adjusted in coming years through more borrowings.

¹¹ November 2011 (₹ 1,500 crore at 9.19 *per cent*), January 2012 (₹ 1,250 crore at 8.69 *per cent* and ₹ 1,250 crore at 8.65 *per cent*), February 2012 (₹ 1,500 crore at 8.69 *per cent* and ₹ 500 crore at 8.74 *per cent*) and March 2012 (₹ 1,500 crore at 8.92 *per cent*).

1.10 Assets and liabilities

1.10.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like lands 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 1.6** gives an abstract of such liabilities and assets as on 31 March 2012 compared with the corresponding position as on 31 March 2011.

Total liabilities, as defined in the Karnataka Fiscal Responsibility Act, 2002 are the liabilities under the Consolidated Fund and the Public Account of the State. Consolidated Fund liabilities consist of Internal Debt and Loans and Advances from GOI. It also include borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is of the State Government.

Further, the internal debt includes market loans, special securities issued to RBI and other negotiated loans. The Constitution of India provides that States may borrow within the territory of India upon the security of their Consolidated Funds, within such limits, as may from time to time, be fixed by an Act of the Legislature and give guarantees within such limits as may be fixed. The Public Account liability includes small savings, provident funds, etc., reserve funds and other deposits. The liabilities of the State as depicted in Finance Accounts, however, did not include pension, other retirement benefits payable to retired/retiring State Government employees/guarantees/letters of comfort issued by the State Government and borrowings through special purpose vehicles, termed off-budget borrowings.

Assets comprise assets under Consolidated Fund and cash. The assets under Consolidated Fund consist of capital outlay on fixed assets – investments in shares of companies and corporations and loans and advances which in turn consist of loans for power projects and other development loans.

The growth rate of components of assets and liabilities are summarized in the **Table 1.31**.

Table 1.31: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities				Assets			
	2010-11	2011-12	(per cent)		2010-11	2011-12	(per cent)
Consolidated Fund	59,277	65,315	10	Consolidated Fund	98,152[#]	1,15,233	17
a. Internal Debt	48,762	54,333	11	i. Capital outlay	88,529	1,04,035	18
b. Loans and advances from GOI	10,515	10,982	4	ii. Loans and advances	9,623	11,198	16
Public Account*	32,666	37,715	15	Cash	7,667	9,609	25
a. Small savings, Provident funds, etc	12,784	14,182	11				
b. Reserve Funds	10,184	12,427	22				
c. Deposits	9,698	11,106	15				

*The liabilities are on net basis. It does not include investments from out of ear marked funds of ₹ 1,444 crore (2010-11) and ₹ 1,962 crore (2011-12).

[#] Assistance of rupees four crore of previous year treated as investment which has been corrected proforma.

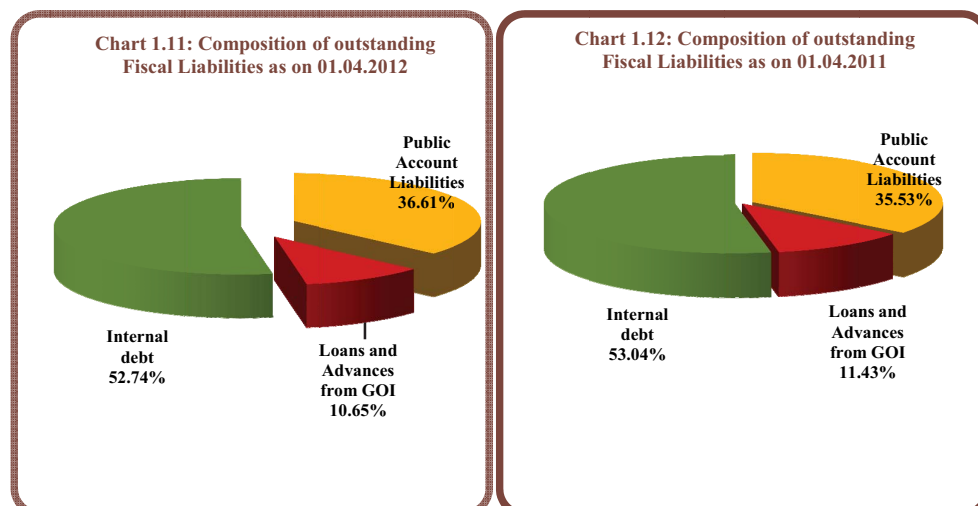
The growth rate of assets which was 14 *per cent* during 2010-11, increased to 18 *per cent* during 2011-12, while that of liabilities also increased from 10 *per cent* in 2010-11 to 12 *per cent* in 2011-12.

The Finance Accounts reflected an amount of ₹ 54,333 crore as internal debt outstanding as at the end of 2011-12 after taking into account the difference of ₹ 505.081 crore in the accounts of LIC, GIC, NABARD, NCDC etc. Further, Reserve Bank of India in its quarterly statement of outstanding balances of Government of Karnataka as on 31 March 2012 reflected closing balance of Market loans – not bearing interest as ₹ 0.18 crore. However, the Finance Accounts reflected an amount of ₹ 1.58 crore. This clearly indicated that reconciliation between the revenue and capital accounts was required.

The loans and advances from GOI reflected an amount of ₹ 10,982 crore as at the end of 2011-12. Loans amounting to ₹ 170.14 crore outstanding as per Finance Accounts under Central plan schemes and Centrally sponsored schemes with respect to all Ministries other than Finance Department has been written off on the basis of recommendation of XIII FC. However, as per the Ministries' records, the outstanding balances worked out to ₹ 144.89 crore and the difference amount of ₹ 25.25 crore required reconciliation.

1.10.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.5**. The composition of fiscal liabilities during the year 2011-12 *vis-à-vis* the previous year is presented in **Charts 1.11 and 1.12**.



Source: Finance Accounts.

Fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources as well as buoyancy of fiscal liabilities with respect to these parameters are brought out in **Table 1.32**.

Table 1.32: Fiscal liabilities –basic parameters

(₹ in crore and ratios in per cent)					
	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal liabilities	60,142	71,550	83,482	91,943	1,03,030
Rate of growth (per cent)	4.3	19.0	16.7	10.1	12.0
Ratio of fiscal liabilities to					
GSDP	22.20	23.06	24.18	23.04	23.72
Revenue receipts	146.1	165.3	169.8	157.9	147.9*
Own resources	204.9	232.3	246.2	219.8	203.8
Buoyancy ratio of fiscal liabilities to					
GSDP	0.2	1.3	1.5	0.6	1.3
Revenue receipts	0.5	3.6	1.2	0.5	0.6
Own resources	0.6	3.8	1.6	0.4	0.6

Source: Finance Accounts.

*refer footnote below Table 1.1

Fiscal liabilities of the State increased by 71 per cent from ₹ 60,142 crore in 2007-08 to ₹ 1,03,030 crore in 2011-12 comprising Consolidated Fund liabilities (₹ 65,315 crore) and Public Account liabilities (₹ 37,715 crore).

With the announcement of the economic stimulus package by GOI and consequent amendment to FRA, fiscal deficit limit was raised to 3.5 and four per cent of GSDP during the years 2008-09 and 2009-10 respectively. This resulted in rate of growth of fiscal liabilities at 19 and 16.7 per cent respectively. As recommended by XIII FC and the subsequent amendment to FRA, fiscal deficit limit of three per cent was to be attained by 2011-12 with the year 2010-11 being the year of consolidation. The growth rate of fiscal liabilities which was 16.7 per cent during 2009-10 decreased to 10.1 per cent during 2010-11. In 2011-12, due to increased borrowings, the growth rate of fiscal liabilities once again increased to 12 per cent. As a result, buoyancy of fiscal liabilities to GSDP was 1.3 during the year 2011-12. Further, the ratio of fiscal liabilities to GSDP during 2011-12 increased to 24 per cent from 23 per cent in 2010-11, and also buoyancy of fiscal liabilities to revenue receipts increased from 0.5 per cent in 2010-11 to 0.6 per cent in 2011-12.

1.10.3 Transactions under Reserve Fund

Reserves and Reserve Funds are created for specific and well defined purposes under the Sector 'J' in the accounts of the State Government (Public Account). These funds are fed by contributions or grants from the Consolidated Fund of India or State or from outside agencies. The contributions are treated as expenditure under the Consolidated Fund. These form debits to the Consolidated Fund. The expenditure relating to the fund is initially accounted under the Consolidated Fund itself for which the vote of the legislature is obtained. At the end of the year, at the time of closure of accounts, the expenditure relating to the fund is transferred to Public Account under the concept of gross budgeting through an operation of deduct entry in accounts. This forms credit to the Fund. The funds may be further classified as 'Funds carrying interest' and 'Funds not carrying interest'. Generally, the Reserve Funds are classified under the following three categories based on the sources from which they are fed.

- Funds accumulated from grants made by another government and at times aided by public subscriptions, example: Fund formed from subventions from the Central Road Fund.

- Funds accumulated from sums set aside by the Union/State from the Consolidated Fund of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes, e.g: Depreciation Fund.
- Funds accumulated from contributions made by outside agencies to the State Government.

As per Finance Accounts, 33 reserve funds have been created and maintained in the accounts of the State Government. Out of the 33 funds, 20 are dormant for over 30 years. Out of this, two funds require further analysis and 17 funds could be considered for winding up. Further, the Government during March 2008, had issued directions to operate the Price Stabilization Fund under the Consolidated Fund. However, the fund continued to be operated under the Public Account and its closing balance as on March 2012 was ₹ 127.46 crore. The Commerce and Industries Department in March 2008 had clearly stated that the unused cheque books/documents etc., should be surrendered after reconciliation.

Failed Well Compensation Fund, which was inoperative since 2001-02, had a balance of ₹ 2.41 crore. Expenditures of ₹ 6.57 crore and ₹ 1.00 crore were incurred in 2010-11 and 2011-12. However, the same was not debited to the fund.

The remaining 13 funds with a balance of ₹ 12,300.39 crore are operative. Analysis of transactions of Consumer Welfare Fund, Infrastructure Initiative Fund, State Disaster Response Fund, Central Road Fund, Fiscal Management Fund, Port Development Fund and State Urban Transport Fund are detailed in the subsequent paragraphs. Transactions with respect to Guarantee Reserve Fund and Sinking Fund have been detailed in paragraphs 1.10.4 and 1.11.4 respectively.

Consumer Welfare Fund

The Consumer Welfare Fund (CWF), created for the welfare of the consumers during September 2006, was credited with the following:

- Seed money from Central Consumer Welfare Fund from GOI.
- Assistance provided by Central Government for strengthening consumer movement in the State.
- Matching grants or any assistance by the State Government and court fee accrued with the district and state consumer forum.
- Penalty paid by manufacturers of consumer products or service provider.
- Returns from the investment out of the accumulation in the fund.
- Any amount received by the State Government for the purpose of the fund.

The expenditures of ₹ 0.93 crore and ₹ 1.33 crore incurred towards consumer welfare activities during 2009-10 and 2010-11 respectively, were allowed to remain in the Consolidated Fund and have not been shown as met out of the Consumer Welfare Fund Account.

In order to strengthen the Consumer Welfare Fund in all states, revised Central Consumer Welfare Fund Guidelines, notified in 2007-08, envisaged establishing a corpus of ₹ 10.00 crore as State Consumer Welfare Fund supported by the Central Government with 75 per cent of the corpus as Central share. Though the State Government made a provision of ₹ 2.50 crore towards the establishment of Corpus Fund as State Share in 2010-11, the fund was not established as the

account was not opened in the treasury. Thus, the State had to forego ₹ 7.50 crore, the Central Share of the Corpus Fund.

During 2011-12, ₹ 2.50 crore being the State's contribution towards setting up of consumer clubs in schools have not been shown as credit to the fund. However, the same has been adjusted against Deposit which does not form part of Consumer Welfare Fund. The central share of ₹ 7.50 crore is yet to be received.

Further, another fund with the same nomenclature of 'Consumer Welfare Fund' with the balance of ₹ 0.67 lakh has been dormant since 1999-2000, which may be considered by the State for winding up or merging with the Corpus Fund yet to be created.

Infrastructure Initiative Fund (IIF), Bangalore Metro Rail Corporation Limited (BMRCL) Fund and Chief Minister's Rural Road Development (CMRRD) Fund

Karnataka Act of 1998 provided for levy of infrastructure cess on taxes on sales, trade etc., excise license fee, motor vehicles tax and non-judicial stamp duty in the State. The cess collected was to be allocated to IIF and BMRCL Fund in the ratio of 2:1 of the total collections which was subsequently revised in 2004. The total infrastructure cess collected was to be allocated between IIF, BMRCL and CMRRD Fund in the ratio of 57, 28 and 15 *per cent*, respectively. On the introduction of a uniform value added tax (VAT) in 2005 levy of infrastructure cess was dispensed with and the Government decided to contribute to the fund out of general revenues of the State.

In 2011-12, the infrastructure cess realized (₹ 609.28 crore) through taxes on motor vehicles, stamp and registration and State excise was allocated to IIF, BMRCL fund and CMRRD fund. The sum transferred to the said funds were ₹ 347.29 crore, ₹ 170.60 crore and ₹ 91.39 crore, respectively. Further, a provision of ₹ 1,000 crore was made for augmenting IIF out of general revenues. In view of requirement of funds for Bangalore Metro – Phase II, Government re-appropriated unspent provision of ₹ 1,100 crore under various heads and decided to transfer a total provision of ₹ 2,100 crore to BMRCL fund. The expenditure incurred under various plan schemes under major heads 5465, 6217 and 3054 are to be met out of the respective funds. During 2011-12, additional provisions amounting to ₹ 2,080.75 crore were provided for meeting the expenditure out of the IIF. The expenditure incurred in various plan schemes under the Major heads 5465, 6217 and 3054 were ₹ 510.76 crore, ₹ 933.00 crore and ₹ 166.90 crore respectively. However, expenditure amounting to ₹ 347.29 crore, ₹ 170.60 crore and ₹ 66.91 crore only was transferred to IIF, BMRCL and CMRRD fund respectively and expenditure against additional provision made was not transferred to the IIF fund. This resulted in understatement of revenue surplus and overstatement of fiscal deficit.

The PAC also, in its recommendation have stated that the directions contained in the List of Major and Minor Heads of account should be followed for accounting such transactions as the adjustments adopted by the Government were not in accordance with the instructions contained therein.

Central Road Fund

Central Road Fund is a fund constituted by the GOI. Subventions are paid from this fund to the State for road developmental works approved by GOI. Actual expenditures are also transferred to the fund. During 2009-10, expenditure of ₹ 205.30 crore was transferred from Consolidated Fund to the Central Road Fund in Public Account against the balance of ₹ 165.30 crore at its credit. This resulted in adverse balance of ₹ 40 crore. State Government in its reply (November 2010), reiterated in July 2011, had stated that initially expenditure was met out of State funds which were reimbursed subsequently by GOI, and hence, limiting the expenditure to the extent of the grant was not possible. However, in 2010-11, against expenditure of ₹ 149.98 crore incurred, ₹ 70.97 crore alone was transferred to the Central Road Fund account. The amount reimbursed by GOI was ₹ 110.97 crore. This resulted in wiping out the adverse balance of the previous year. This was contrary to the reply given by the State Government earlier. Hence, the expenditure of ₹ 80 crore had remained in the Consolidated Fund itself.

In 2011-12, against expenditure of ₹ 172.53 crore, ₹ 136.92 crore was transferred to the fund thereby limiting the expenditure to the extent of grant received. The Union Government in reply (August 2011) to the State Government's request for release of balance amount of ₹ 212.24 crore (pertaining to last 11 years) stated that the sanction amount was worked out as per the annual accrual for the year in which the schemes were sanctioned and the present liabilities, and not by considering the accumulated accrual of earlier periods. This clearly indicates that the State Government may not be in a position to receive the balance amount due. Hence, the reply of the Government given earlier that the excess expenditure would be reimbursed subsequently is not acceptable.

Fiscal Management Fund

The Fiscal Management Fund was created during 2006-07 in terms of Section 4(p) of the Fiscal Responsibility Act, 2002 to discharge the liabilities arising during the course of the year out of general revenue of the State. However, no rules had been framed regarding its administration.

During 2011-12, provision of ₹ 150 crore was made for the purpose of transfer to the fund. An order in this regard was issued on 31 March 2012 which was later modified on the same day and the amount of contribution to the fund was limited to ₹ 50 crore without citing any reasons. It may be mentioned here that the provision of ₹ 150 crore as contribution to Fiscal Management Fund was made with budget estimate for revenue surplus of ₹ 1,279 crore. However, since the revenue surplus actually amounted to ₹ 4,521 crore, the State could have met the promise made to the Legislature.

State Disaster Response Fund

The State Disaster Response Fund (SDRF), constituted under Disaster Management Act, 2005, is operative from 2010-11 under Reserve Fund bearing interest. As per the guidelines the accretions to the SDRF together with the income earned on the investment of the SDRF are to be invested in one or more of instruments viz., Central Government dated securities, auctioned treasury bills and interest earning deposits and certificates of deposits with Scheduled Commercial Banks. Further, the State Government had to pay interest to the SDRF at the rate

applicable to overdrafts and credit the same on a half yearly basis. While 75 per cent of the contribution was to be from GOI, the balance 25 per cent was to come from the State Government. Further, the balance as on 31 March 2010 in the Calamity Relief Fund (CRF) was to be transferred to the SDRF. The contributions to the fund for the year 2011-12 included GOI contribution of ₹ 126.76 crore, State's contribution of ₹ 42.25 crore and balance CRF transferred ₹ one crore. It also included GOI contribution of ₹ 70.23 crore from National Disaster Relief Fund. However, no interest was credited to the fund. An expenditure of ₹ 168.93 crore, released to Deputy Commissioners for relief expenditure to deal with natural calamities was shown as met out of the SDRF. This excluded ₹ 0.08 crore of expenditure incurred against training in disaster preparedness. The amounts released to Deputy Commissioners were kept in Personal Deposit accounts which were in violation of the act. Further, the unspent balance in the Personal Deposit accounts of the Deputy Commissioners for SDRF was not reflected in the accounts but merged with the general balances. However, these unspent balances resulted in understatement of the fund account in Public Account to that extent. This also resulted in overstatement of expenditure towards calamity relief in the Consolidated Fund.

Port Development Fund

Under the provision of Sec 3 of the Indian Ports Act 1908, section 8 of Karnataka Ports (landing and shipping fees) Act 1961 and Rules 23 and 24 of Karnataka Ports (landing and shipping fees) Rules 1964, Port Development Fund was established during 2007-08. While all the receipts received under the head of account 1051 and 1052 are credited to the fund, the expenditure incurred towards various Port Development Schemes factoring out the establishment costs were to be met out of the fund.

In 2011-12, while the receipt under the head of account 1051 and 1052 were ₹ 8.58 crore, the expenditure on Port Development Schemes (Revenue and Capital) was ₹ 32.02 crore. Government decided to meet expenditure only to the extent of receipts received, despite having credit balance of Rs.63.50 crore in the fund to take care of the entire expenditure amounting to ₹ 32.02 crore. This resulted in understatement of revenue surplus and overstatement of fiscal deficit.

State Urban Transport Fund (SUTF)

Based on the Ministry of Urban Development, GOI recommendations, Government of Karnataka created SUTF with a corpus of ₹ 10 crore from the State Finance Commission grants during November 2010. The fund was created initially under Deposit bearing interest for funding urban transport initiatives. During March 2012, one more fund was created under Reserve Fund (not bearing interest) with accruals from budgetary grants, cess on motor vehicles registration (one per cent) and cess on property tax.

During 2011-12, provision of ₹ 12.50 crore under general revenues and ₹ 25 crore towards transfer of cess was made for crediting the same to the fund. In the year 2011-12, the cess on motor vehicles registration collected was ₹ 25.01 crore. However, the amount transferred to the fund was ₹ 25 crore (₹ 10 crore to the Deposit head and ₹ 15 crore to the Reserve Fund). An amount of ₹ 12.50 crore was also transferred to the SUTF under Reserve Fund out of general revenues. Hence, the total amount in the SUTF was ₹ 20 crore under Deposit head and

₹ 27.50 crore under Reserve Funds. Meanwhile, expenditure of ₹ 2.64 crore was met out of the Deposit head without routing it through the Consolidated Fund. Also, expenditure incurred (₹ 15 crore) under the head 4217 was met out of the Reserve Fund. As at the end of March 2012, the balance amount of ₹ 17.36 crore under Deposit head was not transferred to Reserve Fund and no interest also was credited to the fund. Operation of the fund, both under Deposit head as well as Reserve Fund, was not in order.

State Government replied (November 2012) that the anomaly would be set right during 2012-13.

1.10.4 Contingent liabilities

Status of guarantees

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee was extended. The details of last five years are given in **Table 1.33**.

Table-1.33: Guarantees given by the State Government

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum amount guaranteed	23,109	18,732	18,420	19,150	13,262
Outstanding amount of guarantees (including interest)	10,786	8,693	7,203	6,618	6,640
Percentage of outstanding amount guaranteed to total revenue receipts of the second preceding year	36	23	18	15	14

Source: Finance Accounts.

The Karnataka Ceiling on Government Guarantees Act, 1999 provides for a cap on outstanding guarantees extended by the Government at the end of any year at 80 per cent of the State's revenue receipts of the second preceding year. It is heartening to note that the outstanding guarantees at the end of the years 2007-12 were within the prescribed limit.

The outstanding guarantees amounting to ₹ 6,640 crore at the end of the year 2011-12 included guarantees extended to 55 institutions/companies under irrigation (₹ 1,061 crore), co-operative (₹ 2,224 crore), finance (₹ 822 crore), power (₹ 302 crore), housing (₹ 1,029 crore), transport (₹ 220 crore), industries (₹ 414 crore), infrastructure (₹ 46 crore) and other sectors (₹ 337 crore).

The outstanding amount of guarantees excludes the power sector utilities of the Government of Karnataka viz., BESCO, GESCOM and CESC who have obtained PFC loans. The guarantee commission payable by the organizations was ₹ 0.02 crore. Thus the statement on guarantees, prepared on the basis of the material from Finance Department, was incomplete and not fully reliable.

Further, the maximum amount guaranteed as at the end of March 2012 was reduced by ₹ 5,888 crore from that of the previous year. As stated by the Finance Department (August 2012) this was mainly on account of deletion of guaranteed amount repaid in full and also on account of recasting of the amount, based on the information furnished by the Public Sector Undertakings / organizations. This clearly indicated that no database was being maintained in the State Government in this regard.

The Act further provides for a levy of one *per cent* as guarantee commission which is not to be waived under any circumstances. However, four¹² institutes/companies have been exempted from paying the Guarantee Commission in contradiction of the Act.

To provide for sudden discharge of State's obligations on guarantees, TFC had recommended that States should set up Guarantee Redemption Fund through earmarked guarantee fees. The State had set up a Guarantee Reserve Fund in 1999-2000 with a corpus of ₹ one crore. However, there was no transaction though there were guarantee commission receipts and expenditures on account of discharge of guarantee obligation. The guarantee fees of ₹ 564.93 crore received since 2000 have not been transferred to the fund. In 2011-12, the commission/fees of ₹ 67.16 crore, received from three institutions, have been utilised for revenue/capital expenses such as payment of subsidies, establishment charges and investments instead of transferring the amount to the guarantee redemption fund.

The State Government in its reply to PAC (July 2011) had stated that transfer of receipts and expenditure pertaining to the fund would be considered at the appropriate time. Further, it had stated (July 2011) that government was meeting the obligations of payment out of budgetary allocations every year with the expenditure being shown as loan against the institution.

The PAC in its report had recommended to the State to adhere to the advice of the TFC and operationalize the Guarantee Redemption Fund by transferring the guarantee fee received as also amount discharged on revocation of guarantee.

Off - budget borrowings

The borrowings of the State Government are governed by Article 293 (1) of the Constitution of India. In addition to the contingent liabilities shown in **Table 1.33**, the State guaranteed loans availed of by Government companies/corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Funds for these programmes were to be met out of resources mobilized by these companies/corporations outside the State budget but in reality the borrowings of these concerns ultimately turn out to be the liabilities of the State Government termed 'off-budget borrowings' and the Government hitherto had been repaying the loans availed of by these companies/corporations including interest through regular budget provision under capital account. Thus, the capital expenditure of the State till 2010-11 included interest expenditure on off-budget borrowings, even though there was no corresponding build-up of assets in Accounts. This had resulted in understatement of interest expenditure and overstatement of capital expenditure / revenue surplus. State Government in its reply to PAC (July 2011) had stated that the interest expenditure on off-budget borrowings would be treated as revenue expenditure from 2011-12 onwards.

During 2011-12, the revenue expenditure included interest payment of ₹ 542.38 crore towards off-budget borrowings.

¹² The Coorg orange Growers Co-operative Society, Hukkeri Taluk Co-operative Rural Electrical Society Limited, Raibagh Sahakara Sakkare Kharkhane Limited and Karnataka Milk Federation Limited.

Table 1.34 captures the trend in the off-budget borrowings of the State during 2007-12 while **Table 1.35** gives the entity-wise position of borrowings to the end of 2011-12.

Table 1.34: Trend in off-budget borrowings

Year	₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Amount as furnished by entity [^]	103	Nil	Nil	Nil	512

Source: As reported by the concerned entities

[^] Figures are yet to be reconciled with those indicated in Budget overview.

Table 1.35: Entity-wise position of off-budget borrowings

Company/Corporation/Board	Outstanding Off-budget borrowings	Borrowings during the year	₹ in crore)	
			Principal	Interest
Krishna Bhagya Jala Nigam Limited	271.07	512.00	49.98	20.55
Karnataka Neeravari Nigam Limited	331.75	---	206.75	18.25
Karnataka Road Development Corporation	305.35	---	88.91	58.41
Rajiv Gandhi Rural Housing Corporation	394.45	---	65.94	31.96
Karnataka Slum Development Board	48.65	---	9.22	4.56
Karnataka Rural Infrastructure Development Corporation Limited	58.95	---	12.55	5.43
Karnataka State Police Housing Corporation	167.26	---	24.76	17.66
Karnataka Housing Board, NGV	27.01	---	20.45	1.62
Cauvery Neeravari Nigam Limited	370.20	---	167.70	19.06
Karnataka Residential Education Institution Society	25.62	---	5.45	2.40
Karnataka State Industrial Infrastructure Development Corporation Limited	49.15	---	10.90	3.73
Sarva Shiksha Abhiyan Samithi	6.25	---	2.22	0.59
Total	2,055.71	512.00	664.83	184.22

Source: As reported by the concerned entities.

In compliance with the commitment made in MTFP 2009-13, off-budget borrowings were eliminated from 2008-09 to ensure transparency in fiscal performance. In MTFP 2011-15 it has been stated that as the State Government was well advanced on the fiscal consolidation road map set in the FRA and as recommended by XIII FC, the Government has decided in future to allow off-budget borrowings in a limited manner. Further, it has been stated that the quantum of the borrowing would be limited to the repayments of the previous off budget borrowings i.e., stock of off-budget borrowings would be maintained at the same level as it was at the end of financial year 2009-10. The limit projected as per MTFP 2012-16 is ₹ 3,249 crore.

Taking into account the off-budget borrowings of the State, the total liabilities at the end of March 2012 worked out to ₹ 1, 04,933 crore¹³ against ₹ 1, 03,030 crore shown in **Table 1.32**. The ratio of fiscal liabilities (inclusive of off-budget borrowings) to GSDP worked out to 24.16 per cent at the end of the year.

Public Private Partnership (PPP) Projects

Recourse to the PPP mode for project financing is encouraged because it frees valuable fiscal space for the provision of public goods in areas where such financing may not be forthcoming. PPP projects in sectors that come under the purview of Government of Karnataka are transport, agro-infrastructure, education, health, tourism, urban and municipal infrastructure and energy.

¹³ Total fiscal liabilities: ₹ 1,03,030 crore plus balance of off-budget borrowings; ₹ 1,903 crore.

The summary of PPP projects under pipeline, implementation and operation are detailed in **Table 1.36**.

Table 1.36: Sector and stagewise status of PPP projects in the State (₹ in crore)

Sector	Completed		Under implementation / construction		Under planning / pipeline		Grand Total	
	No	Cost	No	Cost	No	Cost	No	Cost
Agri Infrastructure			1	17.02	7	264.63	8	281.65
Education	2	85.00			7	5,450.00	9	5,535.00
Energy					12	16,400.00	12	16,400.00
Healthcare			3	3.27	13	84.40	16	87.67
Industrial Infrastructure					14	45,358.00	14	45,358.00
Tourism	1	32.00			23	1,531.50	24	1,563.50
Transportation & Logistics	4	3,046.29	12	2,023.26	81	1,26,388.75	97	1,31,458.30
Urban and Municipal Infrastructure	5	113.14	5	156.25	32	5,179.82	42	5,449.21
Total	12	3,276.43	21	2,199.80	189	2,00,657.10	222	2,06,133.33

Source: Department of Infrastructure Development

The State Government in MTFP 2012-16 has disclosed a statement on contingent liability of Government for 2011-12 relating to the PPP projects in compliance to XIII FC recommendations. Apart from the five works indicated in the MTFP, the Government has incurred expenditure on the projects indicated in **Table 1.37** under PPP mode.

Table 1.37: Additional projects under PPP mode during 2011-12 (₹ in crore)

Sl. No.	Name of work	Estimated project cost	Expenditure incurred during 2011-12
1	Improvements to Chikkanayakanahalli – Tiptur – Hassan Road	241.76	5.00
2	Improvements to Dharwad – Alnawar – Ramanagera road	237.60	0.48
3	Improvements to State Highway from Maharashtra border to Andhra Pradesh border	242.75	1.76
4	Upgradation of ITI through PPP	42.00	3.75
5	Development of silk farms under PPP	NA	0.61

NA – Not available

1.11 Debt sustainability

Apart from the magnitude of the debt of the State Government, it is important to analyze various indicators that determine the debt sustainability of the State. The 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 and returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. This section assesses the sustainability of debt of the State Government in terms of debt stabilization, sufficiency of non-debt receipts, net availability of borrowed funds, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the State Government securities. **Table 1.38** analyses the debt sustainability of the State according to these indicators for the period 2007-12.

Table 1.38: Debt sustainability: Indicators and trends

Debt sustainability indicators	2007-08	2008-09	2009-10	2010-11	2011-12
Debt stabilization (₹ in crore) (Quantum spread +/- Primary deficit/ surplus)	6,060	1,395	(-)1,922	3,292	(-)3,671
Sufficiency of incremental non-debt receipts (resource gap) (₹ in crore)	(-)644	(-)3,400	(-)2,143	187	(-)1,612
Net availability of borrowed Funds (in per cent)	---	21	18	9	13
Burden of interest payments (IP/RR Ratio)	10.9	10.5	10.6	9.7	9.5 *
Maturity profile of State debt (in years)					(₹ in crore)
0 - 1	2(00)				
1 - 3	3,201(10)				
3 - 5	3,681(12)				
5 - 7	971(03)				
7 and above	22,917(75)				

Figures in brackets denote the percentage to market borrowings of ₹ 30,772 crore.

* refer footnote below Table 1.1

Source: Finance Accounts.

1.11.1 Debt stability

Fiscal liabilities are considered sustainable if the Government is able to service these liabilities over the foreseeable future and the debt – GSDP ratio does not grow to unmanageable proportions. A necessary condition for stability is the Domar's Debt Stability Equation. It states that if the rate of growth of economy exceeds the cost of borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are positive /zero/moderately negative. Primary revenue balance is the difference between revenue receipts and primary revenue expenditure and indicates whether the balance of revenue receipts left out after meeting current revenue expenditure is sufficient for meeting the interest expenditure. During 2007-12 the primary revenue balance was positive and sufficient to meet interest expenditure.

Interest spread is the difference between average lending rate and average borrowing rate. Quantum spread is the product of debt stock and interest spread. The interest spread and quantum spread will be positive/negative depending on whether the GSDP growth rate is more or less than the growth rate of interest payments. When the quantum spread and primary deficit are negative, debt-GSDP ratio will be high indicating unsustainable levels of public debt and when the quantum spread and primary deficit are positive, debt-GSDP ratio (excluding off-budget borrowings) will be low indicating sustainable levels of public debt. In 2011-12, both interest and quantum spread were positive.

1.11.2 Sufficiency of incremental non-debt receipts

Another indicator of debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. The details for the last five years have been indicated in **Table 1.39**.

Table 1.39: Sufficiency of incremental non-debt receipts

		(₹ in crore)				
Sl. No.		2007-08	2008-09	2009-10	2010-11	2011-12
1	Incremental Non debt Receipts	3,802	2,079	6,253	8,658	11,697*
2	Incremental Interest Payments	270	26	681	428	963
3	Incremental Primary expenditure	4,176	5,453	7,715	8,043	12,346
Resource Gap		(-)644	(-)3,400	(-)2,143	187	(-)1,612

*refer footnote below Table 1.1

The resource gap, which was negative during 2007-10, turned positive in 2010-11. However, in 2011-12, it once again was negative. This was mainly on account of growth of revenue receipts being the same as that of growth of total expenditure. This meant that the State had to depend on borrowed funds for meeting current revenue and capital expenditure.

1.11.3 Net availability of borrowed funds

Debt sustainability also depends on the ratio of debt redemption (principal + interest payments) to total debt receipts and application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Debt redemption ratio continued to be less than one (0.9) in 2011-12 as in the previous two years as debt redemption was lower than debt receipts. Thirteen *per cent* of debt receipts were available for productive/capital expenditure.

1.11.4 Maturity profile

In terms of maturity profile, around 75 *per cent* of the outstanding stock of Government securities (market borrowings) at the end of the year belonged to a maturity bracket of seven years and above. Repayment obligation of the State would increase from 2012-13 due to huge market borrowings during 2002-03 and 2004-05 under Debt Swap Scheme. This is worrisome.

Repayment obligations would increase ten times in 2018-19 compared to 2017-18 due to huge market borrowings in 2008-09 as the State was allowed to borrow at 3.5 *per cent* of GSDP under the Fiscal Stimulus Package. Due to huge market borrowings in 2009-10, 19 *per cent* of the total re-payment obligation of market loans (₹ 30,772 crore) would be in 2019-22 which the Government acknowledged in MTFP (2012-16). In 2011-12, Government borrowed ₹ 7,500 crore as market loans which constituted 24 *per cent* of the total outstanding market loans (₹ 30,772 crore) whose obligation would be in 2021-22. The State Government in MTFP 2012-16 stated that in a high interest rate regime, borrowings have to be scheduled in a prudent manner so as not to burden future generations with high debt costs. It also ensured that fiscal prudence would be followed while scheduling its borrowing needs in ensuing years. Contrary to this, the State made huge borrowings in the year 2011-12.

The Government created a sinking fund for open-market loans and the fund consisted of two components viz. sinking fund (amortisation) and sinking fund (depreciation). The amortisation fund was to accommodate contributions from revenue for repayment of loans on maturity while the depreciation fund was to be

fed annually by loans. However, there had been no accretion to the sinking fund since 1999-2000. The Government needs to consider reviving the fund in compliance with the recommendation of TFC, which would help the State to meet the sudden increase in the amount of debt-servicing from 2013 onwards when huge chunk of market borrowings starts maturing. Further, RBI in their report on Public Debt Management (August 2011) has emphasized on setting up of the fund. The PAC in its report has also recommended setting up of a sinking fund for taking care of the loan discharges arising in future through suitable contributions from revenues.

The balance in the sinking fund (investment account) had become adverse during 2008-09 which has been increasing since then and its balance in 2011-12 is (-) ₹ 0.40 crore.

The State Government in an earlier reply had stated that investments in dated securities were not practicable as funds are required for carrying out day to day administration and discharging liabilities as and when they arose. The reply is not acceptable as the State which had attained revenue surplus in 2004 itself, could have contributed from general revenues towards setting up of the fund.

1.11.5 Burden of interest payments

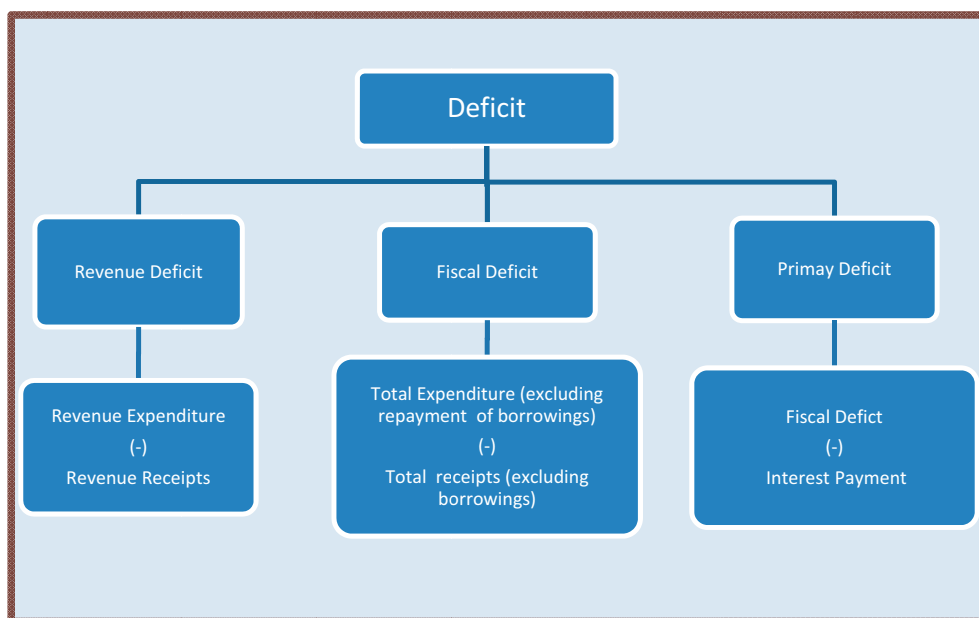
The ratio of interest payments to revenue determines the debt sustainability of the State. During the year, interest payments (including interest paid on account of debt servicing) pre-empted nine *per cent* of the total revenue receipts of the State which was below the norm of 15 *per cent* prescribed by TFC. The NSSF accounts for around 20 *per cent* of the total outstanding liabilities of the State as at end of March 2012. Considering the burden arising as a result of the high effective rate of interest on NSSF loans till 2006-07, the XIII FC recommended interest relief on those loans only if the State brought about necessary amendments to FRA.

Since the State did not receive any receipts under NSSF, its share in the total outstanding liabilities came down from 23 *per cent* in 2010-11 to 20 *per cent* in 2011-12.

1.12 Fiscal imbalances

In an emerging economy a balanced budget is perhaps next to impossible and the Government has to resort to borrowings to bridge the gap between spiralling expenditure requirement and inadequate non-debt receipts. The gap between receipts and expenditure represents deficit. **Chart 1.13** gives an indication of the various kinds of deficits that occur if the Government borrows excessively to balance the budget.

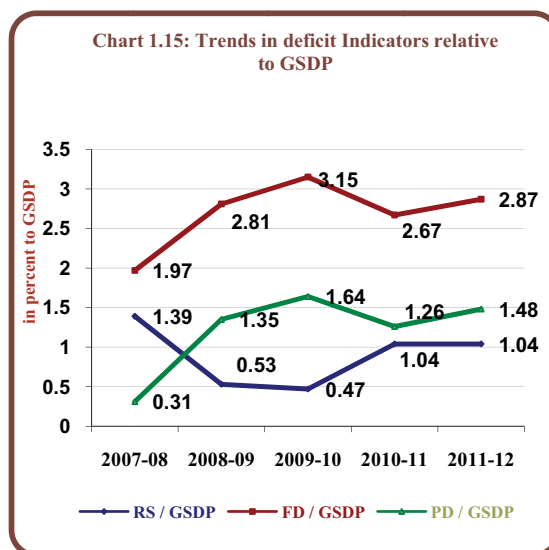
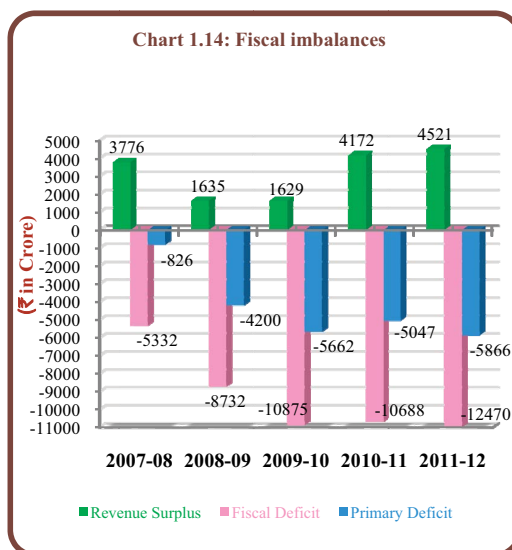
Chart 1.13: Type of deficits



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 raised are applied are important pointers to 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 FRA for the financial year 2011-12.

1.12.1 Trends in deficits

Charts 1.14 and 1.15 present the trends in deficit indicators over the period 2007-12.



The targets for revenue and fiscal deficits set for the TFC and XIII FC periods along with their actual levels are given in **Table 1.40**.

Table 1.40: Outcome vis-à-vis targets under FRA

Period	Revenue deficit		Fiscal deficit (in percentage)	
	Targets as per FRA	Actual	Targets as per FRA	Actual
TFC (2005-10)				
2005-06	Attain Revenue Surplus	Achieved the target in 2004-05 itself	3.0	1.88
2006-07	Maintain Revenue Surplus		3.0	2.06
2007-08			3.0	1.97
2008-09			3.5	2.81
2009-10			4.0	3.15
XIII FC (2010-15)				
2010-11	Maintain Revenue Surplus	Achieved the target	3.44	2.67
2011-12			3.00	2.87

Source: Finance Accounts

The Government's achievements in the area of maintaining revenue surplus has been heartening. The fiscal target of wiping out revenue deficit by March 2006, as laid down in FRA, was achieved by the State one year ahead in 2004-05. Thereafter the State maintained revenue surplus till 2010-11 with inter-year variations. In 2011-12, the revenue surplus increased by ₹ 349 crore over previous year and was ₹ 4,521 crore.

The FRA target of reducing fiscal deficit –GSDP ratio to less than three *per cent* was also achieved one year ahead.

In 2011-12, there was increase in the rate of fiscal deficit to GSDP as compared to previous year and was 2.87 *per cent*. But it was well within the target of three *per cent*.

However, the following transactions affected the fiscal indicators of the State:

- (i) Non transfer of expenditure/ limiting transfer of expenditure to IIF, CMRRD, BMRCL and Port Development Fund for which the approval of the Legislature was obtained resulted in understatement of Revenue Surplus and overstatement of Fiscal Deficit.
- (ii) Limiting the transfer to FM Fund and increased augmenting to IIF from general revenues resulted in understatement of Revenue Surplus.
- (iii) Utilizing / bringing the earlier years transaction to current year's books of account viz., conversion of loan to equity (₹ 144 crore), conversion of investment into revenue / capital expenditure (₹ Three crore) etc., resulted in boosting of capital expenditure and revenue expenditure of current year, thereby allowing the State to borrow more.

Revenue Surplus

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to decrease the borrowings.

Against the growth rate of 20 per cent of revenue receipts, the growth rate of revenue expenditure was 21 per cent. This resulted in bringing down the revenue surplus during 2011-12. This is to be viewed in the context that there was compression of expenditure of ₹ 1,071.41 crore on account of non/short/late release of funds and non/late receipt of sanctions from Government, limiting transfers to fund accounts, classifying revenue expenditure as capital expenditure etc.

The State Government in MTFP (2012-16) stated that the high tax effort of the State and curtailing of lower priority revenue expenditure resulted in a larger than anticipated revenue surplus. This reiterates the fact already stated above.

Fiscal Deficit

Fiscal deficit normally represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. Fiscal deficit trends along with the trends of the deficit relative to key components are indicated in **Table 1.41**.

Table 1.41: Fiscal deficit and its parameters

(₹ in crore)

Period	Non-debt Receipts	Total expenditure	Fiscal Deficit	Fiscal Deficit as percent of		
				GSDP	Non-debt receipt	Total expenditure
2007-08	41,449	46,781	5,332	1.97	12.86	11.40
2008-09	43,528	52,260	8,732	2.81	20.06	16.71
2009-10	49,781	60,656	10,875	3.15	21.84	17.93
2010-11	58,439	69,127	10,688	2.67	18.29	15.46
2011-12	70,136*	82,436	12,470	2.87	17.78	15.13

Source: Finance Accounts

*refer footnote below Table 1.1

Fiscal deficit as a percentage of GSDP, non-debt receipts and total expenditure was the least in 2007-08. In 2009-10, these ratios were at the highest due to enhancement of fiscal deficit limit based on the advice of the GOI and in 2010-11 there was a marginal improvement. During 2011-12, fiscal deficit as a per cent of GSDP once again increased, mainly on account of increase in borrowings.

Primary Deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments. Interest payments represent the expenditure of past obligations and are independent of current allocative priorities. To look at the imbalances of the current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit and its parameters for the last five years are indicated in **Table 1.42**.

Table: 1.42 Primary deficit and its parameters

(₹ in crore)

Period	Fiscal Deficit	Interest Payments	Primary Deficit
2007-08	5,332	4,506	826
2008-09	8,732	4,532	4,200
2009-10	10,875	5,213	5,662
2010-11	10,688	5,641	5,047
2011-12	12,470	6,604*	5,866

Source: Finance Accounts

*includes interest payment of ₹ 542 crore towards off-budget borrowings.

During 2007-08 the primary deficit was the least. In 2008-12 the fiscal deficit was almost twice the interest payments. This meant that during these four years around 50 per cent of the fiscal deficits were due to revenue expenditure other than interest payments. Hence, prudent reduction of revenue expenditure could enable the State Government to attain primary surplus. Containing the committed expenditure, which constituted the major chunk of the revenue

expenditure, would enable the State Government to attain the goal. Since the costs of salary, pension and interest are inflexible, the expenditure on subsidies, grants-in-aid other than to local bodies, which is increasing steadily, requires utmost attention by the State Government.

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in the **Table 1.43**. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

Table 1.43: Components of fiscal deficit and its financing pattern

		(₹ in crore)									
		2007-08		2008-09		2009-10		2010-11		2011-11	
		Amount	per cent of GSDP	Amount	per cent of GSDP	Amount	per cent of GSDP	Amount	per cent of GSDP	Amount	per cent of GSDP
Decomposition of fiscal deficit		-5,332	1.97	-8,732	2.81	-10,875	3.15	-10,688	2.67	-12,470	2.87
1	Revenue surplus	3,776	1.39	1,635	0.53	1,629	0.47	4,172	1.04	4,521	1.04
2	Net capital expenditure	8,403	3.10	9,693	3.12	12,077	3.50	13,283	3.32	15,417	3.55
3	Net loans and advances	705	0.26	674	0.22	427	0.12	1,577	0.39	1,574	0.36
Financing pattern of fiscal deficit*											
1	Market borrowings	287	0.11	6,583	2.12	4,954	1.43	1,037	0.25	6,207	1.43
2	Loans from GOI	357	0.13	135	0.04	211	0.06	613	0.15	637	0.14
3	Special securities issued to NSSF	209	0.08	-164	-0.05	247	0.07	1,838	0.46	-844	-0.19
4	Loans from financial institutions	174	0.06	260	0.08	272	0.08	419	0.10	208	0.05
5	Small savings, PF etc	749	0.28	1,176	0.38	1,468	0.43	1,607	0.40	1,398	0.32
6	Deposits and advances	-62	-0.02	1,554	0.50	1,908	0.55	2,037	0.51	1,410	0.32
7	Suspense and misc.	1,498	0.55	968	0.31	602	0.17	-296	-0.07	2,634	0.61
8	Remittances	-828	-0.31	-52	-0.01	-36	-0.01	-35	0.00	-11	0.00
9	Reserve funds	750	0.28	2,174	0.70	3,201	0.93	1,374	0.34	2,761	0.64
10	Increase (-) / decrease (+) in cash balance	2,185	0.81	-3,900	-1.26	-1,954	-0.56	2,106	0.53	-1,942	-0.45
11	Net of Contingency Fund transactions	13	0.00	-2	0.00	2	0.00	-12	0.00	12	0.00
Total		5,332		8,732		10,875		10,688		12,470	

* All these figures are net disbursements/outflows during the year

Source: Finance Accounts.

The components of fiscal deficit are Revenue surplus, Net Capital Expenditure and Net Loans and Advances. Since the State had attained revenue surplus in 2004-05 itself, the surplus on revenue account along with market borrowings, loans from GOI etc., were utilized to finance capital expenditure. The downward trend of revenue surplus during 2008-10 affected the extent of capital expenditure which could be financed by revenue surplus. While 41 per cent of capital expenditure could be financed by revenue surplus in 2007-08, it was 16,13 and 28

per cent in 2008-09, 2009-10 and 2010-11 respectively. Hence, capital expenditure suffered a setback due to declining trend of revenue surplus during 2008-10. In 2011-12, revenue surplus could finance 27 per cent of capital expenditure. There was one per cent decrease in the extent to which the revenue surplus could finance the capital expenditure over previous year. This was mainly on account of tremendous increase in the revenue expenditure when compared to that of previous year.

Due to limited market borrowings by the State Government in 2010-11, its share in financing fiscal deficit was limited to 10 per cent. In 2011-12, there was substantial increase in market borrowings and its share in financing fiscal deficit increased to 50 per cent. Hence, there was decrease in loans from financial institutions, small savings, PF etc., deposits and advances over the previous year. However, there was considerable increase in suspense and miscellaneous and reserve funds during 2011-12 over the previous year. There were also no receipts during 2011-12 under special securities issued to NSSF. Further, based on the advice of the GOI and RBI with respect to cash management, the State Government had utilised part of cash balances viz., investments in various reserve funds, fiscal management funds and local bodies funds maintained in the Public Account for financing the fiscal deficit during 2010-11. In MTFP (2011-15), it was stated that whenever there was a demand on respective reserve funds and fiscal management fund, the GOI would be approached for allowing additional borrowings. In 2011-12, however no such demands were noticed.

1.12.3 Quality of deficit/surplus

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) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) was not having any asset backup. The bifurcation of the primary deficit (**Table 1.44**) indicates the extent to which the deficit was on account of enhancement in capital expenditure which might be desirable to improve the productive capacity of the State's economy.

Table 1.44: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	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)
2007-08	41,449	32,869	8,649	757	42,275	8,580	-826
2008-09	43,528	37,123	9,874	731	47,728	6,405	-4,200
2009-10	49,781	42,314	12,147	982	55,443	7,467	-5,662
2010-11	58,439	48,393	13,355	1,738	63,486	10,046	-5,047
2011-12	70,136	58,511	15,506	1,815	75,823	11,455*	-5,866*

Source: Finance Accounts

* refer footnote at Table 1.1

Primary deficit which was ₹ 826 crore during 2007-08 increased to ₹ 5,866 crore during 2011-12. The percentage of interest payment to fiscal deficit was at 53 during the year.

1.13 Conclusions and recommendations

➤ *Fiscal Position*

The state continued to maintain revenue surplus during 2007-12 and kept fiscal deficit relative to GSDP below the limit laid down under FRA.

During 2011-12, the State attained revenue surplus of ₹ 4,521 crore. This was on account of increase in revenue receipts by 20 *per cent* over previous year. The fiscal deficit during 2011-12 was 2.87 *per cent* of GSDP. The compression of expenditure on account of delay in government sanctions, limiting transfers to fund accounts etc., contributed to increase in revenue surplus and limiting the fiscal deficit within target of three *per cent* of GSDP.

Recommendation: The proposals made in the budget are to be implemented diligently so that the unspent provisions by way of non-release of sanction / funds could be avoided.

➤ *State's own resources*

The ratio of State's tax revenue to GSDP which had shown declining trend since 2006-07 had revived itself in 2010-11, increased further and was 10.70 *per cent*. However, there was no improvement in the ratio of non-tax revenue to GSDP and it continued to be around one in 2011-12 also.

Recommendation: Special emphasis needs to be given to mobilizing non-tax revenue by revising user charges in the coming years. The recommendation of ERC should be used as a tool for revising the user charges in the coming years.

➤ *Revenue expenditure*

Though there was 14 *per cent* growth under social sector over the previous year, the share of expenditure on social services to total expenditure, which was 41 *per cent* in 2010-11, decreased to 39 *per cent* in 2011-12. However, the expenditure on economic services increased marginally from 28 *per cent* in 2010-11 to 29 *per cent* in 2011-12.

The share of plan revenue expenditure to total revenue expenditure increased from 28 *per cent* in 2010-11 to 29 *per cent* in 2011-12.

Ninety one *per cent* of revenue expenditure constituted committed expenditure on salaries, pensions, interest payments, subsidies, grants-in-aid, expenditure on operation and maintenance of assets, administrative expenditure and State share of centrally sponsored schemes and centrally planned schemes. Though the New Pension Scheme Cell has been created, Government's matching contribution was yet to be transferred to the fund account. Total subsidy of ₹ 7,390 crore reflected in the accounts is not complete as it excluded implicit subsidy of around ₹ 4,204 crore during 2011-12.

Recommendation: Defined contribution pension scheme is required to be operated by contributing the State's matching share along with interest.

As per the recommendations of XII FC and EFC, a statement on implicit subsidies may be brought out preferably as part of budget documents.

➤ *Quality of expenditure*

The share of capital expenditure to total expenditure during 2011-12 (21 *per cent*) decreased by one *per cent* from that of previous year. The percentage of developmental expenditure to total expenditure decreased to 74 *per cent* in 2011-12 from 75 *per cent* in 2010-11.

Funds aggregating ₹ 1,047 crore were blocked in incomplete projects as at the end of 2011-12.

The return from investment of ₹ 44,295 crore as of March 2012 in companies/corporations was negligible (₹ 60.56 crore). The investment included ₹ 18,924 crore (43 per cent) to companies/corporations under perennial loss.

Recommendation: The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor reasons for time and cost over runs with a view to take corrective action.

The State Government should review the working of State public sector undertakings incurring huge losses and take suitable decisions.

Oversight of funds transferred directly from the Union to the State implementing agencies

The Central Government transferred a sizeable quantum of funds (₹ 7,140 crore during 2011-12) directly to the State implementing agencies for implementation of Central plan schemes. Funds flowing directly to the implementing agencies through off-budget routing inhibit FRA requirements of transparency and therefore, escape accountability. There is no single agency monitoring its use and there is no readily available data on the amounts spent in any particular year on major flagship and other important schemes. Hence, the State Government decided to account these transfers and corresponding expenditure in Consolidated Fund from 2012-13.

Recommendation: Though a system has been proposed to ensure accounting of these funds, a system is required to validate this information by the State Government.

➤ *Funds and other Liabilities*

Reserve funds of the State viz., corpus fund of Consumer Welfare Fund, Guarantee Redemption Fund etc., were not created / revived. No rules have been framed regarding administration of Fiscal Management Fund.

The outstanding amount of guarantees including interest (₹ 6,640 crore) excludes some of the power sector utilities of the State and hence the statement on guarantees is not complete and reliable.

Recommendation: Rules with regard to administration and investment pattern of various reserve funds requires to be framed. Also, schemes / programmes are required to be formulated for utilizing the balances.

The State is required to build up a data bank on guarantees given by the Government, guarantee fee/commission, guarantee invoked/discharged etc.

➤ *Debt sustainability*

The repayment obligation of the State would increase enormously from 2018-19 onwards, due to huge market borrowings in 2008-10. Further, repayment obligations of the borrowings made in 2011-12 (₹ 7,500 crore) would become due from 2021-22.

Recommendation: The Government should consider reviving the sinking fund as it would help the State to meet the sudden increase in the amount of debt servicing from 2017-18 onwards. Also, the State Government has to schedule its borrowings in a prudent manner so as not to burden future generations with high cost debts.

Chapter 2

Financial Management and Budgetary Control

2.1 Introduction

2.1.1 Appropriation Accounts are accounts of the expenditure, voted and charged, of the Government for each financial year compared with the amounts of the voted grants and appropriations charged for different purposes as specified in the schedules appended to the Appropriation Acts, passed by the Legislature. These accounts list the original budget estimates, supplementary grants, surrenders and re-appropriations distinctly and indicate actual capital and revenue expenditure on various specified services *vis-à-vis* those authorized by the Appropriation Act in respect of both charged and voted items of budget. The Karnataka Budget Manual contains the procedures for preparation of the estimates of budget, subsequent action in respect of the budget communication, distribution of grants, watching the progress of revenue and actuals and control over expenditure.

2.1.2 Audit of appropriation by the Comptroller and Auditor General (CAG) of India seeks to ascertain whether expenditure actually incurred under various grants is within the authorization given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarized position of actual expenditure during 2011-12 against 29 grants/appropriations is given in **Table 2.1**.

Table 2.1: Summarized position of actual expenditure *vis-à-vis* original/supplementary provision

Nature of expenditure		Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Unspent provision
Voted	I Revenue	58,610.88	6,858.20	65,469.08	59,056.25	6,412.83
	II Capital	15,026.74	4,642.36	19,669.10	16,013.85	3,655.25
	III Loans and advances	2,067.87	486.41	2,554.28	1,986.15	568.13
Total Voted		75,705.49	11,986.97	87,692.46	77,056.25	10,636.21
Charged	IV Revenue	7,569.84	9.40	7,579.24	6,453.49	1,125.75
	V Public debt- repayment	4,462.11	-	4,462.11	3,319.88	1,142.23
	VI Capital	-	10.85	10.85	-	10.85
Total Charged		12,031.95	20.25	12,052.20	9,773.37	2,278.83
Grand Total		87,737.44	12,007.22	99,744.66	86,829.62**	12,915.04

Source: Appropriation Accounts.

**The total expenditure (test checked cases) stands inflated/unaccounted for at least to the extent of the following:

- a. (i) ₹ 30 crore parked with the Karnataka State Tourism Development Corporation drawn on payee's receipts in March 2012 to defray expenses relating to capital expenses and other expenses of the Department.
 - (ii) Non-submission of Non –Payable Detailed Contingent (NDC) bills in support of bills amounting to ₹.78.65 crore for the year 2011-12 drawn on abstract contingent bills by the drawing and disbursing officers, as required under paragraph 37 of Manual of Contingent Expenditure, 1958. In the absence of detailed contingent bills, the genuineness of the expenditure could not be vouchsafed. The total number of outstanding bills was 5701.
 - (iii) ₹ 4.23 crore parked in State Bank of Mysore in respect of Karnataka Evaluation Authority, a society formed with the object of evaluation studies of plan and non plan items of expenditure.
 - (iv) ₹ two crore relating to energy conservation fund released during the year was parked in a Nationalized Bank.
- b. (i) The total expenditure stands under-stated at least to the extent of ₹ 0.51 crore drawn from the Contingency Fund during the year which had remained un-recouped to the fund.

The overall unspent provision of ₹ 12,915.04 crore was under both revenue/capital section, covering 29 grants/appropriations.

Article 266 (3) of the Constitution of India prohibits withdrawal of money from out of the Consolidated Fund of the State unless relevant Appropriation Acts under Articles 204 and 205 of the Constitution are passed by the Legislature. However, ₹ 148.68 crore were released by Finance Department as additionalities during the year, in eight grants under revenue/capital section, without the authorization of the Legislature. A scrutiny of the executive orders authorizing the withdrawal from the Consolidated Fund revealed that the payments were towards purchase of cars, conduct of examination by the KPSC/preparation of question papers, payment of various allowances to the Members of the Legislature on account of the amendment to their salary and the emoluments, Act, Grants-in-Aid/ Contributions to temples/other religious institutions, printing and distribution of text books and payment of difference of salary on account of implementation of UGC pay scales etc. According to Article 205(b) of the Constitution, if any money has been spent on any service during a financial year in excess of the amount granted for that service for that year, a demand in respect of such excess showing the estimated amount of that expenditure is to be presented. However, in the above cases no such statements were placed before the Legislature. The expenditure in these cases was incurred first without the authority of the Legislature and then only brought before the Legislature through supplementary demands.

2.3 Financial accountability and budget management

2.3.1 Appropriation vis-à-vis allocative priorities

There were 28 cases of unspent provision, each exceeding ₹ 100 crore and above under 20 grants/appropriation, which aggregated to ₹ 11,884.90 crore during 2011-12. Large unspent provisions were in areas of urban development, water resources, debt servicing, public works, education, agriculture and horticulture, energy, etc., as indicated in **Table 2.2**.

Table 2.2: Grants/appropriations with unspent provision of ₹ 100 crore and above
(₹ in crore)

Sl. No	Grant	Provision			Expenditure	Unspent provision
		Original	Supplementary	Total		
1	01 – Agriculture and Horticulture Revenue-Voted	3,074.18	442.18	3,516.36	2,313.80	1,202.56
2	02 – Animal Husbandry and Fisheries Revenue-Voted	1,008.32	142.98	1,151.30	978.48	172.82
3	03 – Finance Revenue-Voted	7,167.13	1,072.40	8,239.53	7,978.86	260.67
4	05-Home and Transport Revenue-Voted	2,876.67	138.81	3,015.48	2,802.76	212.72
		387.35	37.50	424.85	293.56	131.29
5	06 – Infrastructure Development Capital-Voted	758.25	19.00	777.25	511.79	265.46
6	07 – Rural Development and Panchayat Raj Revenue-Voted	2,576.94	236.83	2,813.77	2,553.27	260.50
		1,910.50	1,500.74	3,411.24	2,833.30	577.94
7	08 – Forest, Ecology and Environment Revenue – Charged	450.15	-	450.15	238.72	211.43
8	09 – Co-operation Revenue – Voted	524.78	358.40	883.18	665.86	217.32
9	10-Social Welfare Revenue-Voted	2,943.36	168.14	3,111.50	2,944.72	166.78
10	11-Women and Child Development Revenue-Voted	2,300.90	744.23	3,045.13	2,486.86	558.27
11	16-Housing Revenue –Voted	1,233.70	66.94	1,300.64	1,124.60	176.04
12	17 - Education Revenue-Voted	12,060.70	654.94	12,715.64	12,119.47	596.17
		325.22	56.45	381.67	278.09	103.58
13	18 – Commerce and Industries Revenue – Voted	1,269.68	275.71	1,545.39	1,374.38	171.01
		221.80	199.68	421.48	319.35	102.13
14	19 – Urban Development Revenue-Voted	5,168.50	433.83	5,602.33	4,970.88	631.45
		1,898.85	395.72	2,294.57	1,779.81	514.76
15	20 – Public Works Revenue-Voted	1,566.07	179.31	1,745.38	1,520.77	224.61
		2,702.10	1,703.14	4,405.24	3,595.88	809.36
16	21 – Water Resources Revenue – Voted	1,124.89	56.11	1,181.00	609.55	571.45
		5,857.18	383.92	6,241.10	5,461.19	779.91
17	22 – Health and Family Welfare Services Revenue-Voted	2,892.64	147.82	3,040.46	2,878.20	162.26
18	23 – Labour Revenue-Voted	536.10	30.76	566.86	340.19	226.67
19	24 – Energy Capital-Voted	1,166.65	515.00	1,681.65	1,134.29	547.36
20	29 – Debt Servicing Revenue-Charged	6,950.00	---	6,950.00	6,061.85	888.15
		4,462.11	---	4,462.11	3,319.88	1,142.23
	Total	75,414.72	9,960.54	85,375.26	73,490.36	11,884.90

Source: Appropriation Accounts.

Major heads of accounts, under which the unspent provision including re-appropriation amount was more than ₹ 25 crore, are detailed in **Appendix 2.1**. The PAC in its 13th report submitted to the Legislature (December 2011), had observed that in order to have control over provision/expenditure, unutilized provision should be surrendered as and when it came to the notice of the grant controlling authority and that specific instructions was required to be issued in this direction.

The reasons furnished by 18 departments for unspent provisions under a few major heads of account, as reported in Appropriation Accounts, are given below:

Agriculture and Horticulture

- Unspent provision of ₹ 62.82 crore under major head '2401' – Crop Husbandry – Horticulture Department – Development of Oilseeds - ISOPOM, was due to non-receipt of credit slips from Central Government in time.
- Unspent provision under the major head '2401' - Crop Husbandry – Other expenditure – Agriculture Development – Organic farming – Subsidies (₹ 83.19 crore), Special Component Plan (₹ 44.92 crore) and Tribal Sub Plan (₹ 27.27 crore) was due to the release of final installment of grants at the end of the financial year and delay in identification of beneficiaries.
- Unspent provision under the major head '2401' - Crop Husbandry – Agriculture Department – Agri Business Investment Fund – Other Expenses (₹ 427.00 crore), Special Component Plan (₹ 35.00 crore) and Tribal Sub-plan (₹ 15.00 crore) was due to non-receipt of sanction to implement the Scheme in 2011-12.

Animal Husbandry and Fisheries

- Unspent provision of ₹ 43.40 crore under major head '2405' – Fisheries – Other Expenditure – New Initiative for Fisheries Development – Other expenses was due to non availability of beneficiaries.

Finance

- Unspent provision of ₹ 35.40 crore under major head '2054' – Treasury and Accounts Administration – Directorate of Accounts and Treasuries – Director of Treasuries – Modernisation was due to 'Khajane – Package II being in its initial stage of implementation.
- Unspent provision of ₹ 849.97 crore under major head '2070 – Other Administrative Services – Other expenditure – Filling up of vacant posts – Other Allowances was due to making provision for salary for the filled up posts through supplementary provision under respective functional major heads. There has been persistent savings under the head for the past seven years.
- Unspent provision of ₹ 138.64 crore under major head '2071' –Pensions and Other Retirement Benefits –Civil–Commutated value of Pensions–Other payments – Payments to Karnataka Pensioners – Pension and Retirement Benefits was due to less retirements than anticipated.

- Unspent provision of ₹ 91.76 crore under the major head '2701'- Pension and Other Retirement Benefits – Civil – Gratuities – Other Gratuities – Karnataka – DCRG under Revised Pension Rules – Pension and Retirement Benefits was due to less retirements than anticipated.
- Unspent provision of ₹ 152.34 crore under the major head '2071'- Pension and Other Retirement Benefits – Civil – Family Pensions – Other Family Pension – Karnataka – Pension and Retirement Benefits was due to less retirements than anticipated.
- Unspent provision of ₹ 30.39 crore under the major head '2071'- Pension and Other Retirement Benefits – Civil – Pensions of Employees of Local Bodies – Pension to Municipal Employees – Superannuation and Retirement Benefits – Pension and Retirement Benefits was due to less retirements than anticipated.
- Unspent provision of ₹ 100.00 crore under the major head '3475' – Other General Economic Services – Transfer to Reserve Funds and Deposit Accounts – Fiscal Management Fund – Contributions was on account of providing a sum of ₹150.00 crore for transfer to the fund and issuing a modified order on the same day to transfer only ₹50.00 crore citing availability of sufficient balances under fiscal management fund.

Department of Personal and Administrative Reforms

- Unspent provision of ₹ 27.78 crore under the major head '3451' – Secretariat Economic Services – Other expenditure – XIII FCG – Incentives for issuing Unique Identification (UIDs) – Grants-in-Aid was due to low response from the beneficiaries of UID and closure of registration process.

Infrastructure Development

- Unspent provision of ₹ 65.24 crore under the major head '5465' – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Infrastructure – Development of Minor Airports – Investments – Special Development Plan was due to non receipt of Utilization Certificate for earlier release and non receipt of proposals for release of funds within the period.
- Unspent provision of ₹ 75.70 crore under the major head '5465' – Investment in General Financial and Trading Institutions – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Rail Infrastructure Development Corporation (Karnataka) Limited (K – RIDE) – Rail link to New Airport – Investments was due to diversion of the fund for Hassan Sakleshpur Rail Link Project.
- Unspent provision of ₹ 40.00 crore under the major head '5465' – Investment in General Financial and Trading Institutions – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Rail Infrastructure Development Corporation (Karnataka) Limited (K – RIDE) – Cost sharing

for New Projects – Special Development Plan was due to non-receipt of proposal for release of funds from Railways.

- Unspent provision of ₹ 18.10 crore under the major head ‘5465’ – Investment in General Financial and Trading Institutions – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Rail Infrastructure Development Corporation (Karnataka) Limited (K – RIDE) – Cost sharing – Bidar – Gulbarga New Railway Line – SDP – Special Development Plan was due to non-receipt of proposal for release of funds from Railways.

Forest, Ecology and Environment

- Unspent provision of ₹ 211.41 crore under the major head ‘2406’ – Forestry and Wild Life – Forestry – Transfer to Reserve Funds/Deposit Account – Transfer of Forest Development Tax to Karnataka Forest Development Fund – Inter Account Transfers was on account of more provision of fund than tax collected and transferred to the fund head.

Social Welfare

- Unspent provision of ₹ 28.67 crore under the major head ‘2225’ – Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes – Welfare of Scheduled Tribes – Assistance to Block Panchayats / Intermediate Level Panchayats – Taluk Panchayats – Post Matric Scholarships to Scheduled Tribes was due to non implementation of scheme in full.

Women and Child Development

- Unspent provision of ₹ 60.34 crore under the major head ‘2235’ – Social Security and Welfare – Welfare of Handicapped – Monthly Financial Assistance to the Physically Handicapped and the Disabled Poor – Financial Assistance /Relief was due to cancellation of pension to ineligible pensioners.

Education

- Unspent provision of ₹ 25 crore under the major head ‘2202’- General Education – Secondary Education – Government Secondary Schools – High Schools (District Sector Schemes) was due to provision of funds both under State and Districts Sectors (PRIs).
- Unspent provision of ₹ 40.04 crore under the major head ‘2202’ – General Education – Other expenditure – GIA Education – Grants-in-Aid was due to delay in receipt of proposals for grant and drawal of salary grant for private primary and secondary schools, newly included under GIA schools under District Sectors.
- Unspent provision of ₹ 10.00 crore under the major head ‘4202’ – Capital outlay on Education, Sports, Art and Culture – General Education – University and Higher Education – First Grade College Buildings – NABARD works was due to postponement of ongoing building construction works.

Commerce and Industries

- Unspent provision of ₹ 36.44 crore under the major head '2851' – Village and Small Industries – Sericulture Industries – State Sericulture Industries – New Initiative for Sericulture Development – Other expenses was due to lack of beneficiaries under the programme.
- Unspent provision of ₹ 25.00 crore under the major head '6852' – Loans for Iron and Steel Industries – Manufacture – Other Loans – Loans against VAT payment to Industrial units – Loans was due to less number of claims received.

Urban Development

- Unspent provision of ₹ 50.00 crore under the major head '2217' – Urban Development – General – Assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Board, etc., Bangalore Metro Rail Corporation Limited – Reimbursement of Taxes and Duties to BMRCL – Other Expenses was due to making provision under the capital head – Capital Outlay on Urban Development – Other Urban Development Schemes – Other Expenditure – Equity in BMRCL.
- Unspent provision of ₹ 100.00 crore under the major head '3604' – Compensation and Assignments to Local Bodies and Panchayat Raj Institutions – Assistance to Municipal Corporations – Rajiv Awas Yojana was due to non-implementation of the project in full.
- Unspent provision of ₹ 132.28 crore under the major head '4217' – Capital Outlay on Urban Development – Other Urban Development Schemes – Other Expenditure – Equity in BMRCL – Investments was due to less requirement of equity in BMRCL during the year.

Public Works

- Unspent provision of ₹ 125.00 crore under major head '5054' – Capital Outlay on Roads and Bridges – State Highways – Roads Works – Other Road Formation – Roads was due to non-achievement of required progress in works.
- Unspent provision of ₹ 100.00 crore under major head '5054' – Capital Outlay on Roads and Bridges – State Highways – Road Works – Core Road Network Development Programme – Strengthening – Roads was due to non-commencement of works.
- Unspent provision of ₹ 350.00 crore under major head '5054' – Capital Outlay on Roads and Bridges – State Highways – Road Works – Karnataka State Highway Improvement Project (KSHIP) – EAP was due to non-achievement of expected progress in KSHIP- II works and World Bank Schemes.

Water Resources

- Unspent provision of ₹ 503.00 crore under major head '4701' – Capital outlay on Medium Irrigation – Karnataka Neeravari Nigam Limited –

Other expenditure – Accelerated Irrigation Benefit Programme (AIBP) was due to lack of expected progress in works.

- Unspent provision of ₹ 14.51 crore under major head ‘4701’ – Capital outlay on Medium Irrigation – General – Investments in Public Sector and Other Undertakings – Krishna Bhagya Jala Nigam Limited – Capital expenses was due to lack of expected progress in works.
- Unspent provision of ₹ 52.72 crore under major head ‘4711’ – Capital outlay on Flood Control Project – Flood Control – Civil Works – Civil for Flood Control – River Management and Flood Control – Major Works was due to non-receipt of technical approval for the work estimate.

Health and Family Welfare Services

- Unspent provision of ₹ 16.86 crore under major head ‘2210’ –Medical and Public Health –Urban Health Services –Allopathy –Hospitals and Dispensaries – Hospitals Attached to Teaching Institutions – Psychiatric Clinics, Hospitals for ED and TB Sanatorium Major and District Hospitals and Blood Banks – Salaries was due to vacant posts.
- Unspent provision of ₹ 18.79 crore under major head ‘4210’ –Capital outlay on Medical and Public Health –Urban Health Services –Hospitals and Dispensaries – Buildings – Machinery and Equipment was due to non-purchase of equipment owing to non-completion of hospital building.

Labour

- There was a mis-match between the budget provision and the requirement of funds for disbursement in respect of beneficiaries covered under the scheme - Rashtriya Swasthya Bhima Yojana, resulting in unspent provision of ₹31.85 crore under major head ‘2230’ – Labour and Employment – Labour – Other Expenditure.

Kannada and Culture

- Unspent provision of ₹ 25.00 crore under major head ‘2205’ – Art and Culture – Archaeology – XII Finance Commission Grants for Heritage Protection – Other expenses due to non-release of grants in time by Central Government.

Law

- Unspent provision of ₹ 37.44 crore under the major head ‘2014’ – Administration of Justice – Other expenditure – EFC Grants for up gradation of Judicial Administration – XIII FCG – Improvement of Delivery of Justice – Other expenses was due to non-commencement of morning and evening courts and recruitment process of Court Managers being incomplete.

Debt Servicing

- Unspent provision of ₹ 777.49 crore under the major head ‘2049’ – Interest Payments – Interest on Internal Debt – Interest on Market Loans – Interest on Current Loans – New Market Loans of 2010-11 – Debt Servicing was due to erroneous provision of funds.

- Unspent provision of ₹ 202.57 crore under the major head '2049' – Interest Payments – Interest on Small Savings, Provident Funds – General Provident Fund – Debt Servicing due to flow of funds being less than anticipated.
- Unspent provision of funds of ₹ 1,000.00 crore and ₹ 350.00 crore under the major head '6003' – Internal Debt of the State Government was due to non-availing of Ways and Means Advances and Overdraft from the Reserve Bank of India (RBI) during the year. There has been persistent saving under the head for the past seven years. It was stated by the Finance Department (November 2011) that Ways and Means Advance and Over Draft facility were available for overcoming the temporary mismatch, if any, in managing finances in the course of the year. The provisions under these heads were made taking into consideration the cash balance position. Government could not anticipate the number of days on which Government needed Ways and Means Advance or Overdraft. Considering the overall size of the budget, Government needed to provide for any eventuality that might arise during the course of the year. There was no need to make a token provision as the repayment of Ways and Means or Overdraft did not attract New Service Criteria as per Order FD 10 BUD 84, dated 16th October 1987. A matching amount was also provided under receipt side thus making it a budget neutral provision. The reply of State Government is not acceptable for the reason that the provision of fund should be made as accurately as possible and that in the present case, the State Government had not availed of any Ways and Means Advances/Overdraft facility from RBI for the past four years. The contention that it did not attract the criteria of new service was not relevant. The position of cash balance at the end of each day including the transactions under WMA/OD is intimated to the Government by the RBI. If there were cases of availing of Ways and Means Advance/Overdraft on any particular day/days, the same could be brought before the Legislature through supplementary grant for their approval to bring the transactions to the relevant heads of account.

2.3.2 Persistent unspent provision

In three grants there was persistent unspent provision of more than ₹ 100 crore in each case during the last five years, as detailed in **Table 2.3**.

Table 2.3: Persistent unspent provision

(₹ in crore)

Sl. No	Major head	Year				
		2007-08	2008-09	2009-10	2010-11	2011-12
1	03 –Finance (Revenue-Voted)	228.53	854.49	1,731.17	2,925.79	260.68
	2070-800-11					
	Filling up of vacant posts (District Sector)	110.73	450.00	400.00	850.00	849.97
2	19 –Urban development (Revenue-Voted)	1,194.95	1,608.50	1,248.07	522.86	631.46
	2217-05-191-1					
	Bangalore Metropolitan Regional Development Authority	319.24	503.45	577.40	245.00	258.00
3	29 –Debt servicing (Capital-Charged)	1,320.70	1,379.28	1,374.74	1,005.76	1,142.23
	6003-110-1					
	Clean and Secured Ways and Means Advances	921.87	1,000.00	1,000.00	1,000.00	1,000.00
	6003-110-2					
	Overdraft with Reserve Bank of India	350.00	350.00	350.00	350.00	350.00

Source: Appropriation Accounts.

2.3.3 Excess expenditure

In four cases, expenditure in excess of ₹ 25 crore of the budget provision was incurred under four major heads of account pertaining to four grants (**Appendix 2.2**). With regard to excess expenditure under the grant-Revenue, it was stated by the FD (August 2012) that the receipt from National Disaster Response Fund (₹ 70.23 crore) was during the last week of March 2012 and by that time third installment of supplementary provision for the year had already been placed before the Legislature. Provision for transfer of the amount from GOI was made in the first supplementary installment of Budget 2012-13. It may be pointed out that the adjustment relating to the SDRF was carried out in the accounts of 2011-12 itself, even though provision did not exist for such transfer, in order to exhibit the transactions relating to the fund head through book adjustment for the year correctly.

2.3.4 Persistent excess expenditure

Persistent excess expenditure over provision was incurred under two major heads of account pertaining to two grants during the last five years (**Appendix 2.3**).

2.3.5 Expenditure without provision

An expenditure of ₹ 205.74 crore was incurred in 29 cases under 13 grants without provision (**Appendix 2.4**).

Excess expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularized by the State Legislature. Although no time limit for regularization of expenditure has been prescribed under the Article, the regularization of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee.

2.3.6 Excess over provision relating to previous years

It is heartening to note that during the year there were no cases of grants/appropriations where expenditure exceeded the provision and required regularization. This was on account of sufficient provision being made under the relevant heads of accounts to take care of the expenditure required for the year. However, the excess expenditure aggregating ₹ 4,793.28 crore for the years 1989-90 to 2010-11 was yet to be regularized (**Appendix 2.5**).

2.3.7 New service/New instrument of service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorization by the Legislature. The Government has issued orders based on recommendations of Public Accounts Committee, laying down various criteria for determining items of 'New Service/New Instrument of Service'. These, *inter alia*, stipulate that the expenditure over the grant/appropriation exceeding twice the provision or ₹ one crore, whichever is more, should be treated as an item of 'New Service'.

In 43 cases involving 15 grants, expenditure totaling ₹ 430.13 crore, which should have been treated as 'New Service/New Instrument of Service, was incurred without the approval of the Legislature (**Appendix 2.6**).

Supplementary Provision

Supplementary provision (₹ 12,007.22 crore) made during the year constituted 14 *per cent* of the original provision (₹ 87,737.44 crore) which was nine *per cent* less than the previous year.

2.3.8 Unnecessary supplementary provision

Supplementary provision of ₹ 165.79 crore made under 23 detailed / object heads relating to seven out of 16 test checked grants proved unnecessary (**Appendix 2.7**).

2.3.9 Excessive supplementary provision

Supplementary grant of ₹ 4,766.66 crore obtained under 47 detailed heads relating to 13 out of 16 test checked grants proved excessive resulting in unutilised provision of ₹ 1,615.27 crore (**Appendix 2.8**).

2.3.10 Inadequate supplementary provision

Supplementary provision of ₹ 481.00 crore obtained under four detailed heads relating to two out of 16 test checked grants proved inadequate, leaving uncovered excess expenditure of ₹ 387.55 crore (**Appendix 2.9**).

Re-appropriation of funds

A grant or appropriation for disbursements is distributed by sub-head / detailed head / object head under which it is accounted for. The competent executive authority may approve re-appropriation of funds between the primary units of appropriation within a grant or appropriation before the close of the financial year to which such grant or appropriation relates. Re-appropriation of funds should be made only when it is known or anticipated that the appropriation for the unit from which funds are to be transferred will not be utilised in full or will result in unspent provision in the unit of appropriation.

2.3.11 Injudicious re-appropriation of funds

In 60 cases re-appropriation of funds was made injudiciously resulting either in un-utilised provision or excess over provision of more than ₹ 25 lakh in each case (**Appendix 2.10**), as detailed below:

- In three cases additional funds of ₹ 7.52 crore, provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹ seven crore.
- In 43 cases the un-utilised provision was not properly assessed as, even after the withdrawal of ₹ 1,131.13 crore through re-appropriation, ₹ 1,150.21 crore remained un-utilised.
- In 14 cases additional funds of ₹ 830.91 crore, provided by re-appropriation, resulted in overall un-utilised provision of ₹ 421.95 crore and the re-appropriation made was unnecessary.

2.3.12 Defective re-appropriation

During 2011-12 476 re-appropriation orders for an amount of ₹ 5,277.32 crore were issued of which 35 re-appropriation orders for ₹ 204.66 crore were not acted upon as they violated the provisions of Article 309, 312 and 315(a) of the Karnataka Financial Code which stipulated the conditions under which the re-appropriation cannot be done (**Appendix 2.11**).

Surrender of unspent provision

Spending departments are required to surrender the grants/appropriations or a portion thereof to the Finance Department as and when the unspent provision is anticipated.

2.3.13 Unspent provision not surrendered

In the case of nine grants/appropriations the entire unspent provision, aggregating ₹ 1,815.65 crore, was not surrendered (**Appendix 2.12**).

Further, in the case of 28 grants/appropriations there was only partial surrender and around 71 *per cent* (₹ 7,720.41 crore) of the total unspent provision (₹ 10,857.38 crore) was not surrendered (**Appendix 2.13**). Besides, in 25 grants where surrender of funds was in excess of ₹ five crore, ₹ 4,830.68 crore were surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.14**).

2.3.14 Substantial surrenders

Out of the total provision of ₹ 2,560.26 crore in 22 cases, ₹ 2,442.57 crore (95 *per cent*) were surrendered, which included *cent per cent* surrenders in six cases (₹ 476.69 crore). Illustrative cases are given in **Appendix 2.15**. These surrenders were stated to be due to non-receipt or late receipt of sanctions from Government, non-receipt of grants, non-receipt of claims/bills, non-finalization of contracts, economy measures etc.

2.4 Contingency Fund

The Contingency Fund of the State has been established under the Contingency Fund Act, 1957 in terms of provisions of Articles 267 (2) and 283 (2) of the Constitution of India. Advances from the fund are to be made only for meeting expenditure of an unforeseen and emergent character, postponement of which till its authorization by the Legislature would be undesirable. The fund is in the nature of an imprest and its corpus is ₹ 80 crore. Funds drawn out of Contingency Fund are subsequently recouped to the fund through supplementary provisions.

During 2011-12 15 sanctions aggregating ₹ 46.61 crore were issued. A review of the operations of the Contingency Fund disclosed the following:

- ❖ Out of ₹ 4.50 crore sanctioned under '2515' only ₹ 1.33 crore was utilised (30 *per cent*).
- ❖ Out of ₹ 3.00 crore sanctioned under '2015' only ₹ 2.86 crore was utilised (95 *per cent*).
- ❖ In one case it was observed that the money sanctioned for withdrawal from the fund (₹ 0.51 crore) during January 2012 was not brought before the

Legislature for regularization during March 2012 when the third installment of supplementary demand was placed. This was in contravention of the rules governing the withdrawal from the Contingency Fund.

- ❖ A sum of ₹ five crore was included in the second supplementary demand towards investment in M/s MPM Limited as share capital investment of the Government. Before the demands for grants could be passed, in view of urgency, the amount was released by the Finance Department through Contingency Fund. However, the amount stood accounted against Consolidated Fund.

2.5 Errors in budgeting

Errors in budgeting of ₹ 805.16 crore due to provision made under Revenue Charged instead of Revenue Voted, Revenue Voted of plan instead of non-plan, Revenue Voted instead of Revenue Charged, Loan account instead of Revenue Voted, provision/ expenditure on modernization under minor head subsidy (₹ 20.00 crore) provision and expenditure made under different grants (₹ 777.78 crore), unnecessary provision made on Loans and provision made on Loans and outstanding were noticed (**Appendix 2.16**).

2.5.1 Errors in Classification

Expenditures are classified according to the function, programme and their economic nature, using a fifteen digit numerical code with the last three digits of classification at the object head level, assuming importance with regard to the nature of the expenditure. In respect of certain transactions (Illustrative cases listed in the **Table 2.4** below), it was seen that there were overlapping of provision /expenditure indicating thereby the budget was not transparent to that extent. Action is required to be initiated to avoid overlapping of expenses, by opening separate object heads to record provision/expenditure.

Table 2.4: Details of errors in classification

(₹ in crore)		
Item of Expenditure	Amount involved	Remarks
Pension and Other Retirement Benefits	6,526.20	Expenditure shown in accounts includes pension under Social Security Scheme, Grants released to ULBs for payment of pension (₹ 1,090 crore), which are not in the nature of pensions paid to government servants.
Consolidated Salaries	646.75	This object head is intended for recording the salary expenditure of constitutional dignitaries, but includes releases made to ULBs for payment of salary (₹ 629 crore).
Maintenance	1,232.78	Includes releases made to ULBs for maintenance (₹ 421 crore). This expenditure out of the Consolidated Fund was not for maintenance but was only a release to ULBs for maintenance.
Subsidy	7,389.72	Includes releases made to ULBs for payment of subsidy (₹ 94 crore).

2.6 Outcome of review of selected grants

A review of budgetary procedures followed and expenditure controls exercised in respect of three selected grants showed the following:

2.6.1 Grant 10 – Social Welfare Department

Scrutiny of the budgetary procedures employed/ followed and the expenditure controls exercised during the years 2009-12 in respect of the Social Welfare Department, responsible for the implementation of several multi-faceted and multi-pronged programmes for welfare of Scheduled Castes (SCs), Scheduled Tribes (STs), Backward Classes (BCs), minorities, disabled and senior citizens, and thereby placing them on the path of mainstream development, showed the following.

Table 2.5: Budget and Expenditure

Year	Section	Budget Provision	Expenditure	(₹ in crore)
				Unutilised provision and its percentage
2009-10	Revenue - Original	1983.36	1703.10	348.63 (17)
	- Supplementary	68.37		
	Capital – Original /P	244.77		
	- Supplementary /P	20.71	237.94	
2010-11	Revenue - Original	2391.73	2504.40	117.00 (4)
	- Supplementary	229.67		
	Capital – Original/P	279.18	211.50	
2011-12	Revenue - Original	2943.36	2944.72	166.79 (5)
	- Supplementary	168.15		
	Capital – Original /P	320.95	278.82	

The un-utilised provision under Revenue Section has come down from 17 per cent in 2009-10 to 5 per cent during 2011-12, while it went up from 10 per cent to 13 per cent under Capital Section during the same period. As reported in Appropriation Accounts for the years 2009-12, the reasons for non- utilization of provision were either not forthcoming or were rather general.

The provision under Revenue Section comprises plan and non plan components. The non-plan components mainly comprise the salary and administrative expenditure of the department. The plan component comprises expenditure on implementation of various programmes.

The breakup of provision/ expenditure against plan / non plan during the years 2009-12 are given below.

Revenue

Year	HOA 2225/2250					
	Budget (including supplementary)		Expenditure		Deviation percentage	
	Non Plan	Plan	Non Plan	Plan	Non Plan	Plan
2009-10	477.66	1574.07	476.64	1226.46	- 0.21	- 22.08
2010-11	516.11	2105.29	514.83	1989.57	- 0.25	- 5.50
2011-12	609.16	2502.35	606.13	2338.59	- 0.50	- 6.54

The percentage of deviation (unutilized provision) has come down considerably from 22 in 2009-10 to 7 in 2011-12.

Capital

(₹ in crore)

Year	HOA 4225		
	Budget	Expenditure	Deviation in percentage
	Plan	Plan	Plan
2009-10	265.48	237.94	- 10.37
2010-11	279.18	211.50	- 24.24
2011-12	320.95	278.82	- 13.13

The percentage deviation (unutilized provision) varied between 10 and 24 *per cent* during 2009-12.

2.6.1.1 The Budget Process

The process of budget compilation starts every year during October with the Finance Department issuing instructions to all the Estimating Officers to route their requirement of funds, duly scrutinized by the Internal Financial Advisors. The IFAs are required to scrutinize the salary expenditure pertaining to the departments which get reflected in Appendix B, a document providing details of estimates of expenditure on pay of officers, staff under state sector, meant for the purpose. In respect of expenditure other than salary the Secretariat in the department is required to process the estimates. As could be seen from the table above there had been no appreciable deviation between the estimates and the actual expenditure in respect of non-plan component, indicating thereby that the budget preparation process was in conformity with the guidelines issued for its preparation.

The Estimates of Plan expenditure is prepared in consultation with Planning Department. As could be seen from the table there had been considerable variation between the actuals and the estimates for the year. The deviation was the least during 2010-11. Several Plan scheme expenditure under State, Central and Centrally Sponsored Schemes, implemented by the department/through agencies, have suffered on account of non/partial utilization of funds. The illustrative cases of Heads of Account affected during 2011-12 are given below. No specific reasons were forthcoming for non utilization of provision. It was also observed that saving was a regular feature under certain heads.

Table 2.6: Unutilized Provision

(₹ in crore)

Sl. No.	Head of Account and nomenclature of the Scheme	Budget provision	Expenditure	Unutilised provision (<i>per cent</i>)	Purpose for which the amount is required to be utilised
1	2225-03-277-2-48 Construction of community hall/ Shadi Mahal for minorities	19.70	13.84	5.86 (30)	Assisting and promoting the social and cultural activities and performance of marriages of minorities.
2	2225-03-800-0-24 Development of Christian community	50.00	27.34	22.66 (45)	To improve the socio-economic status of religious minorities of the State.
3	2225-03-190-0-03/ Assistance to artisans and occupational groups – Backward Classes Corporation	50.00	40.00	10.00 (20)	Assistance to traditional artisans of BC engaged in traditional occupations.
4	2225-03-800-0-19 Model Hostels	20.00	12.28	7.72 (39)	Hostels, pre-metric and post-metric hostel buildings for students.
5	2225-02-794-0-01 Administration	162.00	97.41	64.59 (40)	Programme towards Tribal Sub-Plan etc.

6	2225-03-277-2-67 Multi Sectoral Development Plan for Minorities	25.00	20.00	5.00 (20)	Financial assistance to eligible students belonging to religious minorities who seek admission to the skill development courses such as Nurse Training, Commercial Pilot Training, Air Hostess and advanced computer training.
7	2225-01-793-0-00 Special Central assistance for Special Component Plan	35.00	19.20	15.80 (45)	Self employment skill development training schemes like Nursing Course, Para Medical Course, NIFT, SIFT, AT & DC and Other Trainings.

Source: Appropriation Accounts.

According to the instructions of FD for preparation of Budget Estimates the CEOs act as the estimating officers in respect of Panchayat Raj Institutions who are required to send the detailed estimates to the concerned head in the administrative department for scrutiny. No records were made available for scrutiny in audit to ascertain whether the instructions of FD were adhered to.

2.6.1.2 Supplementary Provision.

The supplementary provision, obtained during the year (₹ 168.15 crore) under Revenue Section, constituted around 6 per cent of the original provision. Some of the cases where the procedure to be followed in connection with demands for supplementary grants were not followed, are detailed below:

- Provision of ₹ 23.28 crore obtained towards meeting maintenance of hostels in the Backward Classes Department could have been anticipated and provision obtained at the time of placing budget estimates for the year 2011-12 as the department was aware of the enhanced student strength, additional hostels sanctioned in 5 district of Gulbarga division and enhanced food charges from 2009-11 itself.
- Provision of ₹ 62.00 crore obtained towards TSP in anticipation of Special Central Assistance from Government of India proved un-necessary as the expenditure under the head was less than the original provision (₹ 100.00 crore).
- Provision of ₹ 29.38 crore obtained towards post-metric scholarship to Scheduled Tribes proved excessive as ₹ 26.91 crore were re-appropriated to Special Component Plan Pooled Fund, due to non implementation of the scheme in full

2.6.1.3 Persistent Non-utilisation of provision

As per Para 110 of the Karnataka Budget Manual due notice was to be taken of the past performance, the stage of formulation/ implementation of various schemes, the institutional capacity of the implementing agencies to implement the scheme as scheduled, the constraints on spending by the spending agencies and, most importantly, the quantum of government assistance lying with the recipients un-utilised/ unaccounted for etc., with a view to minimizing the scope for funds available for surrender at a later stage. However, provisions had remained un-utilised under the following programmes during 2009-12; no specific reasons for the same were forthcoming.

Table 2.7: Persistent Savings

Sl. No.	Head of Account/ nomenclature	Unspent provision		
		2009-10	2010-11	2011-12
1	2225-01-102-09 Dr. Ambedkar Birthday Celebration	0.38	0.39	0.39
2	2225-01-800-13 Compensation to Scheduled Castes /Scheduled Tribes victims	1.13	1.05	2.00
3	2225-03-190-03 Assistance to Artisans and Occupational groups – BC corporation	35.00	10.00	10.00
4	2225-03-277-2 Welfare of Other Backward Classes	14.65	14.59	34.64
5	2225-03-277-57 Stipend to Backward Classes Nursing Students	0.47	0.44	1.16
6	2225-03-800-03 Community Irrigation/ Individual Irrigation scheme (Backward Classes)	15.00	10.00	10.00
7	4225-01-190-01 Dr. B.R. Ambedkar Development Corporation Limited	4.90	4.90	5.39
8	4225-02-190-1 Karnataka ST Development Corporation	1.59	1.93	1.93

2.6.2 Public Works, Minor Irrigation and Forest

2.6.2.1 Rush of expenditure for the year 2011-12

In terms of existing principles governing financial propriety, rush of disbursements, particularly in the closing month of the financial year, is to be avoided. Contrary to this, disbursements of more than ₹ 10 crore and 50 per cent of the total annual disbursements were made during January – March 2012. Fifty to 100 per cent of total annual disbursements were made during the month of March under various object heads.. Test check of the records in the Offices of Chief Engineer, Communication and Building (South), Bangalore, Chief Engineer, Communication and Building (North), Dharwad, Chief Engineer, Minor Irrigation (South), Bangalore and Chief Engineer, Minor Irrigation (North), Bijapur showed cases of rush of expenditure as detailed in **Appendix 2.17**.

2.6.2.2 Impact of savings on various schemes/projects - Shortfall in financial progress under XIII Finance Commission grants:

A scrutiny of the Grant and Outlay and Physical and Financial Progress Reports of works during 2012, in the office of the Chief Engineer, Minor Irrigation (North Division), Bijapur showed that there were huge savings under the heads of accounts XIII Finance Commission Grants, XIII Finance Commission Grants (Special Component Plan) and XIII Finance Commission Grants – Tribal Sub-Plan as detailed **Table 2.8**.

Table 2.8: Savings under XIII FC Grants

Sl. No	Head of account	Budget Provision	Total Expenditure During the year	Unspent Provision/ Savings	
				Unspent Provision/ Savings	Percentage
1.	4702-00-101-1-12-059-Restoration of Tank Water Bodies-Other Expenses	37.38	7.63	29.75	80
2.	4702-00-101-1-12-422-Restoration of Tank Water Bodies-Special Component Plan	3.67	-	3.67	100
3.	4702-00-101-1-12-423 – Restoration of Tank Water Bodies – Tribal Area Sub Plan	1.71	-	1.71	100
	Total	42.76	7.63	35.13	82

The XIII Finance Commission was constituted by Government of India on 13th November 2007 to make recommendations for various sectors for implementation during 2011-15. In Chapter 12 Grant-in-aid of its report with regard to Karnataka under the caption “Restoration of tanks and Traditional Water Bodies” (Para 12.196) the Commission has mentioned that “State Government has sought assistance to rehabilitate more than 30,000 minor irrigation tanks which are not covered under the existing rehabilitation projects. This initiative was to support irrigation and drinking water while also improving ground water levels”. An amount of ₹ 350 crore was earmarked for this purpose.

As per the approved Action Plan for improvement and rehabilitation of existing minor irrigation tanks/schemes under the XIII FC grants the following proposals were prepared for improvement/restoration of Minor Irrigation Scheme.

- Improvement of bund, waste weir and slick.
- Desilting of tank bed.
- Improvements to distribution networks.
- Improvement of feeder channel, catchment area treatment etc.

These improvement works had been proposed in respect of minor irrigation tanks having designed atchkat of more than 40 hectares. The proposal related to 631 works in 30 districts covering 87,887.25 hectares in atchkat at an estimated cost of ₹ 349.99 crore. As seen from the table above, out of total Budget provision of ₹ 42.76 crore under this head of account only an expenditure of ₹ 7.63 crore (18 *per cent*) had been incurred, resulting in huge savings of ₹ 35.13 crore constituting 82 *per cent*. Thus, the poor financial progress had resulted in shortfall in achievements of the objectives of the scheme due to non-utilization of the funds.

The department attributed (July 2012) the savings mainly due to delay in preparation of estimates and clearance/approval by the competent authority. It was further stated that as the programme was to be implemented in a four year period from 2011-12 to 2014-15 the allocated amount would be fully utilized in the remaining three years. The reply is not acceptable as Finance Commission’s recommendations for release of grants over a period of five years from 2010-11 to 2014-15 and the yearly allocations for this scheme during 2011-12 to 2014-15 were within the knowledge of the department/ government. Thus, the department had sufficient time at its disposal to complete the preliminary activities before the government gave the approval in September 2011. Failure to do so led to poor financial progress during 2011-12 and the consequent burden on the government to increase the budget provision in the successive years to meet the time frame fixed for completion of the scheme by 2014-15.

2.6.2.3 Other schemes affected by unspent provisions

A scrutiny of the physical and financial progress reports of the schemes in the departments/ Appropriation Accounts for the year 2011-12 showed that the Government ended with large unspent provisions, indicative of poor budgetary control in implementing the schemes/activities of the Government. Schemes/object heads under which large unspent provisions occurred are shown below. It would be seen that the percentage of unspent provisions ranged between 10 and 100 *per cent*.

Table 2.9: Unspent provision under other schemes

(₹ in crore)

Sl. No	Head of account	Total Provision	Actual Disbursement	Unspent Provision	Reasons advanced by the department.
Chief Engineer, Communications and Buildings, (North), Dharwad					
1.	4059-80-051-0-42-386 (Plan) Construction of District Office Building-Construction	44.45	36.62	7.83 (18)	Approval for the estimate for the work of construction of District Office Building at Bellary was awaited from the Government; the site for the building (Mini Vidhana Soudha) at Kudligi was yet to be finalized by the Revenue Department and buildings at Hagarigbommanahalli and Lingasguru (Construction of Mini Vidhana Soudha) had been withdrawn.
2.	5054-03-337-0-13-172 (Plan) Renewal of State Highways-Road	205.00	169.84	35.16 (17)	Due to shortfall in the release of funds by the government and pending bills at the end of the financial year.
Chief Engineer, Communication and Buildings (South), Bangalore					
3.	3054-04-337-1-09-172 Chief Ministers Grameena Rasthe Yojane	185.50	166.90	18.60 (10)	No reasons furnished
Chief Engineer, Minor Irrigation (South), Bangalore.					
4.	4711-01-103-2-02-139 River Management and Flood Control – Major works	59.46	6.74	52.72 (89)	Due to delay in approval of schemes and administrative approval / technical sanctions. As a result the works could not be taken up in time.
5.	4702-00-101—1-13-132 Repairs and Rejuvenation of Tanks MI –Capital expenses	280.00	94.52	185.48 (66)	
Forest and Wild Life					
6.	2406-01-101-2-26-139 Development and preservation of Devara Kadu – Major works	27.20	19.45	7.75 (28)	No reasons furnished
7.	2406-01-102-2-18-139 Road side plantation (State Sector)-Major works	11.05	6.41	4.64 (42)	No reasons furnished
8.	2406-01-800-0-05-422 Special Component Plan for SCs - SCP	13.27	6.45	6.82 (51)	No reasons furnished
9.	2406-02-110-0-20-139 Nilgiris Biosphere Reserve –Major works	2.00	-	2.00 (100)	No reasons furnished

Note: Figures in brackets denote percentage.

The non-achievement of the targeted financial progress had resulted in huge savings, affecting the implementation of the schemes.

2.6.3 Thematic Review Report on Expenditure and Budgetary Control of Tourism Department.

Karnataka, with its great heritage and cultural background, has vast potential for sustainable development of tourism industry. The Directorate of tourism administers the tourism-related activities along with promotional and developmental activities. It is supported by two other government undertakings viz., Karnataka State Tourism Development Corporation Limited (KSTDC) and Jungle Lodges and Resorts Limited (JLRL). The department has brought out a series of tourism policies with a package of incentives, concessions and subsidies for development of tourist infrastructure in the State.

Audit Objectives

Audit Objectives were to:

- Assess/Examine the Quality/Efficiency in the budgetary procedures and practices.
- Examine the efficiency and effectiveness of the resources management in the department.
- Examine the efficiency and effectiveness of the expenditure control systems and safeguard against unauthorized expenditure.
- Examine the efficiency and adequacy in maintenance of departmental accounts.

2.6.3.1 Scope of Audit and Methodology

Records maintained at the Department of Tourism and two zones i.e, Bangalore and Gulbarga out of four zones and five districts i.e., Chitradurga, Tumkur and Kolar of Bangalore Zone and Bidar and Raichur of Gulbarga Zone i.e., out of 12 districts in the selected zones, for the period from 2009-10 to 2011-12 were test-checked during May to August 2012. The Audit Process included discussions with officials of the Department, Office of the Deputy Commissioners of the five selected districts, collection of data through examination of records and their analysis and joint inspection.

2.6.3.2 Budget Monitoring and Control - Formulation of Budget.

Para 88 of Karnataka Budget Manual (KBM) provides that the Heads of Department should prepare the estimates separately for each head of account on the basis of the estimates from their subordinate officers and forward these to the Finance Department (FD) by the prescribed date. The department sent budget proposals in respect of non-plan expenditure within the due date (18 November) each year. However, the Budget Estimate prepared Scheme-wise under Plan head is based on allotment made to the department every year by Planning and Finance Department. On allocation of funds from the Finance Department, Action Plan for the works undertaken during the year is prepared (April/May) by the department. When additional grants are required, the department submits proposal to the Finance Department, which is provided in the form of supplementary demands, after scrutiny.

The position of budget, expenditure and excess/ unutilized provision under Revenue/Capital during the year 2009-12 are brought out in **Table 2.10**.

Table 2.10: Budget and expenditure

Year	Section	(₹ in crore)		
		Budget Provision	Expenditure	Excess (+) Unutilized provision (-)
2009-10	Revenue – Original	87.47	96.07	(+) 2.19
	Supplementary	6.41		
	Capital (P) – Original	100.00	94.73	(-)5.27
	Supplementary	-		
2010-11	Revenue – Original	104.18	103.12	(-) 2.06
	Supplementary	1.00		
	Capital (P) – Original	100.00	105.98	(-) 18.32
	Supplementary	24.30		
2011-12	Revenue – Original	103.67	107.08	(-) 10.67
	Supplementary	14.08		
	Capital (P) – Original	144.60	175.33	(+) 9.90
	Supplementary	20.83		

The excess expenditure under Revenue Section (2009-10) was not covered by sufficient supplementary provision, obtained for the purpose. However, Finance Department included ₹ 2.00 crore in the revised estimates for the year and allowed the department to withdraw the money from the treasury, without the authorization of the Legislature, in violation of provisions contained in the Karnataka Budget Manual, 1975. The expenditure related to the publicity expenses of the department (₹ 2.50 crore). The excess expenditure under capital section (2011-12) were covered by re-appropriation (₹ 23.00 crore) from out of saving under other capital heads of account. The saving under revenue section (2011-12) was due to inclusion of pooled fund upfront for implementation of programmes under SCP/TSP in the budget allotment of the department, allocated to Social Welfare Department for implementation of SCP/TSP Schemes. The departmental expenditure related to subsidy to SC/ST youth for purchase of taxis, conduct of short term courses etc.

The Budget placed before the Legislature (Revenue/Capital Section) is further bifurcated into plan/ non-plan in the detailed demands for grants. The bifurcation of provision/ expenditure during the years 2009-12 under revenue/ capital is given below:

(₹ in crore)

HOA 3452						
Year	Budget (including supplementary)		Expenditure		Deviation in percentage	
	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan
2009-10	2.67	91.21	2.54	93.53	4.90	(+) 2.5
2010-11	2.89	102.29	2.82	100.30	2.40	1.9
2011-12	3.27	114.48	3.04	104.04	7	9.1

There had been no significant unspent provisions under non-plan during 2009-12. In respect of plan allocation, provisions remained unutilized mainly under SCP/TSP.

(₹ in crore)

HOA 5452 (Plan)			
Year	Budget	Expenditure	Deviation in percentage
2009-10	100.00	94.73	5.3
2010-11	124.30	105.98	14.7
2011-12	165.43	175.33	(+) 6

As could be seen from the table, the deviation percentage increased from 5.3 per cent in 2009-10 to 14.7 per cent in 2010-11, while the expenditure exceeded the provision during 2011-12 by 6 per cent.

2.6.3.3 Diversion of funds - from Direction and Administration to implementation of Schemes

The release of fund through the budget differed with those sought by the department under certain heads as indicated below for the year 2010-11, which contributed to diversion of funds.

(₹ in crore)

Head of Account	Budget Estimate of the Department	Releases made by Finance Department
3452-80-001-0-01 (all object heads)	1.62 (included requirement under 059 also)	20.22 (under 059) 0.78 (under other object heads)
3452-80-001-0-01-422 (SCP)	20.11	6.00
3452-80-001-0-01-423 (TSP)	8.13	3.00

As per paragraph 7 of General Instructions issued by the Finance Department for preparation of budget estimates, the provision of funds under the object head 059 – other expenses should be as minimum as possible. However, due to excess release by the Finance Department, the Department included various items of expenditure like purchase of vehicles, computers etc., and payment of agency fee for publicity which did not form part of expenditure under this object head. Apart from the items included in the action plan of 2010-11, the Department diverted ₹ 8.01 crore towards payment to architects (₹ 2.78 crore), payment of haulage charges for running the Golden Chariot train (₹ 3.50 crore – not a departmental expenditure), execution of works (₹ 1.55 crore), procurement of various items in respect of JLRL (₹ 0.18 crore) without any re-appropriation and without the approval of Planning Department/ Finance Department.

2.6.3.4 Parking of Departmental funds with the corporation

The unspent balance of ₹ 0.31 crore (₹ 0.18 crore pertaining to building expenses and ₹ 0.13 crore pertaining to promotion and publicity) were parked with KSTDC account (2010-11), to avoid lapse of budget grants. Subsequently the same was utilized during June 2011.

2.6.3.5 Payment of Haulage charges from other heads of account

“The Golden Chariot”, one of the prestigious projects for promotion of tourism, is run by KSTDC. Since the project has been running under loss, KSTDC requested the Department for financial assistance for payment of haulage charges to Railways. Total haulage charges payable during the year 2009-10 to 2011-12 were ₹ 7.87 crore, ₹ 6.24 crore and ₹ 7.20 crore, respectively. The department met the revenue expenses of the corporation out of the savings under different heads of account, as detailed below.

		(₹ in crore)
Year	Head of Account	Amount
2009-10	3452-80-104-0-01-059	1.00
	Promotion and Publicity	
2011-12	3452-80-104-0-01-059	1.47
	Promotion and Publicity	
	5452-01-800-0-12-211	3.00
	Investments	

Further, Finance Department released ₹ 3.00 crore under the Head of Account 5452-01-800-0-12-211 (Investment) during 2011-12 even though the funds released did not form part of investment activity (share capital investment) of the Government and was for meeting the revenue expenditure of the corporation. The said release was accounted as investment in the corporation in the finance accounts of the Government. Finance Department replied that the release to the Corporation was accounted under capital expenses (Object Head 132) and was covered under Rule 30 of Government Accounting Rules, 1990. The reply is not acceptable as the classification/release of amount were shown as investments (object head 211).

2.6.3.6 Accounting of Revenue Expenditure under capital head of account.

Under the Capital head of account 5452-01-800-0-11-422 and 5452-01-800-0-11-423, ₹ 22.19 crore and ₹ 7.32 crore respectively were allotted during 2011-12 for incurring expenditure relating to SCP/TSP. The allocation/expenditure revealed

that it was for purchase of taxis by the selected beneficiaries, Educational Tours, short term course on hospitality and short term training for SC/ST beneficiaries. The very nature of expenditure revealed that it was current expenditure and not an expenditure on capital account aimed at creation of concrete assets of material character. Thus the change of categorization of expenditure led to over statement of Government's capital expenditure.

2.6.3.7 Release of funds without the approval of Government

The Government had clearly stated (29 November 2011) that no additional funds would be released for the work of Construction of VVIP Guest House at Yedyur. In spite of this the Director, Department of Tourism, released (26 May 2010) an amount of ₹ 1.00 crore for the said work citing the G.O. dated 30 April 2010 (i.e., delegation of Financial powers). According to Sl. No. 1 of said G.O. dated 30 April 2010, the Director is empowered to accord administrative approval for the works up to ₹ 1.00 crore subject to availability of grants. As the Government had specifically stated that no additional funds would be released for the work, the action of the Director, Department of Tourism in releasing the funds for the same work in his order dated 23 February 2012, just by changing the name of the work, is in violation of Government Order dated 30 April 2010, since no grants had been allotted by the Government for the said project.

2.6.3.8 Irregular re-appropriation

The Government in its order dated 30 March 2012 re- appropriated ₹ 23.00 crore to the Head of Account 5452-01-800-0-12-132 from various other capital heads for incurring expenditure under Capital expenses-Tourist Infrastructure at various places. The above said amount was drawn on 31 March 2012 through a payee's receipt and transferred to KSTDC account. No expenditure has been incurred. As the amount re-appropriated had not been utilized, the proposal for re-appropriation of ₹ 23.00 crore from others heads to a capital head for incurring expenditure under capital expenses was irregular. Also, the Finance Department re-appropriated (March 2012) ₹ 7 crore to the Head of Account 3452-01-800-0-03-059 (Centrally Assisted Schemes) and transferred the amount (March 2012) to KSTDC account. No expenditure was incurred (August 2012). This has resulted in irregular re-appropriation of grants when funds were not needed and was a case of withdrawal of funds to avoid lapse of budget grants, against canons of financial propriety.

2.6.3.9 Rush of Expenditure

As per paragraph 6 of instructions issued by Finance Department regarding releases, drawal and accounting of funds in order dated 09 September 2004, the Administrative Department and the Heads of Department were to plan the expenditure for the remaining part of the financial year with due diligence and within the available grants. Bunching of bills and rush of expenditure in the month of March was to be avoided. Administrative orders were to be issued well in advance after obtaining necessary approvals at the required levels for expenditure likely to be incurred in February and March. However, it was noticed that the percentage of expenditure during March ranged from 15 to 92 and expenditure during last quarter ranged from 27 to 100 during the year 2011-12. The subhead-wise details of expenditure are detailed below.

(₹ in crore)

Sl. No	Head of Account	Total Expenditure	Expenditure incurred during		% of total expenditure incurred during	
			January to March 2012	March 2012	January to March 2012	March 2012
1	3452-01-101-0-01	1.50	0.93	0.58	62	39
2	3452-01-800-0-03	32.00	15.76	8.84	49	28
3	3452-01-800-0-05	4.00	2.00	1.60	50	40
4	3452-80-001-0-01	8.34	2.29	1.24	27	15
5	3452-80-104-0-01	49.48	26.21	20.21	53	41
6	3452-80-104-0-04	5.00	2.81	1.32	56	26
7	3452-80-104-0-05	4.26	3.93	3.93	92	92
8	3452-80-104-0-11	2.50	2.50	0.00	100	-
9	5452-01-800-0-10	24.40	19.63	15.32	80	63
10	5452-01-800-0-12	133.44	98.16	63.83	74	48
11	5452-01-800-0-13	7.50	2.50	2.50	33	33

The department stated (August 2012) that in every financial year, most of the bills were received in the last quarter for payment. Further re-appropriation orders were issued in March and usually more expenditure was incurred in the month of March. Reply of the department was contrary to the instructions issued by the FD. Failure on the part of FD was also observed with regard to the approval accorded for re-appropriation of funds having a bearing on rush of expenditure.

In addition to the above, during the period of second half of March, the department had drawn and released amounts to various agencies like KRIDL, KARNIK, KSTDC, JLRL to avoid lapse of grants, which were 8 per cent, 9 per cent and 21 per cent respectively for the years 2009-10 to 2011-12 compared to the total budget allotment under plan as detailed below.

(₹ in crore)

Year	Budget Allotment under plan	Amount released during second half of March	Percentage of releases
2009-10	191.21	14.46	8
2010-11	226.59	19.89	9
2011-12	279.91	58.75	21

2.6.3.10 Parking of funds outside Government Accounts.

As per the conditions laid by GOI for release of funds for sanctioned work, the department has to utilize the funds released within six months and any unutilized amount has to be refunded to them. Similarly, state funds not required for immediate disbursement should be surrendered to FD so that the savings can be utilized by other needy departments, as per Para 264 of KBM.

The Department receives funds from GOI for implementation of various Centrally Sponsored Schemes. These funds along with State funds were being parked with Karnataka State Tourism Development Corporation (KSTDC) to avoid lapse of grants. Parking of savings out of Government account was against the canons of Financial Propriety. The details of parking of funds during the period 2009-12 were as follows:

(₹ in crore)

Sl. No.	Year	Balance (as on 31 st March) in KSTDC account against the DoT
1	2009-10	11.67
2	2010-11	8.88
3	2011-12	3.72

Test check of the transactions accounted against the capital works showed that by submitting a payee's receipt to the treasury the department transferred the money to the KSTDC for holding the same temporarily in its accounts. After the work was executed by the implementing agencies, the payment was made through the KSTDC, the vouchers were retained by the department for record. Thus, the expenditure booked to the Consolidated Fund lacked transparency as no vouchers were submitted in support of the claim.

2.7 Conclusion

Against total provision of ₹ 99,744.66 crore during 2011-12 an expenditure of ₹ 86,829.62 crore was incurred. This resulted in an unspent provision of ₹ 12,915.04 crore (13 *per cent*). Excess expenditure of ₹ 4,793.28 crore relating to the period 1989-90 to 2010-11 required regularization under Article 205 of the Constitution. Expenditure aggregating ₹ 430.13 crore in 43 cases, which should have been treated as 'New Service/New instrument of service', was incurred without the approval of the Legislature. While, supplementary provision of ₹ 165.79 crore in 23 cases was unnecessary re-appropriation of funds in 60 cases was made injudiciously resulting in either un-utilised provision or excess over provision. In 25 grants, ₹ 4,830.68 crore was surrendered in the last two working days of the financial year. Out of ₹ 4.50 crore sanctioned under Contingency Fund in one case, only 30 *per cent* was utilised. Amount sanctioned against Contingency Fund (₹ 0.51 crore) in January 2012 was not brought before the legislature for regularization. Also, ₹ 5.00 crore drawn against Contingency Fund were accounted against the concerned service head in the Consolidated Fund.

Provisions had remained unutilized in the Social Welfare and Tourism Departments indicating lack of proper planning in utilization of funds placed before the departments. In contravention of instructions of Finance Department to avoid bunching of expenditure during the month of March, rush of expenditure was noticed in the departments of Tourism, Public Works and Minor Irrigation.

2.8 Recommendations

Budgetary control should be strengthened in all departments to avoid cases of provision remaining unutilized. Excessive /unnecessary supplementary provision and re-appropriation of funds injudiciously should be avoided. Budget should be prepared keeping in view the actual requirement of funds and it should neither be under/over pitched as observed by the PAC of the Legislature. The re-appropriation of funds at the close of the financial year is also required to be avoided. The departmental budgets should be more realistic and cases of persistent non-utilization of funds, excessive provision of funds should be avoided. The departments are required to forecast the actual budget requirement as laid down in the provisions of Budget Manual. Rush of expenditure during the last quarter of the financial year particularly in the month of March should be avoided.

Chapter 3

Financial Reporting

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This chapter provides an overview and status of compliance of the departments of the State Government with various financial rules, procedures and directives during the current year.

3.1 Non-submission of utilization certificates

Financial rules stipulate that for the grants provided for specific purposes, utilization certificates (UCs) should be obtained by the departmental officers from the grantees and, after verification, these should be forwarded to the Accountant General within 18 months from the date of their sanction unless specified otherwise. However, 1088 UCs aggregating to ₹ 1304.41 crore in respect of grants paid upto 2011-12 were in arrears as detailed in **Appendix 3.1**.

The age-wise arrears of UCs are summarised in **Table 3.1**.

Table 3.1: Age-wise arrears of utilization certificates
(₹ in crore)

Sl. No.	Range in No. of years	Utilisation Certificates in arrears	
		No.	Amount
1	9 & above	448	145.54
2	7-9	83	186.61
3	5-7	116	81.88
4	3-5	89	30.65
5	1-3	46	122.07
6	0-1*	306	737.66
Total		1,088	1,304.41

Source: Office of Pr.AG (A&E)

* For the grants paid during 2011-12, the Utilisation certificates will become due only during 2012-13.

Major cases of non-submission of utilization certificates related to Health and Family Welfare Department (59 per cent), Urban Development Department (20 per cent) and Rural Development and Panchayat Raj (14 per cent). Non-submission of UCs defeats the very purpose of legislative control over public purse. The institutions/departments listed in **Table 3.2** had not submitted UCs for funds aggregating ₹ 88.19 crore released during the period 1997-98 to 2010-11.

Table 3.2: Department wise arrears of utilization certificates
(₹ in crore)

Sl. No.	Schemes/Projects/Entity	Amount	Due from
1	Hyderabad Karnataka Area Development Board	8.48	2009-10
2	Karnataka State Remote Sensing Application Centre	1.05	2005-06
3	Lake Development Authority	11.24	2003-04
4	Karnataka Legislators Local Area development Scheme	43.33	2008-09
5	Revenue Department:-		
	Endowment	12.00	1997-98
	Election	4.00	2010-11
	Compensation to small & very small farmers	8.09	2008-09
Total		88.19	

Source: Inspection Reports of Institutions concerned

Non submission of UCs was fraught with the risk of the funds released for various schemes/programmes having misused or diverted for unauthorized purposes.

As huge amounts are lying unutilized, oversight of release /utilization and accountability should be the priority in order to ensure that the funds are not diverted/ misused.

3.2 Non-receipt of information pertaining to institutions substantially financed by the Government

To identify the institutions which attract audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of service) Act, 1971, heads of the Government departments are required to furnish to Audit every year information about the institutions to which financial assistance of ₹ 25 lakh or more was given, the purpose for which assistance was granted and the total expenditure of the institutions.

Thirteen departments did not furnish the information pertaining to 313 institutions receiving grants aggregating ₹ 25 lakh or more for periods ranging from two years to more than 10 years, as detailed in **Appendix 3.2**.

In response to the observations of Audit for the year 2009-10 Finance Department had issued instructions (April 2011) to all the Secretaries of Administrative departments to furnish the required information to the Accountant General directly. However, there was no significant improvement in the position as 313 institutions had still not furnished the particulars.

3.3 Status of submission of accounts of autonomous bodies and placement of audit reports before the State Legislature

Several autonomous bodies have been set up by the State Government in the field of village and small industries, urban development, etc. The audit of accounts of eleven bodies in the State has been entrusted to the CAG. These are audited with regard to their transactions, operational activities and accounts, conducting regulatory/compliance audit, review of internal management and financial control, review of systems and procedures, etc.

Separate audit reports in respect of one autonomous body for the year 2009-10 and four autonomous bodies for the year 2010-11 were yet to be placed before the State Legislature.

The status of entrustment of audit, rendering of accounts, issuing of audit reports and their placement before the State Legislature are indicated in **Appendix 3.3**.

3.4 Departmental commercial undertakings

The departmental undertakings of certain Government departments performing activities of commercial and quasi-commercial nature are required to prepare *pro forma* accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalization of accounts, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and

improving efficiency cannot be taken in time. Besides, the delay in all likelihood also opens the system to the risk of fraud and leakage of public money.

The heads of departments in the Government are to ensure that the undertakings prepare and submit such accounts to Principal Accountant General for audit within a specified time frame. Out of the eight undertakings, which have been closed/transferred/converted into co-operative federations, proforma accounts in respect of two undertakings were due from 1969-70. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.4**.

The Finance Department had addressed (June 2010/April 2011) the Administrative Departments of these undertakings to finalise the Proforma Accounts and submit the same to Principal Accountant General (A&E). However, the position has not improved as compared to the previous year.

3.5 Misappropriations, losses, etc.

There were 102 cases of misappropriation, losses, etc., involving Government money amounting to ₹ 8.90 crore as at the end of 2011-12 on which final action was pending. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.5** and the nature of these cases is given in **Appendix 3.6**. The particulars of the pending cases in each category of theft and misappropriation are given in **Table 3.3**.

Table 3.3: Profile of pending cases of misappropriations and theft

Nature of the cases	Number of cases	(₹ in crore)
		Amount involved
Theft	17	0.09
Misappropriation	85	8.81
Total	102	8.90

Source: Office of Pr.AG (G&SSA), Pr.AG (E&RSA) and Pr.AG(A&E)

Around 87 per cent of the amount involved pertained to departments of Forests, Ecology and Environment (₹ 1.33 crore), Water Resources (₹ 5.61 crore) and Public Works (₹ 0.79 crore).

3.6 Non- receipt of stores and stock accounts

The annual accounts of stores and stock are required to be furnished by various departments to Audit by 15 June of the following year. The half yearly accounts of Public Works, Water Resources and Minor Irrigation Departments are due to be received by 15 December of the year and 15 June of the following year. Delay in receipt of stores and stock accounts have been commented upon in successive audit reports. The Public Accounts Committee in its first report (sixth Assembly) presented in February 1980 had also emphasized the importance of timely submission of accounts by the departments.

The position of arrears relating to submission of stores and stock accounts by 12 departments involving 76 offices as of September 2012 is indicated in **Appendix 3.7**.

3.7 Abstract Contingent bills

Under Rule 36 of the Manual of Contingent Expenditure, 1958 the Controlling and Disbursing Officers are authorized to draw sums of money by preparing Abstract Contingent (AC) bills, by debiting service heads, and are required to present detailed contingent bills (vouchers in support of final expenditure) to the Principal Accountant General (A&E) through treasuries. Detailed bills aggregating ₹149.47 crore, drawn on 15,421 AC bills, were pending as at the end of March 2012, as detailed in **Table 3.4**. Controlling officers should also ensure that no amounts are drawn from the treasury unless required for immediate disbursement.

Table 3.4: Pending Abstract Contingent bills

(₹ in crore)

Year	Abstract Contingent bills drawn		Detailed Contingent bills rendered		Outstanding Abstract Contingent bills	
	No. of Bills	Amount	No. of bills	Amount	No.	Amount
Up to March 2009	19,193	130.87	12,448	95.74	6,745	35.13
2009-10	9,348	93.51	8,089	82.60	1,259	10.91
2010-11	9,918	103.42	8,202	78.64	1,716	24.78
2011-12	8,019	97.44	2,318	18.79	5,701	78.65
Total	46,478	425.24	31,057	275.77	15,421	149.47

Source: Notes to Finance Accounts – 2011-12

The position of outstanding bills, as also the amount for which NDC Bills were required, has shown an increasing trend during 2009-12. The withdrawal of money on an AC bill is accounted against the functional major head in the consolidated fund. Unless the accounts are settled within the time allotted, the expenditure stands inflated. This impacts the fiscal indicators of the Government (Revenue surplus/fiscal deficit). Instructions were issued by the Finance Department to all Principal Secretaries/ Secretaries to Government (June 2010) for settlement of accounts within the stipulated period.

Review of abstract contingent bills in eleven¹ departments was conducted between June-August 2012 and the findings are detailed below:

A review of 3093 AC bills covering ₹ 35 crore drawn during 2007-08 to 2011-12 by 208 DDOs of ten departments in eight districts², covering five³ major heads of account was conducted. Important points noticed are brought out in the succeeding paragraphs.

Rule 33(2) of Manual of Contingent Expenditure specifies the items of expenditure which fall within the ambit/category of Contingent charges. However, it was seen that moneys have been drawn from the Treasury for defraying expenses not falling within the ambit of contingent charges (₹ 8.73 crore- for purchase of equipment and ambulances in the departments of Health & Family Welfare/ Medical Education). The authority of such withdrawal was also accorded by the Finance Department. However, justification in support of expenditure was not furnished. Evidently, the funds were drawn from the Treasury to avoid lapse of Budget Grant.

¹ Revenue, Education(NCC), Kannada & Culture, Health & Family Welfare, Director of Medical Education, Drugs Controller, KHSR&DP, Directorate of Ayush, Women & Child Development, Directorate of Disabled Welfare, Forest.

² Bangalore Urban, Tumkur, Ramanagara, Chikballapur, Kolar, Belgaum, Mysore, Gulbarga

³ 2015, 2204, 2205, 2210 & 2235

3.7.1 Non-submission/delayed submission of detailed bills

According to Rule 37(3) of the Manual, DDOs are required to send detailed bills in respect of AC bills drawn by them to their Controlling Officers before the closure of the first week of the following month in which AC bills are drawn for onward transmission to PAG (A&E) by the fifteenth of the same month.

As of September 2012, 47 of the 208 DDOs of the five test-checked Major Heads of Account/Departments had not submitted detailed bills for ₹ 4.36 Crore drawn on 209 AC bills to their Controlling Officers, as detailed in **Table 3.5**.

Table 3.5: Non-submission of NDC bills

(₹ in crore)

HOA-Description	Non-submission		
	No of DDOs	No of Bills	Amount (Rs)
2015-Elections	7	82	0.83
2204-Sports & Youth Services	7	22	0.35
2205-Art & Culture	1	1	---*
2210-Medical & Public Health	18	84	2.64
2235-Social Security & Welfare	14	20	0.54
Total	47	209	4.36

*The amount is less than ₹ 10,000/- hence not considered for rounding.

Source: Material as furnished by the Departments

Further, there were delays up to five years in forwarding detailed bills for ₹ 30.62 crore on 2,884 AC bills by 143 DDOs during 2007-12 to the Treasury/AG(A&E) as detailed in **Table 3.6**.

Table 3.6: Delay in submission of NDC bills

(₹ in crore)

Delay upto	Number of AC bills	Amount
One month	890	3.09
Six months	1,530	10.21
One year	361	11.83
Two years	88	5.44
Three years	5	0.01
Five years	10	0.04
Total	2,884	30.62

Source: Material as furnished by the Departments

3.7.2 Delay in remittance of unspent balance

According to existing instructions if, due to unforeseen causes, the advance drawn cannot be disbursed within a day or two, the amount or unspent portion of it shall be refunded to the Treasury forthwith. However, there were delays in remittance of unspent balances ranging from three to 686 days by 25 DDOs in respect of 140 bills amounting ₹ 0.24 crore. It was also observed that in certain cases the adjustment of remitted amount was taken as current revenues under the concerned major heads in those years, in contravention of the rules governing such adjustments.

It was further seen that the Commissioner of Archeology & Museums, Mysore and Deputy Commissioner, Gulbarga drew (March 2011) an amount of ₹ 0.03 crore on three AC bills, and the amounts were not at all utilized for the purpose for which they were drawn. The Commissioner of Archeology and Museums, Mysore refunded (August 2011 to October 2012) the entire amount drawn on three different AC bills after delays ranging between four to nine months whereas the Deputy Commissioner, Gulbarga was yet to refund (August 2012) the amount (₹ 0.47 lakh).

3.7.3 Amount drawn and kept in bank/Personal Deposit account

As per Rule 17 of Manual of Contingent Expenditure, and reiterated in Government order issued during September 2004, money drawn on AC bills is required to be utilized immediately and shall not be kept either in Banks or PD Account. However, a sum of ₹ 5.54 crore was drawn by Director of Medical Education, Bangalore on eight AC bills for purchase of equipment only during the months of March 2009 and 2011 to avoid budget lapse of which ₹ 2.35 crore was deposited in savings bank account. Against this, ₹ 2.02 crore was utilised as at the end of June 2012, leaving a balance of ₹ 0.33 crore, kept in the Savings Bank account (June 2012). Similarly, the Principal, Government College of Pharmacy, Bangalore withdrew/deposited ₹ 0.68 crore drawn between March 2007 and March 2012 (six bills) for procurement of equipment without utilization (July 2012). The amount was kept in savings bank account.

A grant review of Forest department was conducted by the office of Pr.AG (E&RSA), the details of outstanding AC bills are in **Table 3.7**.

Table 3.7: Outstanding AC bills

Year	Total amount drawn on AC bills	Amount for which DC bills submitted	Outstanding AC bills	
			No.	Amount
Forestry and Wild Life				
2008-09	20.87	20.44	49	0.43
2009-10	20.40	20.18	9	0.22
2010-11	18.16	17.51	41	0.65
2011-12	23.63	3.80	1,045	19.83
Total			1,144	21.13

Source: Office of Pr. Accountant General, A&E

It was observed that as on 31 March 2012 there were 1,144 AC bills outstanding for submission of Non-payment Detailed Contingent bills (NDC bills) amounting to ₹ 21.13 crore pertaining to the years 2008-09 to 2011-12, of which an amount of ₹ 19.83 crore (94 per cent) related to 2011-12 alone.

3.7.4 Non submission of NDC bills

As per codal provisions, the Forest department is allowed three months' time against the normal provision of one month for submission of NDC bills. In the office of the Deputy Conservator of Forests (Territorial), Kolar it was observed that on a scrutiny of the AC bills drawn during 2011-12, NDC bills of 43 numbers had not been submitted (July 2012) for an amount of ₹ 0.84 crore even after three months. The AC bills had been drawn for payment of completed works under the scheme heads viz., Karnataka Forest Development Fund (KFDF), Devi Vana (Tree parks), Raising of Seedlings for Public Distribution (RSPD), Degraded Development Forest (DDF), Karnataka Sustainable Forest Management and Bio-Diversity Conservation Project (KSFMBBC), Greening Urban Area (GUA) etc. Reasons attributed (July 2012) for the non-submission of the NDC bills were delay in submission of NDC bills by the Range Forest Officers of the Division despite the DCF office issuing a circular (August 2011) for submission of the NDC bills in time. The department stated that further instructions would be issued in this regard.

Similarly, in the offices of the Range Forest Officers, Kolar and Bangarpet, NDC bills for AC bills drawn for an amount of ₹ 1.51 crore for 64 AC bills and ₹ 0.71 crore for 33 AC bills, respectively, in the months of December 2011 to March 2012 had not been submitted (July 2012). The Range Forest Officer

attributed (July 2012) the non-submission to sending of the NDC bills to the office of the DCF (T), Kolar for countersignature which had not been returned.

3.8 Personal Deposit Accounts

The Karnataka Financial Code provides for opening of Personal Deposit (PD) accounts with permission from Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to the Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the Treasury Officer the balance to be transferred to the Consolidated Fund. For continuation of PD accounts beyond the period of its currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned.

3.8.1 Funds kept in PD Accounts

The transactions relating to PD accounts for the period 2008-12 are detailed in **Table 3.8**.

Table 3.8: Funds in PD accounts

Year	Opening balance	Receipts/Deposits	Withdrawals	(₹ in crore)
				Closing balance
2008-09	691.29	1,593.31	1,438.29	846.31
2009-10	846.31	3,491.10	3,123.18	1,214.23
2010-11	1,214.23	2,201.06	1,942.39	1,472.90
2011-12	1,472.90	2,737.35	2,732.00	1,478.25

Source: Finance Accounts

As the balances in the deposit account have been showing an increasing trend over the years, action is required to be initiated to follow the provisions of the code for write back /cleaning up of balances in respect of funds which have outlived its utility.

The balances ₹ 1,478.25 crore mainly related to the following types of accounts.

Sl. No	Administrators	(₹ in crore)
		Amount
1	Personal deposits General	188.59
2	Deputy Commissioners	1,195.40
3	H.D.F.C.	8.70
4	Sugar Price Equalization Fund	13.96
	Total	1,406.65

Source: DDR Ledger

It was observed that several service major heads of account under the Consolidated Fund were debited during March of each year for transfer to the Deposit Account of the Deputy Commissioners in order to avoid the lapse of budget provision. The amount transferred as also the heads of accounts are indicated in the table below:

Major heads	(₹ in crore)		
	Year		
	2009-10	2010-11	2011-12
2225, 2515, 2401, 2575, 2245, 2250, 3452, 3456, 4575, 5452, 5465	152.75	171.54	162.83

The number of operative / inoperative PD accounts is indicated in the **Table 3.9** and the details of adverse balances thereof are in **Appendix 3.8**.

Table 3.9: Operative / In-operative PD accounts

(₹ in crore)

Particulars	Personal Deposit Accounts			
	Credit		Debit	
	No. of Accounts	Amount	No. of Accounts	Amount
Operative PD Accounts	24	1,467.31	6	40.14
In-Operative PD Accounts*	21	71.89	11	8.33

Source: Finance Accounts

*The period of inoperative status of the personal deposit accounts ranges from 1989-90 to 2006-07, the statutory requirement of closure of such deposit accounts which does not accrue interest, with a net figure of ₹ 63.56 crore(cr) has been brought to the notice of Government and the Director of Treasuries.

As could be seen from the table, debit balances (adverse) totalling ₹ 40.14 crore appear in respect of six administrators (operative PD Accounts) and ₹ 8.33 crore in respect of 11 administrators (in-operative PD Accounts), indicating the need for reconciliation.

3.9 Reconciliation of receipts and expenditure

All the Drawing and Disbursing Officers are required to reconcile the Receipt and Expenditure of the Government with the figures accounted for by the Principal Accountant General (A&E). Out of 79 CCOs for Receipt Heads, 60 CCOs have reconciled fully and out of 194 CCOs for Expenditure Heads, 138 CCOs have reconciled fully. In respect of expenditure, reconciliation has been completed for a value of ₹ 5,35,63.72 crore (66.44 per cent) against a total expenditure (Revenue and Capital) ₹ 8,06,20.72 crore and in respect of receipt for a value of ₹ 6,85,00.50 crore (98.00 per cent) against a total receipt (Revenue and capital) of ₹ 6,98,95.46 crore.

Loans and Advances, (both Receipts and expenditure) were not reconciled by any of the CCOs concerned. In spite of specific instructions of the Finance department, barring the Treasury Officer from honouring non-salary bills etc. to ensure that the reconciliation process is full and complete, the position of reconciliation in respect of loans disbursed/received has not improved over the years.

3.10 Bookings under Minor Head 800 – ‘Other Receipts’ and ‘Other Expenditure’

The expenditure of the government under the Consolidated Fund is classified under revenue and capital. Revenue expenditure, broadly, indicates the consumption expenditure of the Government, while capital expenditure represents that on asset creation, investment activity etc., Below the functional major heads are sub-major heads and minor heads representing the sub-functions/ programmes. The Minor head 800 is an omnibus head which is opened in the accounts when a particular item of expenditure/receipt cannot be accommodated in any of the existing minor heads under the functional major head. ₹ 9,171.47 crore under Revenue, Capital and Loan Major Heads of accounts on expenditure side (representing functions of the Government) were classified under the Minor Head ‘800-Other Expenditure’ in the accounts constituting about 11.12 per cent of the total expenditure (Revenue, capital and Loan) recorded under the respective Major Heads.

Similarly ₹ 1,432.76 crore under Revenue, Capital and Loans Major Heads of accounts on receipts side were classified under the Minor Head '800 Other Receipts' in the accounts constituting about 2.04 *per cent* of the total receipts (Revenue, capital and Loan) recorded under the respective Major Heads.

State Government in its reply to PAC (July 2011) had intimated that a committee had been constituted comprising representatives of State Government, Audit Office and Accounts Office to scrutinize the existing classification in accordance with the List of Major and Minor Heads of Accounts. Accordingly meetings were held and as a result of the Committee's deliberation 61 Major Heads Revenue - 47 Major Head (249 Minor Heads), Capital-13 Major Heads (16 Minor Heads) and Loan - 1 (1 Minor Head) were identified and shifted from Minor Head 800 to appropriate Minor Heads during 2012-13 budget. Further the State Government has sought clarification from Controller General of Accounts in respect of several minor heads which could not be identified to appropriate final head.

3.11 Comments on Accounts

3.11.1 Transparency in accounts

To bring out greater transparency and to enable informed decision making in Government Accounts, the XII FC had recommended inclusion of certain statements/appendices in the Finance Accounts which would give details of subsidies given, both explicit and implicit, expenditure on salaries by various departments/units, detailed expenditure on pensioners and expenditure on Government pensions, data on committed liabilities in the future, information on debt and other liabilities as well as repayment schedule, accretion to or erosion in financial assets held by the Government including those arising out of changes in the manner of spending by the Government, implications of major policy decisions taken by the Government during the year or new schemes proposed in the budget for future cash flows and maintenance expenditure with segregation of salary and non-salary portions.

Presently, details of salary in respect of State sector only, is captured in accounts and those regarding the District sector are included under the grants released to PRI institutions. From 2011-12, in respect of Urban Local Bodies, separate budget documents give particulars of amounts in respect of salaries. The data on salary expenditure, as shown in the separate budget document overlaps with that of the amount indicated against the State sector relating to salary of Constitutional dignitaries, for example, Governor, Speaker of the Legislative Assembly/Chairman of the Legislative Council. The appendix on maintenance expenditure does not give data on salary expenditure. The appendix on subsidy does not provide information regarding implicit subsidies. Accounting reforms are required to be undertaken to bring the data available into accounts to make the accounts more transparent. The State Government had earlier stated (November 2011) that Zilla Panchayats (ZPs)/ Taluk Panchayats preferred salary bills on pink and yellow color bills respectively and these are accounted by Chief Accounts Officer of the Zilla Panchayat for each ZP. There were 30 ZPs in the State and there is no mechanism at present for consolidation of accounts of all the 30 ZPs. It has therefore become difficult to furnish the salary details of district sector accounts. However, the PAC in its report (December 2011) has recommended to the Finance Department to

depict salaries in total, taking into account the district sector also, if possible, by opening a separate sub-head to capture the data.

The State Government had further stated (October 2011) that the maintenance expenditure was split into work charged establishment and maintenance at sub head level in the List of Major and Minor Heads of Accounts. Efforts would be made to provide estimates separately either at sub head level or object head level from 2012-13 Budget estimate.

According to the requirement of the XII FC, the major policy initiatives of the Government for the year are required to be brought out in the form of an appendix to finance accounts. This, requirement is now being fulfilled with the Government tabling before the Legislature a mid-term review of State Finances, wherein major policy initiatives of the Government are detailed.

3.11.2 Important factors affecting accuracy of accounts

The accounts of the Government are kept on cash basis. Certain transactions that arise in Government Account, the receipts and payments of which cannot at once be taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the suspense head. This head is cleared on receipt of relevant details/information. DDR heads account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the State Finance accounts 2011-12 has been adversely affected by factors like (i) large number of transactions under suspense heads awaiting final classification and (ii) increasing number and magnitude of adverse balances under Debt, Deposit and Remittances (DDR) heads. A general review of the transactions showed the following:

a) Outstanding balances under major suspense accounts

Certain intermediary/adjusting heads of accounts known as ‘Suspense heads’ are operated in Government accounts to reflect transactions of receipts and payments which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amounts under them are booked to their respective final heads of accounts. If these amounts remain uncleared, the balances under the suspense heads would accumulate and would not reflect Government’s receipts and expenditure accurately. The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by Pr. AG (A&E), are indicated in **Table 3.10**.

Table 3.10: Suspense Head (8658 – Suspense Accounts)

Name of Minor Head	2009-10		2010-11		2011-12	
	Dr	Cr	Dr	Cr	Dr	Cr
101 – Pay and Accounts Office Suspense	75.84	18.27	60.49	0.05	71.14	2.45
Net	Dr. 57.57		Dr. 60.44		Dr.68.99	
102 – Suspense Account (Civil)	29.21	11.23	25.24	6.86	24.51	6.71
Net	Dr. 17.98		Dr. 18.38		Dr.17.80	
110 – R B Suspense – Central Accounts Office	33.17	1,07.34	59.24	99.82	1,40.20	1,82.48
Net	Cr. 74.17		Cr. 40.58		Cr.42.28	

Source: DDR Ledger/Finance Accounts

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs.

❖ ***Pay and Accounts Office (PAO) Suspense***

This minor head is operated for the settlement of inter-departmental and intergovernmental transactions arising in the books of PAOs and the Accountant General. Transactions under this minor head represent either recoveries effected or payments made by an Accounts Officer on behalf of another Accounts Officer, against whom the minor head “PAO Suspense” has been operated. Credit under the head is cleared by ‘minus credit’ when cheque is issued by the Accounts Officer in whose books initial recovery was accounted for. Debit under ‘PAO Suspense’ is cleared by ‘minus debit’ on receipt and realisation of cheque from the Accounts Officer on whose behalf payment was made. Outstanding debit balance under this head would mean that payments have been made by the Accountant General on behalf of a PAO, which are yet to be recovered. Outstanding credit balance would mean that payments have been received by the Accountant General on behalf of a PAO, which are yet to be paid. The net debit balance under this head has been showing an increasing trend. On clearance/settlement of this, the cash balance of the State Government will increase.

❖ ***Suspense Account (Civil)***

This transitory minor head is operated for accounting of the transactions, which for want of certain information/documents viz., vouchers, challans etc., cannot be taken to the final head of expenditure or receipt. This minor head is credited for recording receipts and debited for expenditure incurred. On receipt of the requisite information/documents etc., the minor head is cleared by minus debit or minus credit by per contra debit or credit to the concerned major/sub-major/minor heads of accounts. Outstanding debit balance under this head would mean payments were made which could not be debited to final expenditure head for want of details like vouchers etc. Outstanding credit balance would mean amounts were received which could not be credited to the final receipt head for want of details. The net debit balance under this head has reduced marginally during the year.

❖ ***Reserve Bank Suspense, Central Accounts Office***

This minor head is operated in the books of State Government for repayment of loans and payment of interest in respect of Central Loans received by the Government. At the time of repayment of loan and payment of interest thereon by the State Government, this head is debited by crediting the loans/interest head. The credit balance under this head was ₹ 42.28 crore, an increase of ₹ 1.70 crore over the previous year indicating that corresponding clearances had not been made by the concerned Pay and Accounts Offices.

b) Adverse balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. As revealed by Finance Accounts for the year 2011-12, adverse balances under E-Public Debt amounted to ₹ 106.81 crore, while

under F-Loans and Advances it was ₹ 70.76 crore and under Public Account ₹ 12.52 crore (debit) and ₹ 4.10 crore (credit). The adverse balance under E-Public Debt was mainly on account of credits not being accounted under the Consolidated Fund (NCDC Loans-6003-108). In respect of Government of India Loans (6004), it was on account of write-off of Central Loans on the recommendations of Thirteenth Finance Commission (balances outstanding as per books of accounts as at 31 March 2010). In respect of loans and advances it was on account of non-reconciliation/misclassification in accounts. In respect of Public Account transactions it was on account of misclassification/non-remittance of accounts.

3.12 Conclusion

Detailed bills, against abstract contingent bills, have been found wanting since long and large sums of money were being retained in PD Accounts against the principle of Legislative financial control. Non-reconciliation of expenditure and receipts was to the extent of 34 per cent of total expenditure and two per cent of total receipts respectively. There were adverse balances under certain DDR heads, which required remedial action for clearance.

3.13 Recommendations

Accounting reforms by introducing separate object heads to capture data on salary/non-salary items of expenditure in respect of the maintenance, salary expenditure of the staff of Panchayat Raj Institutions, as recommended by the Finance Commission, is required to be undertaken. Immediate steps need to be taken for review of status of PD accounts and closure of inoperative ones. Review of suspense heads needs to be done to bring the transactions to the final heads in the accounting year itself.

BANGALORE
The



(D.J. BHADRA)
Principal Accountant General
(General and Social Sector Audit)

COUNTER SIGNED



NEW DELHI
The

(VINOD RAI)
Comptroller and Auditor General of India

Appendices

APPENDIX 1.1
(REFERENCE: PAGE 1)

STATE PROFILE				
A	General Data			
Sl. No.	Particulars			Figures
1	Area			1,91,791 Sq.km.
2	Population			
	a.	As per 2001 Census		5.29 crore
	b.	As per 2011 Census		6.11 crore
3	a.	Density of Population (2001 Census) (All India Density = 325 persons per Sq. Km)		276 persons per Sq.Km.
	b.	Density of Population (2011 Census) (All India Density = 382 persons per Sq. Km)		319 persons per Sq.Km.
4	*Population below poverty line (All India Average = 27.5 %)			15.82%
5	a.	Literacy (2001 Census) (All India Average = 64.8%)		56.04 %
	b.	Literacy (2011 Census) (All India Average = 74.0%)		75.6%
6	Infant mortality **(per 1000 live births) (All India Average = 47 per 1000 live births)			38
7	Life Expectancy at birth *** Male – 63.87 yrs, Female -66.91 yrs. (All India Average =63.5 years)			Male – 62.43 yrs Female – 66.44 yrs
8	¹ Gini Coefficient****			
	a.	Rural. (All India = 0.30)		
	b.	Urban. (All India = 0.37)		
9	Gross State Domestic Product (GSDP) 2011-12 at current price ²			4,34,270 crore
10	Per capita GSDP CAGR (2002-03 to 2011-12)		Karnataka	13.64%
			General Category States ³	13.09%
11	GSDP CAGR (2002-03 to 2011-2012)		Karnataka	15.59%
			General Category States	14.46%
12	Population Growth (2002-2012)		Karnataka	16.50%
			General Category States	13.90%
B	Financial Data			
Particulars		Figures (in per cent)		
CAGR		2002-03 to 2010-11		2002-03 to 2011-12
		General Category States	Karnataka	Karnataka
a.	of Revenue Receipts.	16.86	17.36	17.65
b.	of Own Tax Revenue.	16.74	17.71	18.05
c.	of Non Tax Revenue.	12.84	12.83	13.79
d.	of Total Expenditure.	14.58	15.14	15.59
e.	of Capital Expenditure.	21.25	19.77	19.20
f.	of Revenue Expenditure on Education.	15.41	14.85	14.69
g.	of Revenue Expenditure on Health.	14.00	11.99	13.40
h.	of Salary and Wages.	13.43	11.67	11.34
i.	of Pension.	16.89	10.95	13.26

Source: Financial data is based on Finance Accounts

* General data: BPL (Planning Commission & NSSO data, 61st round).

** Infant mortality rate (SRS Bulletin December 2011),

*** Life Expectancy at birth (Office of the Registrar General of India; Ministry of Home Affairs), Economic Review 2011-12, excluding Union Territories.

**** Gini Coefficient (Unofficial estimates of Planning Commission and NSSO data, 61st round 2004-05 MRP).

Note : All India average of General Category States has been calculated on the basis of figures provided by 16 General Category States (excluding Delhi, Goa and Puducherry).

¹ Gini Coefficient is a measure of inequality of income among the population. Value rate is from zero to one, closer to zero inequality is less; closer to one inequality is higher.

² Differs with GSDP mentioned in Appendix 1.5. Source for GSDP in this Appendix is Economic survey.

³ States other than 11 States termed as Special Category States (Arunachal Pradesh, Assam, Jammu and Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand).

APPENDIX 1.2
STRUCTURE OF GOVERNMENT ACCOUNTS
(REFERENCE: PARAGRAPH 1.1, PAGE 2)

The accounts of the State Government are kept in three parts viz., Consolidated Fund, Contingency Fund and Public Account.

Part I: Consolidated Fund : All receipts and expenditure on Revenue and Capital Account, Public Debt and Loans and Advances form one Consolidated Fund entitled the Consolidated Fund of State established under Article 266(1) of the Constitution of India.

Part II: Contingency Fund: Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Fund is recouped by debiting the expenditure to the concerned functional major head in the Consolidated Fund of the State.

Part III: Public Account: 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 and are not subject to vote by the State Legislature.

Layout of Finance Accounts

Finance Accounts is prepared in two volumes with Volume 1 presenting the summarized financial statements of Government and Volume 2 presenting the detailed statements. The layout is detailed below. Further, Volume 2 contains details such as comparative expenditure on salaries and subsidies by major head, grants-in-aid and assistance given by the State Government, externally aided projects, expenditure on plan scheme, direct transfer of Central scheme funds to implementing agencies, summary of balances, financial results of irrigation schemes, commitments on incomplete public works contracts and maintenance expenditure which are brought out in various appendices.

Statement number	Layout
1	Summarised Financial position of the State giving cumulative figures of assets and liabilities of the Government as at the end of 2011-12.
2	Summary of Receipts and Disbursements during the year in all the three parts of accounts of Government.
3	Summary of receipts under Consolidated Fund, grants from Government of India and Capital, Public Debt and Other receipts.
4	Summary of expenditure for the current year under various sectors of Consolidated Fund of State.
5	Details of capital expenditure major head wise incurred during and to the end of 2011-12.
6	Summary of debt position of the State including borrowing from internal debt, Government of India, other obligations and servicing of debt.
7	Summary of loans and advances given by the State Government during the year and repayments made, recoveries in arrears etc.
8	Summarized statement of Grants-in-aid given by Government both in cash and in kind and also grants released for creation of capital assets.
9	Summary of guarantees given by the government for repayment of loans etc., raised by statutory corporations, local bodies and other institutions.
10	Distribution of expenditure between charged and voted.
11	Detailed account of revenue and capital receipts by minor heads.
12	Detailed account of revenue expenditure by minor heads under non-plan, plan and centrally sponsored scheme separately.
13	Detailed accounts of capital expenditure by minor heads under non-plan, plan and centrally sponsored scheme separately during the year and total expenditure to the end of 2011-12.
14	Details of investments of the State Government in Statutory Corporations, Government companies, other joint stock companies, co-operative banks, societies etc., up to the end of 2011-12 and also giving the comparative summary of investment between the share capital and debentures.
15	Detailed account on borrowings and other liabilities showing public debt and other interest bearing obligation during and up to the end of 2011-12, maturity profile, repayment schedule and interest rate profile.
16	Detailed account of Loans and advances given by the Government of Karnataka, the amount of loan repaid during the year, the balance as on 31 st March 2012 and also loans advanced during the year for plan purpose and centrally sponsored schemes.
17	Detailed account on sources and application of funds other than on revenue account.
18	Detailed account on contingency fund and public account transactions.
19	Details of earmarked balance of reserve funds.

APPENDIX 1.3
ABSTRACT OF RECEIPTS AND DISBURSEMENTS
(REFERENCE: PARAGRAPH 1.2, PAGE 2)

(₹ in crore)

2010-11	Receipts	2011-12	2010-11	Disbursements			2011-12
				Non Plan	Plan	Total	
Part A: Abstract of Receipts and Disbursements for the year 2011-12							
Section-A: Revenue							
58,206.22	I. Revenue receipts	69,806.27**	54,033.84	I. Revenue expenditure	46,548.33	18,566.74	65,115.07 #
38,473.12	Tax revenue	46,475.96*	14,055.09	General Services	16,292.44	153.04	16,445.48
3,358.28	Non-tax revenue	4,086.86		Social Services-			
9,506.31	State's share of Union Taxes & Duties	11,075.04	10,790.32	Education, Sports, Art and Culture	9,270.99	2,969.06	12,240.05
2,256.86	Non Plan grants	2,129.42	2,359.66	Health and Family Welfare	1,754.24	1,203.96	2,958.20
2,838.81	Grants for State Plan Schemes	3,626.00	2,001.53	Water Supply, Sanitation, Housing and Urban Development	276.03	1,596.73	1,872.76
1,772.84	Grants for Central and Centrally Sponsored Schemes	2,412.99	67.56	Information and Broadcasting	38.89	24.25	63.14
			2,504.39	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	605.92	2,333.59	2,939.51
			247.15	Labour and Labour Welfare	82.26	179.03	261.29
			3,866.30	Social Welfare and Nutrition	1,850.66	2,708.47	4,559.13
			270.91	Others	232.27	45.38	277.65
			22,107.82	Total Social Services	14,111.26	11,060.47	25,171.73
				Economic Services			
			4,776.96	Agriculture and Allied Activities	2,280.53	3,220.54	5,501.07
			1,371.04	Rural Development	1,006.57	942.47	1,949.04
			138.39	Special Areas Programmes	---	134.62	134.62
			453.79	Irrigation and Flood Control	332.53	278.95	611.48
			4,460.13	Energy	5,307.36	18.71	5,326.07
			613.27	Industry and Minerals	304.31	442.14	746.45
			1,365.01	Transport	1,232.75	462.56	1,695.31
			41.36	Science, Technology and Environment	0.01	40.03	40.04
			1,672.49	General Economic Services	2,910.68	239.14	3,149.82
			14,892.44	Total Economic Services	13,374.74	5,779.16	19,153.90
			2,978.49	Grants-in-aid and Contributions	2,769.89	1,574.07	4,343.96
			4,172.38	II Revenue surplus carried over to Sec-B			4,691.20**
58,206.22	Total	69,806.27	58,206.22	Total			69,806.27

Section-B – Capital and others							
9,773.51	II. Opening Cash Balance including Permanent Advances & Cash Balance Investments & Investments from earmarked funds	7,667.31					
71.81	III. Miscellaneous Capital receipts	89.19	13,355.17	III. Capital Outlay	583.88	14,921.77	15,505.65 ^s
			465.46	General Services	24.62	600.87	625.49
				Social Services			
			422.31	Education, Sports, Art and Culture	11.11	313.36	324.47
			436.86	Health and Family Welfare	(-)0.35	359.38	359.03
			1,422.77	Water Supply, Sanitation, Housing and Urban Development	15.25	1,603.01	1,618.26
			9.20	Information and Broadcasting	-----	5.96	5.96
			211.50	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	-----	278.82	278.82
			99.89	Social Welfare and Nutrition	(-)0.1	82.88	82.78
			14.17	Other Social Services	----	25.87	25.87
			2,616.70	Total Social Services	25.91	2,669.28	2,695.19
				Economic Services			
			98.99	Agriculture and Allied Activities	(-)7.70	206.14	198.44
			125.25	Rural Development	0.60	156.82	157.42
			377.39	Special Areas Programmes	----	298.63	298.63
			4,765.26	Irrigation and Flood Control	441.42	5,248.94	5,690.36
			1,381.10	Energy	16.64	1,065.00	1,081.64
			103.83	Industry and Minerals	-----	372.09	372.09
			3,068.54	Transport	79.79	3,951.21	4,031.00
			352.65	General Economic Services	2.60	352.79	355.39
			10,273.01	Total Economic Services	533.35	11,651.62	12,184.97
161.37	IV. Recoveries of Loans and Advances	240.40	1,737.93	IV. Loans and Advances	84.74	1,730.81	1,815.55
17.51	From Power Projects	31.58	33.90	For Power Projects	-----	52.64	52.64
3.57	From Government Servants	3.87	1.52	To Government Servants	3.12	-----	3.12
140.29	From others	204.95	1,702.51	To Others	81.62	1,678.17	1,759.79
6,713.74	V. Public debt receipts	9,357.95	2,807.13	V. Repayment of Public Debt			3,319.88
5,210.22	Internal debt other than Ways and Means Advances and Overdraft	8,090.89	1,916.17	Internal debt other than Ways and Means Advances & Overdraft	2,519.68	-----	2,519.68
---	Ways and Means Advances from Reserve Bank of India	-----	---	Ways and Means Advances from Reserve Bank of India	-----	-----	-----
1,503.52	Loans and Advances from the Central Government	1,267.06	890.96	Repayment of Loans and Advances to Central Government	800.20	-----	800.20
	VI. Contingency Fund (Recoupment)	12.53	12.53	VI. Contingency Fund Disbursements	0.51		0.51
80,313.64	VII. Public Account Receipts	94,408.53	75,626.38	VII. Public Account Disbursements			86,216.03
2,996.91	Small Savings and Provident Funds, etc.,	3,360.72	1,389.87	Small Savings and Provident Funds etc.	----	----	1,963.12
2,134.04	Reserve Funds	3,298.34	760.00	Reserve Funds	----	----	537.20
23,743.91	Deposits and Advances	27,062.39	21,706.47	Deposits and Advances	---	----	25,652.07
49,964.71	Suspense and Miscellaneous	60,275.01	50,261.09	Suspense and Miscellaneous	----	----	57,640.56
1,474.07	Remittances	412.07	1,508.95	Remittances			423.08

4,172.38	VIII. Revenue Surplus carried over from Sec. –A	4,691.20	7,667.31	VIII Cash Balance at the end of 31-03-2011				9,609.49
			0.01	Cash in Treasuries and Local Remittances			0.01	
			(-) 657.14	Deposits with Reserve Bank			3.00	
			8.69	Departmental Cash Balances including Permanent Advances			3.89	
			6,871.51	Cash Balance Investment			7,640.61	
			1,444.24	Investment from Earmarked Funds			1,961.98	
1,01,206.45	Total	1,16,467.11	1,01,206.45	Total				1,16,467.11

** Includes ₹ 170.14 crore (treated as non-tax revenue), the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the Thirteenth Finance Commission (XIII FC). The said amount has not been reckoned for arriving at fiscal indicators viz., revenue surplus, fiscal deficit, primary revenue surplus, primary deficit and their comparison with GSDP and interest payment to revenue receipts. It has been considered for calculation of other variables like revenue receipts and non-tax revenue receipts (to GSDP, total receipts, total expenditure, revenue expenditure, capital expenditure, budget estimate and MTFP), growth rate, buoyancy parameters and sufficiency of incremental non-debt receipts.

Includes expenditure on interest payment in respect of off-budget borrowings ₹ 542.32 crore borrowed through special purpose vehicles – General Services (₹ 17.84 crore), Social Services (₹ 140.65 crore), Economic Services (₹ 104.71 crore) and Grants ULBs (₹ 279.12 crore)

\$ Includes expenditure of ₹ 601.02 crore on account of off-budget borrowings.

*Includes ₹ 30.07 crore received from Ministry of Road Transport and highways towards National Permit fee.

§ It includes ₹ 40.99 crore released to M/s BEML being the refund of central sales tax.

APPENDIX 1.4

OBSERVATIONS OF AUDIT ON THE
ACTION TAKEN BY THE GOVERNMENT
(REFERENCE: PARA 1.4.3, PAGE 9)

	Para No. and Budget Assurance	Action Taken as per Action Taken Report	Audit observations
137	Housing Providing houses to the economically weaker sections of the Society was one of the priorities of the Government. The Rajiv Gandhi Rural Housing Corporation Ltd., has targeted to building three lakh houses during 2011-12, and out of this two lakh houses will be constructed in the rural areas.	So far, 76,652 houses has been completed and 2,63,663 houses are under various stages. The remaining houses will be completed before March 2012.	The Department in its reply (August 2012) stated that against the target of 32,000 and 2,38,000 houses for the urban and rural areas, construction was completed to the extent of 4,071 and 1,01,020 houses respectively. Thus there was a shortfall in the achievement of target by 87 per cent in urban areas and 58 per cent in rural areas. Delay in selection of beneficiaries and the introduction of GPS were pointed out as the reason for the shortfall in the achievement of the target.
139	Government launched a scheme "Nanna Mane Nama Swathu", where in ownership certificates would be given to the eligible beneficiaries. This scheme is expected to benefit 20 lakh families.	Government Order has been issued in this regard.	No ownership certificates were issued to the beneficiaries as against the targeted 20 lakh families.
140	Government proposed to make a allocation of ₹ 67 crore for land acquisition for housing projects	Against provision of ₹ 107 crore, ₹ 54.28 crore has been released and out of which ₹ 27.52 crore has been spent so far.	Eventhough, ₹ 89.56 crore was allocated to the Corporation for providing site to the site-less families, only ₹ 51.06 crore was utilised during the year. Thus, 43 per cent of the releases could not be utilized due to non availability of Government land and the propelling market prices.
141	Karnataka Housing Board would take up construction of a large number of affordable houses in all urban areas of the State from its own resources and also through public private partnership. Approval would be accorded expeditiously for such proposals and all co-operation would be provided by the Government	Karnataka Housing Board is taking up housing schemes in all the cities in the State. Such proposals of Karnataka Housing Board are being considered on priority basis for giving Government approval.	The board stated that it had not taken up affordable housing scheme as envisaged in the budget and that the policy in this regard was under preparation.
143	An allocation of ₹ 50 crore has been made during the year 2011-12 to provide infrastructure facilities in slums.	To make India a slum-free country, Government of India has announced a new scheme called Rajiv Awas Yojane in 2009-10 budget. Under this scheme 2017 slums have been selected to make the State slum free state by 2017. In the first stage, 10 cities/towns have been selected and it is proposed to implement this scheme in 2012-13. Project reports are being prepared to implement this scheme.	No specific reply received in this regard.

Para No. and Budget Assurance	Action Taken as per Action Taken Report	Audit observations
<p>Energy</p> <p>31. In the current year, the peak electricity consumption per day has increased to over 160 million units. For ensuring adequate supply to the consumers, the ESCOMs have purchased 31.2. million units from private producers on short term basis. The State Government plans to increase the annual per capita availability of electricity from 680 units to 1000 units within a three-year period.</p>	<p>In order to increase the per capita availability of power supply, action has been initiated to speed up the on-going power projects, apart from taking up new projects. With the implementation of the power projects, it is proposed to increase the per capita availability to 884 units per annum in 2011-12.</p>	<p>Per capita availability during 2011-12 was 828 units per annum.</p>
<p>36 An outlay of ₹ 500 crore as equity support to the ESCOMs has been made for separation of the electricity feeders under Niranthara Jyothi project. This project is scheduled for completion by September 2012.</p>	<p>The work is under progress under Niranthara Jyothi scheme 1st phase. As at the end of December 2011, the work of 182 feeders work completed out of which 100 feeders have been charged and put to use. The 2nd phase work is in progress in BESCOM, HESCOM & GESCOM and the tender has been floated in CESC. Action has been initiated to speed up the work of both 1st & 2nd phase ₹ 185 crore have been released during 2011-12.</p>	<p>The achievement of physical target was 78 feeders, as against the targeted 463 feeders (17 per cent). The shortfall in the achievement of target was 83 per cent. The objections/delay in getting approvals from statutory bodies like railways, forest dept and National/ State Highway authorities, insufficient manpower supply by partial turnkey contractors, short supply of materials from BESCOM, agitation by farmers were pointed out as the reasons for the shortfall. While the achievement of financial target was 76 and 87 per cent in respect of NJY and NJY-SDP schemes, the corresponding achievement in physical target was 17 and 32 per cent indicating the fact that the target achieved was not commensurate with the financial progress. In reply (September 2012), the department stated that the financial target was more due to advance payment made to turnkey contractors for major material procurement.</p>

APPENDIX 1.5

TIME SERIES DATA ON THE STATE GOVERNMENT FINANCES
(REFERENCE: PARAGRAPHS 1.6, 1.10.2; PAGE 12, 49)

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Part A. Receipts					
1. Revenue Receipts	41,151	43,290	49,156	58,206	69,806**
(i) Tax Revenue	25,987(63)	27,645(64)	30,579(62)	38,473 (66)	46,476(66)
Taxes on Agricultural Income	3(-)	9(-)	9(-)	9 (-)	15(-)
Taxes on Sales, Trade, etc	13,894(54)	14,623(53)	15,833(52)	20,235 (53)	25,020(54)
State Excise	4,767(18)	5,749(21)	6,946(23)	8,285(21)	9,776(21)
Taxes on Vehicles	1,650(6)	1,681(6)	1,962(6)	2,550 (7)	2957(6)
Stamps and Registration fees	3,409(13)	2,927(10)	2,628(9)	3,531(9)	4,623(10)
Land Revenue	145(1)	256(1)	128(-)	177(-)	215(-)
Taxes on Goods and Passengers	837(3)	1,085(4)	1,291(4)	1,526(4)	1,690(4)
Taxes and Duties on Electricity	450(2)	370(1)	679(2)	663(2)	654(2)
Other Taxes	832(3)	945(4)	1,103(4)	1,497(4)	1,526(3)
(ii) Non Tax Revenue	3,358(8)	3,159(7)	3,334(7)	3,358(6)	4,087(6)
(iii) State's share of Union taxes and duties	6,779(17)	7,154(17)	7,360(15)	9,506(16)	11,075(16)
(iv) Grants in aid from Government of India	5,027(12)	5,332(12)	7,883(16)	6,869(12)	8,168(12)
2. Miscellaneous Capital Receipts	246	181	70	72	89
3. Recoveries of Loans and Advances	52	57	555	161	241
4. Total Revenue and Non debt capital receipts (1+2+3)	41,449	43,528	49,781	58,439	70,136
5. Public Debt Receipts	2,279	8,592	7,991	6,714	9,358
Internal Debt (excluding Ways and Means Advances and Overdrafts)	1,473(65)	7,996(93)	7,310(91)	5,210(78)	8,091(86)
Net transactions under Ways and Means Advances and Overdrafts	---	---	---	---	---
Loans and Advances from Government of India	806(35)	596(7)	681(9)	1,504(22)	1,267(14)
6. Total Receipts in the Consolidated Fund (4+5)	43,728	52,120	57,772	65,153	79,494
7. Contingency Fund Receipts	13	---	2	---	13
8. Public Account Receipts	56,160	60,604	71,172	80,314	94,408
9. Total Receipts of the State (6+7+8)	99,901	1,12,724	1,28,946	1,45,467	1,73,915
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	37,375	41,655[¥]	47,527[¥]	54,034	65,115
<i>Plan</i>	<i>8,313(22)</i>	<i>10,526(25)</i>	<i>12,293(26)</i>	<i>15,188(28)</i>	<i>18,567(29)</i>
<i>Non Plan</i>	<i>29,062(78)</i>	<i>31,129(75)</i>	<i>35,234(74)</i>	<i>38,846(72)</i>	<i>46,548(71)</i>
General Services (including interest payments)	10,872(29)	12,275(29)	12,762(27)	14,055(26)	16,445(25)
Social Services	13,124(35)	15,873(38)	19,119(40)	22,108(41)	25,172(39)
Economic Services	11,453(31)	11,133(27)	13,172(28)	14,892(28)	19,154(29)
Grants-in-aid and contributions	1,926(5)	2,374(6)	2,474(5)	2,979(5)	4,344(7)
11. Capital Expenditure	8,649	9,874[¥]	12,147[¥]	13,355	15,506
<i>Plan</i>	<i>7,199(83)</i>	<i>9,139(93)</i>	<i>11,128(92)</i>	<i>12,582(94)</i>	<i>14,922(96)</i>
<i>Non Plan</i>	<i>1,450(17)</i>	<i>735(7)</i>	<i>1,019(8)</i>	<i>773(6)</i>	<i>584(4)</i>
General Services	339(4)	475(5)	490(4)	465(3)	626(4)
Social Services	2,148(25)	2,555(26)	2,651(22)	2,617(20)	2695(17)
Economic Services	6,162(71)	6,844(69)	9,006(74)	10,273(77)	12,185(79)

	2007-08	2008-09	2009-10	2010-11	2011-12
12. Disbursement of Loans and Advances	757	731	982	1,738	1,815
<i>Plan</i>	751	224	916	1,736	1,731
<i>Non Plan</i>	6	507	66	2	84
General Services	--	--	--	--	--
Social Services	595	174	805	1,489	1,546
Economic Services	160	555	172	247	178
Miscellaneous Loans	2	2	5	2	91
13. Total (10+11+12)	46,781	52,260	60,656	69,127	82,436
14. Repayments of Public Debt	1,251	1,778	2,308	2,807	3,320
Internal Debt (excluding Ways and Means Advances and Overdrafts)	802(64)	1,317(74)	1,838(80)	1,916(68)	2,520(76)
Net transactions under Ways and Means Advances and Overdraft	---	---	---	---	----
Loans and Advances from Government of India	449(36)	461(26)	470(20)	891(32)	800(24)
15. Appropriation to Contingency Fund	---	---	---	---	----
16. Total disbursement out of Consolidated Fund (13+14+15)	48,032	54,038	62,964	71,934	85,756
17. Contingency Fund disbursements	---	2	---	13	1
18. Public Account disbursements	54,055	54,783	64,029	75,626	86,216
19. Total disbursement by the State (16+17+18)	1,02,087	1,08,823	1,26,993	1,47,573	1,71,973
<i>Part C. Deficits</i>					
20. Revenue Deficit(-)/ Revenue Surplus (+) (1-10)	3,776	1,635	1,629	4,172	4,521
21. Fiscal Deficit (-)/Fiscal Surplus (+) (4-13)	5,332	8,732	10,875	10,688	12,470
22. Primary Deficit (21-23)	826	4,200	5,662	5,047	5,866
Primary Surplus (23-21)	---	---	---	---	---
<i>Part D. Other data</i>					
23. Interest Payments (included in revenue expenditure)	4,506	4,532	5,213	5,641	6,604 #
24. Financial Assistance to local bodies etc.,	16,725	15,262	16,420	19,041	23,934
25. Ways and Means Advances/ Overdraft availed (days)					
Ways and Means Advances availed (days)	4	---	---	---	----
Overdraft availed (days)	---	---	---	---	----
26. Interest on Ways and Means Advances/ Overdraft	0.04	---	---	---	----
27. Gross State Domestic Product (GSDP)[@]	2,70,628	3,10,312	3,45,235	3,98,893	4,34,270
28. Outstanding Fiscal liabilities (year end)	60,142	71,550	83,482	91,943	1,03,030
29. Outstanding Fiscal liabilities (inclusive of off-budget borrowings)	64,869	77,131	86,245	94,003	1,04,933
30. Outstanding guarantees (year end) (including interest)	10,786	8,693	7,203	6,618	6,640
31. Maximum amount guaranteed (year end)	23,109	18,732	18,420	19,150	13,262
32. Number of incomplete projects	429	197	261	388	344
33. Capital blocked in incomplete projects	1,480	1,107	1,015	1,203	1,047
Part E: Fiscal Health Indicators					
I Resource Mobilization					
Own Tax Revenue/GSDP	9.60	8.91	8.86	9.60	10.70
Own Non-Tax Revenue/GSDP	1.24	1.02	1.00	0.84	1.00
Central Transfers/GSDP	4.36	4.02	4.42	4.10	4.43
II Expenditure Management					
Total Expenditure/GSDP	17.3	16.8	17.6	17.3	19.0

	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure/Revenue Receipts	113.68	120.72	123.39	118.76	118.09
Revenue Expenditure/Total Expenditure	79.89	79.71	78.35	78.17	78.99
Expenditure on Social Services/Total Expenditure	33.92	35.59	37.22	37.92	35.68
Expenditure on Economic Services/Total Expenditure	37.99	35.46	36.84	36.76	38.23
Capital Expenditure/Total Expenditure	20.11	20.29	21.63	21.83	21.01
Capital Expenditure on Social and Economic Services/Total Expenditure.	19.38	19.37	20.81	21.16	20.14
III Management of Fiscal Imbalances					
Revenue Deficit (surplus)/GSDP	1.39	0.53	0.47	1.04	1.04
Fiscal Deficit/GSDP	1.97	2.81	3.15	2.67	2.87
Primary Deficit (surplus) /GSDP	0.31	1.35	1.64	1.26	1.35
Revenue Deficit/Fiscal Deficit	----	----	----	----	----
Primary Revenue Balance/GSDP	3.1	2.0	2.0	2.5	2.6
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	22.22	23.06	24.18	24.04	23.72
Fiscal Liabilities (inclusive of off-budget borrowings)/GSDP	23.97	24.86	24.98	23.56	24.16
Fiscal Liabilities/RR	146.15	165.28	169.83	157.96	147.95
V Other Fiscal Health Indicators					
Return on Investment (Rupees in crore)	23.4	40.20	29.51	43.44	60.56
Balance from Current Revenue (₹ in crore)	8,593	8,523	9,468	14,748	17,219
Financial Assets/Liabilities	1.0	1.0	1.0	1.10	1.12

Figures in brackets represent percentages (rounded) to total of each sub-heading

- ** Includes ₹ 170.14 crore, the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the Thirteenth Finance Commission (XIII FC). While the said amount has not been reckoned for arriving at fiscal indicators viz., revenue surplus, fiscal deficit and primary deficit, it has been considered for calculation of other variables like revenue receipts and non-tax revenue receipts.
- ¥ The revenue expenditure for 2008-09 and 2009-10 is decreased by ₹ 4 crore and 10 crore respectively on account of proforma correction. Consequently, the capital expenditure for these years stand increased by the same amount.
- # includes ₹ 542.32 crore interest payment in respect of Off-budget borrowings.
- @ The estimates adopted by the Government of India for the State's Fiscal Consolidation Road Map have been adopted by the State in the MTFP 2012-16 and the estimates are lower than the latest estimates contained in the Economic Survey 2011-12 based on the CSO guidelines.

APPENDIX 1.6
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF KARNATAKA
AS ON 31 MARCH, 2012
(REFERENCE: PARAGRAPH 1.10.1; PAGE 48)

As on 31.3.2011	Liabilities		As on 31.3.2012
48,762.05		Internal Debt *	54,333.25
	24,562.97	Market Loans bearing interest	30,770.35
	1.45	Market Loans not bearing interest	1.57
	406.14	Loans from Life Insurance Corporation of India	365.82
	2,355.99	Loans from other Institutions	2,604.15
	21,435.50	Loans from RBI – Special Securities issued to National Small Savings Fund of the Central Government.	20,591.36
10,514.76		Loans and Advances from Central Government -	10,981.62
	0.07	Pre 1984-85 Loans	0.07
	86.37	Non-Plan Loans	80.16
	10,274.20	Loans for State Plan Schemes	10,933.57
	21.82	Loans for Central Plan Schemes	(-)7.31
	132.30	Loans for Centrally Sponsored Plan Schemes	(-)24.87
67.47		Contingency Fund	79.49
12,784.10		Small Savings, Provident Funds, etc.	14,181.71
11,628.06		Reserve Funds	14,389.21
9,698.19		Deposits	11,106.37
4,144.34		Suspense and Miscellaneous balances	6,723.64
97,598.97		Total	1,11,795.29
		Assets	
88,529.12		Gross Capital Outlay on Fixed Assets -	1,04,034.77
	38,424.70	Investments in shares of Companies, Corporations, etc.	44,294.86
	50,104.42	Other Capital Outlay	59,739.91
9,622.98		Loans and Advances -	11,198.14
	1,233.68	Loans for Power Projects	1,254.75
	8,389.36	Other Development Loans	9,856.63
	-0.06	Loans to Government servants and Miscellaneous Loans	86.76
433.91		Remittances	444.92
9.95		Other Advances	7.81
7,667.31		Cash -	9,609.49
	---	Cash in treasuries	---
	8.69	Departmental Cash Balance including Permanent Advances	3.89
	(-) 657.14	Deposits with Reserve Bank of India	3.00
	0.01	Remittances in Transit	0.01
	6,871.51	Cash Balance Investments	7,640.61
	1,444.24	Investment from earmarked funds	1,961.98
(-) 8,664.30		Surplus on Government Accounts	(-)13,499.84
	(-) 4,361.17	Accumulated Surplus	(-)8,664.30
	(-) 4,176.38	Deduct Revenue Surplus	(-)4,691.20
	(-) 54.94	Deduct Other adjustments	(-)55.15
	(-)71.81	Deduct Capital Receipts	(-)89.19
97,598.97		Total	1,11,795.29

* The liabilities shown above do not include off budget borrowings.

@ Assistance of ₹ 4 crore released to milk unions during 2009-10 under revenue section has been treated as investment in equity as ordered. Hence, the progressive capital investments have been corrected proforma.

Explanatory Notes for Appendices 1.3 and 1.6

The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts. Government accounts being mainly on cash basis, the surplus on Government account, as shown in Appendix 1.6, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures, etc., do not figure in the accounts. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlements, etc. There was a difference of ₹ 16.94 crore (credit) between the figures reflected in the Accounts and that intimated by the Reserve Bank of India under “Deposits with Reserve Bank”. A net difference to the extent of ₹ 5.55 crore (credit) had been reconciled (June 2012) leaving a balance of net credit of ₹ 11.39 crore (credit) which was under reconciliation.

APPENDIX 1.7

**FINANCIAL POSITION OF DEPARTMENTALLY MANAGED COMMERCIAL/
QUASI COMMERCIAL UNDERTAKINGS
(REFERENCE: PARAGRAPH 1.9.3, PAGE 44)**

(₹ in crore)

Undertaking	Year upto which proforma accounts finalised	Mean capital	Total loss
Government Silk Factory, Mamballi	2009-10	2.48	1.92
Government Silk Twisting and Weaving Factory, Mudigundam	2009-10	1.17	0.60
Government Silk Factory, Chamarajanagar	2009-10	2.03	1.53
Government Silk Factory, Santhamarahalli	2009-10	2.04	1.50
Government Silk Factory, Kollegal	2009-10	1.67	1.87
Government Central Workshop, Madikeri	2008-09	0.07	0.14
Total		9.46	7.56

APPENDIX 1.8
IMPLICIT SUBSIDIES WITH RESPECT TO
REGIONAL RURAL BANKS AND STATUTORY CORPORATIONS/GOVT COMPANIES
DISCUSSED IN CAG'S REPORT NO. 1 FOR THE YEAR 2010-11
(REFERENCE: PARAGRAPH 1.7.6, PAGE 33)

Subsidies to regional rural banks

To strengthen the capital base of regional rural banks, State Government has released capital through budgetary allocations. Against cumulative investment of ₹ 19.42 crore in rural banks, no dividend has accrued to the Government till 2011-12.

Subsidies to Statutory Corporations/Government companies

Table given below presents the trend of investment made in the Statutory Corporations and Government Companies for the last 11 years. The return on investments is dismal, implying large implicit subsidisation.

(₹ in crore)

Year	Investment during the year	Up to date investment	Interest /Dividend received	Per cent of Interest / Dividend to investment	Rate of interest	Implicit Subsidy
2001-02	612.19	4,499.59	3.54	0.08	5 %*	190.83
2002-03	1,296.29	5,795.88	13.57	0.23		211.41
2003-04	1,831.64	7,627.52	15.18	0.20		274.61
2004-05	2,712.36	10,348.88	15.38	0.15		365.99
2005-06	3,315.50	13,664.38	14.99	0.11		502.45
2006-07	4,642.84	18,307.22	16.79	0.09		666.43
2007-08	3,580.81	21,888.03	20.93	0.10		894.43
2008-09	3,891.73	25,779.76	37.78	0.15		1,056.62
2009-10	5,735.20	31,514.96	27.73	0.09		1,261.26
2010-11	4,978.16	36,493.12	41.08	0.11		1,534.67
2011-12	5,852.74	42,345.75	57.57	0.13		1,767.08

**To enhance financial viability of State public sector's undertaking, XIII FC recommended a minimum of five per cent dividend from all such enterprises. The same has been adopted for government companies/statutory corporations.*

APPENDIX 1.9

**DETAILED LOAN ACCOUNTS MAINTAINED BY PRINCIPAL ACCOUNTANT GENERAL'S OFFICE
(REFERENCE: PARAGRAPH 1.9.4, PAGE 45)**

(₹ in crore)

Sl. No.	Head of Account/Institutions	Arrears as on 31-03-2012	
		Principal	Interest
1	6215-01-190-2-86: Bangalore Water Supply and Sewerage Board	1,353.97	267.52
2	6215-01-190-1-00: Karnataka Urban Water Supply and Drainage Board	211.35	469.77
3	6216-02-201-1-00: Karnataka Housing Board	23.61	72.23
4	6217-60-191-1-03: Bangalore Development Authority (for repayment of HUDCO Loans)	17.17	6.02
5	6220-01-190-1-00: Karnataka State Film Industries Development Corporation	0.41	1.03
6	6401-00-113-0-02: Karnataka Agro Proteins Limited	0.70	2.42
7	6401-00-103-2-00: Karnataka State Seeds Corporation Limited	2.88	2.65
8	6401-00-103-3-00: Karnataka State Co-operative Oil Seeds Growers Federation	0.75	3.42
9	6852-02-190-3-00: Dandeli Steel and Ferro Alloys Limited	0.31	0.37
10	6858-01-190-3-00: Karnataka Implements and Machinery Company	1.10	3.85
11	6858-02-190-1-00: Electro Mobile India Limited	0.61	1.50
12	6858-02-190-0-01: Chamundi Machine Tools	0.18	0.58
13	6858-01-190-2-00: New Government Electric Factory	57.47	137.17
14	6859-01-190-0-01: Karnataka Telecommunication Limited	1.65	3.53
15	6851-00-200-0-00: Leather Industries Development Corporation	1.78	6.29
16	6853-02-190-1-00: Hutti Gold Mines Company Limited	0.30	0.86
17	6860-04-190-2-01: Mysore Sugar Company	6.00	4.08
18	6860-60-212-1-00: Karnataka Soaps and Detergents	2.25	1.28
19	6885-01-190-3-00: Karnataka State Finance Corporation	0.40	0.00
20	6860-60-600-3-00: Mysore Tobacco Company Limited	1.34	8.45
21	7055-00-190-1-00: KSRTC	5.00	8.40
22	7452-80-190-1-00: Karnataka State Tourism Development Corporation	1.01	2.10
	Total	1,690.24	1003.52

APPENDIX 2.1

**MAJOR HEADS OF ACCOUNT UNDER WHICH PROVISION OF
₹ 25 CRORE AND ABOVE REMAINED UNSPENT
(REFERENCE PARAGRAPH 2.3.1; PAGE 74)**

(₹ in crore)

Sl. No.	Grant No.	Major Head	Area	Unspent provision
1	2	3	4	5
1	01	2401	Crop Husbandry	
			- Commercial Crops	
			- Horticulture Department	33.11
			Crop Husbandry	
			- Crop Insurance	
			- New Crop Insurance Scheme	27.62
1	01	2401	Crop Husbandry	
			-Development of Oil Seeds	
			-ISOPOM	63.76
1	01	2401	Crop Husbandry	
			- Other Expenditure	
			- Agriculture Department	828.94
1	01	2401	Crop Husbandry	
			- Other Expenditure	
			- Horticulture Department	101.45
1	01	2402	Soil and Water Conservation	
			- Assistance to Grama Panchayats	
1	01	2402	- Grama Panchayats – CSS/ CPS	33.01
			2	02
2	02	2405	- Other Expenditure	
			2	02
3	03	2040		
			- Collection Charges	41.60
		2054	Treasury and Accounts Administration	
			- Directorate of Accounts and Treasuries	
		2070	- Director of Treasuries	35.00
			Other Administrative Services	
		2071	- Other expenditure	
			- Filling up of Vacant Posts (District Sector)	849.97
		2071	Pensions and Other Retirement Benefits	
			- Civil	
2071	- Commuted Value of Pensions			
	- Other Payments	138.64		
2071	Pensions and Other Retirement Benefits			
	- Civil			
2071	- Gratuities			
	- Other Gratuities – Karnataka	99.36		
2071	Pensions and Other Retirement Benefits			
	- Civil			
2071	- Family Pensions			
	- Other Family Pensions –Karnataka	152.34		
2071	Pensions and Other Retirement Benefits			
	- Civil			
2071	- Pensions of Employees of Local Bodies			
	- Payments to Municipal Employees	45.85		
2071	Pensions and Other Retirement Benefits			
	- Civil			
2071	- Leave Encashment Benefits			
	- General Services	26.66		
2071	Pensions and Other Retirement Benefits			
	- Civil			
2071	- Government Contribution for Defined Contributions Pension Scheme			
	- State's Matching Contribution to Pension Scheme	245.87		

Sl. No.	Grant No.	Major Head	Area	Unspent provision
1	2	3	4	5
		3475	Other General Economic Services - Transfer to Reserve Funds and Deposit Accounts - Fiscal Management Fund	100.00
4	04	3451	Secretariat Economic Services - Other Expenditure - XIII FCG- Incentives for Issuing Unique Identifications (UIDs)	27.78
5	05	2041	Taxes on Vehicles - Direction and Administration - Commissionerate of Transport	51.67
		2055	Police - Modernisation of Police Force	68.31
		5055	Capital Outlay on Road Transport - Other Expenditure - Basic Services for Urban Transport	54.22
6	06	5465	Investments in General Financial and Trading Institutions - Investments in General Financial Institutions - Investments in Public Sector and Other Undertakings, Banks etc., - Investment in Infrastructure	59.50
		5465	Investments in General Financial and Trading Institutions - Investments in General Financial Institutions - Investments in Public Sector and Other Undertakings, Banks etc., - Investment in Rail Infrastructure Development Corporation (Karnataka) Limited (K-RIDE)	190.45
	07	2515	Other Rural Development Programmes - Assistance to Zilla Panchayats - Zilla Panchayats	49.50
			Other Rural Development Programmes - Assistance to Taluk Panchayats - Taluk Panchayats	147.26
		4702	Capital Outlay on Minor Irrigation - Surface Water - Water Tanks – Construction of New Tanks, Pickups etc.	348.08
		5054	Capital Outlay on Roads and Bridges - District and Other Roads - Road Works - Capital Release to Grama Panchayats	103.53
			Capital Outlay on Roads and Bridges - District and Other Roads - Other Expenditure - NABARD Assisted Works	42.80
7	08	2406	Forestry and Wildlife - Forestry - Transfer to Reserve Funds/Deposit Account - Transfer of Forest Development Tax to Karnataka Forest Development Fund	211.41
8	10	2225	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes - Welfare of Scheduled Tribes - Assistance to Taluk Panchayats - Taluk Panchayats CSS/CPS	28.67
			Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes - Welfare of Scheduled Tribes - Special Central Assistance for Tribal Sub-Plan - Administration	64.59
			Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes - Welfare of Backward Classes - Education - Welfare of Other Backward Classes	34.64

Sl. No.	Grant No.	Major Head	Area	Unspent provision
1	2	3	4	5
9	11	2235	Social Security and Welfare - Social Welfare - Welfare of Handicapped - Monthly Financial Assistance to the Physically Handicapped and the Disable Poor	60.34
			Social Security and Welfare - Social Welfare - Child Welfare - Bhagya Lakshmi	293.91
		4235	Capital Outlay on Social Security and Welfare - Social Welfare - Child Welfare - NABARD Works	44.27
10	16	2216	Housing -Urban Housing - Housing for Urban Poor - Vajpayee Urban Housing Scheme	73.00
			Housing -Urban Housing - House sites to Weaker Sections of Societies - Housing for Weaker Sections	27.00
			Housing - Rural Housing - Provision of Sites to the Landless - Home Sites for Landless	32.50
			Housing - General - Assistance to Grama Panchayats - Grama Panchayats – CSS/CPS	99.32
			Housing - Other Expenditure - Indira Awas Yojana – State Share - Loans to RGRHC Limited for Ashraya Scheme	31.64
			General Education - Elementary Education - Assistance to Zilla Panchayats - Zilla Panchayats	277.22
11	17	2202	General Education - Secondary Education - Government Secondary Schools - High Schools (District Sector Schemes)	25.00
			General Education - Secondary Education - Government Secondary Schools - Junior Colleges	144.44
			General Education - General - Other Expenditure - Computer Literacy Awareness in Secondary School	126.50
			General Education - General - Other Expenditure - GIA in Education	65.00
			Technical Education - Other Expenditure - Implementation of AICTE Pay Scale	50.00
12	17	2203	Technical Education - Other Expenditure - Implementation of AICTE Pay Scale	50.00
		4202	Capital Outlay on Education, Sports, Art and Culture - General Education - University and Higher Education - Buildings	89.01

Sl. No.	Grant No.	Major Head	Area	Unspent provision
1	2	3	4	5
13	18	2851	Village and Small Industries - Sericulture Industries - Modernization/ Technology Training	45.68
		2851	Village and Small Industries - Sericulture Industries - State Sericulture Industries	123.19
		6852	Loans for Iron and Steel Industries - Manufacture - Other Loans - Loans Against VAT Payment to Industrial Units	35.09
14	19	2217	Urban Development - Other Urban Development Schemes, - Assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Boards etc. - Bangalore Metropolitan Regional Development Authority	258.00
			Urban Development - General - Assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Boards etc. - Bangalore Metro Rail Corporation Ltd.	50.00
		3604	Compensation and Assignments to Local Bodies and Panchayati Raj Institutions - Assistance to Municipal Corporations - JNNURM	62.99
			Compensation and Assignments to Local Bodies and Panchayati Raj Institutions - Assistance to Municipal Corporations - Rajiv Awas Yojane	100.00
			Compensation and Assignments to Local Bodies and Panchayati Raj Institutions - Assistance to Municipalities/Municipal Councils - Mukhya Mantrigala Nagarothana Yojane	86.21
		4217	Capital Outlay on Urban Development - Other Urban Development Schemes - Other Expenditure - Equity in BMRCL	133.00
		6215	Loans for Water Supply and Sanitation - Water Supply - Loans to Public Sector and Other Undertakings - Bangalore Water Supply and Sewerage Board	409.04
15	20	2059	Public Works - General - Suspense - Debits	127.83
		5054	Capital Outlay on Roads and Bridges - State Highways - Road Works - Other Road Formation	297.16
		5054	Capital Outlay on Roads and Bridges - State Highways - Road Works - Renewal of State Highways	60.96
		5054	Capital Outlay on Roads and Bridges - State Highways - Road Works - Core Road Network Development Programme	100.14
			Capital Outlay on Roads and Bridges - State Highways - Road Works	
			- Karnataka State Highway Improvement Project (KSHIP)-II-EAP	494.46

Sl. No.	Grant No.	Major Head	Area	Unspent provision
1	2	3	4	5
16	21	2701	Medium Irrigation - Assistance to Public Sector and other Undertakings - Assistance to KBJNL	67.15
			2705	Command Area Development - Other Expenditure - Expenditure met from Development Fund - World Food Programme
		4701	Capital Outlay on Medium Irrigation - Karnataka Neeravari Nigam Limited - Other Expenditure - Accelerated Irrigation Benefit Programme – (AIBP)	532.44
			Capital Outlay on Medium Irrigation - General - Investments in Public Sector and Other Undertakings - Krishna-Bhagya Jala Nigam Limited.	243.98
		4702	Capital Outlay on Minor Irrigation - Surface Water - Water Tanks – Construction of New Tanks, Pickups etc.	279.06
			Capital Outlay on Minor Irrigation - Surface Water - World Bank Aided Tank Irrigation Projects - Karnataka Community Based Tank Management Project - EAP - Special Component Plan	60.00
		4711	Capital Outlay on Flood Control Project - Flood Control - Civil Works - Civil Works for Flood Control	52.72
		17	22	2210
4210	Capital Outlay on Medical and Public Health - Urban Health Services - Hospitals and Dispensaries - Buildings			
18	23	2210	Medical and Public Health - Urban Health Services – Allopathy - Employees State Insurance Scheme - Administrative Unit	37.00
			2230	Labour and Employment - Labour - Other Expenditure - Rashtriya Swasthya Bima Yojane
		Labour and Employment - Training - Industrial Training Institutes - New ITIs in 10 Talukas		37..27
		Labour and Employment - Training - Industrial Training Institutes - New Private ITIs	25.00	
		Labour and Employment - Training - Industrial Training Institute - Student Centric GIA	25.00	
		19	24	4801

Sl. No.	Grant No.	Major Head	Area	Unspent provision
1	2	3	4	5
			Capital Outlay on Power Projects - General - Investments in Public Sector and Other Undertakings - Investments in ESCOMS for Niranthara Jyothi Works	275.00
		6801	Loans for Power Projects - Transmission and Distribution - Loans to Karnataka Power Transmission Corporation Limited	97.36
20	25	2205	Art and Culture - Archaeology - XII Finance Commission Grants for Heritage Protection	25.00
		4202	Capital Outlay on Education, Sports, Art and Culture - Art and Culture - Other Expenditure - Buildings	27.78
21	26	2575	Other Special Area Programme - Backward Areas - Assistance to Zilla Panchayats - Zilla Panchayats	34.91
		4515	Capital Outlay on Other Rural Development Programme - Other Expenditure - Development Works in New Districts	25.50
22	27	2014	Administration of Justice - Other Expenditure - EFC Grants for upgradation of Judicial Administration	43.28
23	29	2049	Interest Payments - Interest on Internal Debt - Interest on Market Loans - Interest on Current Loans	775.58
			Interest Payments - Interest on Small Savings, Provident Fund etc. - Interest on State Provident Funds - General Provident Fund	202.57
			Interest Payments - Interest on Loans and Advances from Central Government - Interest on Loans for State/Union Territory Plan Schemes	51.02
		6003	Internal Debt of the State Government - Ways and Means Advances from the Reserve Bank of India - Clean and Secured Ways and Means Advances	1,000.00
			Internal Debt of the State Government - Ways and Means Advances from the Reserve Bank of India - Over Draft with Reserve Bank of India	350.00
Total				13,121.83

APPENDIX 2.2

**MAJOR HEADS OF ACCOUNT UNDER WHICH EXCESS EXPENDITURE WAS ABOVE ₹ 25 CRORE
(REFERENCE: PARAGRAPH 2.3.3; PAGE 80)**

(₹ in crore)								
Sl. No.	Grant No.	Major Head	Area	Total Provision	Re - appropriation	Total	Expenditure	Excess
1	14	2245	Relief on Account of National Calamities - State Disaster Response Fund - Transfer of Reserve Funds and Deposit Account – State Disaster Response Fund - Central Share to State Disaster Response Fund	126.76	0.00	126.76	196.99	70.23
2	17	2202	General Education - Elementary Education - Assistance to Taluk Panchayats - Taluk Panchayats	4,548.75	4.40	4,553.15	4,645.92	92.77
3	18	3475	Other General Economic Services - Transfer to Reserve Funds and Deposit Accounts - Transfer of Cess to the Infrastructure Initiative Fund	570.00	0.00	570.00	609.28	39.28
4	29	6004	Loans and Advances from Central Government - Loans for State/Union Territory Plan Schemes - Block Loans - Additional Plan Assistance (Back to Back External Loans)	3.00	0.00	3.00	58.70	55.70
			Loans and Advances from Central Government - Loans for Central Plan Schemes - Major and Medium Irrigation - Accelerated Irrigation Benefit Programme	3.57	0.00	3.57	28.58	25.01
			Loans and Advances from Central Government - Loans for Central Plan Schemes - Crop Husbandry - Macro Management of Agriculture	4.99	0.00	4.99	88.88	83.89
			Total	5,257.07	4.40	5,261.47	5,628.35	366.88

APPENDIX 2.3

PERSISTENT EXCESS EXPENDITURE OVER PROVISION
(REFERENCE: PARAGRAPH 2.3.4; PAGE 80)

(₹ in crore)

Sl. No.	Grant & Head of Account	2007-08			2008-09			2009-10			2010-11			2011-12		
		Provision	Expenditure	Excess	Provision	Expenditure	Excess	Provision	Expenditure	Excess	Provision	Expenditure	Excess	Provision	Expenditure	Excess
1	18- Commerce and Industries 2851-00-797-01 Transfer of Market Fees and Licence fee to Karnataka Silk Worm Seed Cocoon and Silk Yarn Development and Price Stabilization Fund	15.00	16.60	1.60	15.00	24.97	9.97	15.00	28.46	13.46	7.72	24.61	16.89	7.72	20.48	12.76
2	20 – Public Works 2059-80-001-02 Chief Engineer (C&B-North), Dharwad	2.27	2.81	0.54	2.62	3.49	0.87	2.47	3.94	1.47	3.31	4.46	1.15	4.96	5.09	0.13

APPENDIX 2.4

EXPENDITURE INCURRED WITHOUT PROVISION
(REFERENCE: PARAGRAPH 2.3.5; PAGE 80)

(₹ in crore)

Sl. No.	Grant	Head of Account	Expenditure	Reasons
1	03	2039-001-01-004 Interim Relief	1.52	Interim Relief to government servants was sanctioned w.e.f 01-11-2011. Provision to take care of the expenditure, on Interim Relief was not made across all the major heads involving salary expenditure.
2		2040-001-01-004 Interim Relief	1.26	
3		2054-097-004 Interim Relief	1.18	
4	05	2055-104-01-004 Interim Relief	4.68	
5		2055-108-01-004 Interim Relief	11.29	
6		2055-109-1-01-004 Interim Relief	20.53	
7		2070-108-1-01-004 Interim Relief	1.83	
8	08	2406-01-001-2-01-004 Interim Relief	3.05	
9	09	3475-107-02-004 Interim Relief	1.01	
10	14	2029-101-1-01-004 Interim Relief	3.29	
11		2053-094-7-01-004 Interim Relief	3.98	
12	17	2202-03-103-2-01-004 Interim Relief	2.16	
13	18	2851-107-1-01-004 Interim Relief	1.38	
14	20	2059-80-001-05-004 Interim Relief	1.97	
15		2059-80-001-09-004 Interim Relief	1.42	
16	22	2210-01-110-2-39-004 Interim Relief	1.92	
17		2210-03-110-01-004 Interim Relief	1.09	
18	23	2210-01-102-01-004 Interim Relief	1.35	
19		2230-03-101-01-004 Interim Relief	1.25	
20	01	2401-196-2-01-300 Lumpsum – Zilla Panchayats	1.16	No reasons are available.
21		2401-197-1-01-300 Lumpsum – Zilla Panchayats	1.79	
22		2402-196-2-01-300 Lumpsum – Zilla Panchayats	1.35	
23	02	2403-197-1-01-300 Lumpsum – Zilla Panchayats	3.38	
24	10	2225-01-197-1-01-300 Lumpsum – Zilla Panchayats	1.53	

25		2225-03-196-1-01-300 Lumpsum – Zilla Panchayats	2.49	
26	17	2202-01-197-1-01-300 Lumpsum – Zilla Panchayats	95.63	
27		2202-02-196-1-01-300 Lumpsum – Zilla Panchayats	1.95	
28		2202-02-197-1-01-300 Lumpsum – Zilla Panchayats	28.30	
29	08	2406-02-110-35-051 General Expenses	2.00	
Total			205.74	

APPENDIX 2.5

EXCESS EXPENDITURE OVER PROVISION REQUIRING REGULARISATION
(REFERENCE: PARAGRAPH 2.3.6; PAGE 80)
(₹ in crore)

Year	Number of grants/Appropriation	Grant/Appropriation Numbers	Amount of excess required to be regularised as commented in the Appropriation Accounts/Audit Reports	Actual Excess	Remarks
1989-90	12/5	7,8,10,24,27,46,47,49,53,20,35,56,23,45,12, Interest Payments	25.89	25.89	
1990-91	13/4	6,7,10,13,20,32,45,46,47,52,27,33,35,47,4	35.73	35.68	Excess reduced on account of reconciliation of expenditure
1991-92	13/3	7,11,14,22,23,36,45,46,47,51,57,27,24,41, 43	58.99	58.47	Excess reduced on account of reconciliation of expenditure
1992-93	12/3	6,9,27,32,34,41,43,44,45,46,50,52,25,33, 34,48	107.47	107.47	
1993-94	7/2	22,36,46,49,54,13,29,49,24,43,	7.94	7.94	
1994-95	4/6	21,35,3,48,15,24,46,47,55	8.35	7.95	Due to erroneous budget provision
1995-96	9/2	2,33,39,43,45,49,1,46,52,21,44	27.79	27.79	
1996-97	9/3	2,16,33,43,49,51,8,24,25,45,1,21,43,44	104.40	104.40	
1997-98	11	12,33,37,39,43,49,51,24,27, 32,55	84.01	84.01	
1998-99	12	9,17,33,37,39,40,4,25,46,43,52	35.86	34.74	Excess reduced on account of reconciliation of expenditure
1999-00	11/2	10, 16, 19, 33, 34, 39, 48, 49, 65, 66, 8, 43.	333.22	333.22	
2000-01	11	5, 15, 24, 35, 38, 49, 7, 10, 42, 30, 44	114.46	114.46	
2001-02	10	5, 10, 13, 15, 24, 30, 35, 42, 44, 50	112.64	112.64	
2002-03	3/4	53,13,60,15,30,44,44	11.99	11.99	
2003-04	6	14,16,27,24,8,20	818.88	812.42	Reduction of ₹ 6.46 crore is the net result of increase of ₹ 0.04 crore due to reconciliation and decrease of ₹ 6.50 crore due to rectification of misclassification.
2004-05	5	8,17,18,20,24	264.27	549.93	Excess increased due to proforma correction of ₹ 285.66 crore under Grant 24 on account of book adjustments relating to power subsidy for 2004-05, not shown in the annual accounts of 2004-05.
2005-06	4/1	3,14,18,24,25	809.02	809.02	
2006-07	4/1	8,14,15,18,24	483.45	483.45	
2007-08	2/2	4,8,27	5.15	5.15	
2008-09	1/1	8,14	65.85	65.85	
2009-10	2/1	8,14	915.42	915.42	
2010-11	2/1	8,27	85.39	85.39	
Total			4,516.17	4,793.28	

APPENDIX 2.6

CASES OF NEW SERVICE/NEW INSTRUMENT OF SERVICE
(REFERENCE: PARAGRAPH 2.3.7; PAGE 81)

(₹ in crore)

Sl. No.	Grant	Head of Account	Budget Provision	Expenditure	Excess
(1)	(2)	(3)	(4)	(5)	(6)
1	01 – Agriculture and Horticulture	2401 Crop Husbandry			
		196 Assistance to Zilla Panchayats/ District Level Panchayats			
		2 Zilla Panchayats			
		01 Block Grants			
		300 Lumpsum – Zilla Panchayats	0.00	1.16	1.16
		2401 Crop Husbandry			
		197 Assistance to Block Panchayats/ Intermediate Level Panchayats			
		1 Taluk Panchayats			
		01 Block Grants			
300 Lumpsum – Zilla Panchayats	0.00	1.79	1.79		
2	02 – Animal Husbandry and Fisheries	2402 Soil and Water Conservation			
		196 Assistance to Zilla Panchayats/District Level Panchayats			
		2 Zilla Panchayats			
01 Block Grants					
300 Lumpsum – Zilla Panchayats	0.00	1.35	1.35		
2	02 – Animal Husbandry and Fisheries	2403 Animal Husbandry			
		197 Assistance to Block Panchayats/ Intermediate Level Panchayats			
		1 Taluk Panchayats			
01 Block Grants					
300 Lumpsum – Zilla Panchayats	0.00	3.38	3.38		
3	03 – Finance	2039 State Excise			
		001 Direction and Administration			
		01 Commissioner for Excise and Other Establishments			
		004 Interim Relief	0.00	1.52	1.52
		2040 Taxes on Sales, Trades etc.			
		001 Direction and Administration			
		01 Commissioner for Commercial Taxes			
		004 Interim Relief	0.00	1.26	1.26
		2054 Treasury and Accounts Administration			
097 Treasury Establishment					
004 Interim Relief	0.00	1.18	1.18		
4	05- Home and Transport	2055 Police			
		104 Special Police			
		01 Karnataka State Reserve Police and Armed Reserve Police			
		004 Interim Relief	0.00	4.68	4.68
		2055 Police			
		104 Special Police			
		01 Karnataka State Reserve Police and Armed Reserve Police			
		21 Reimbursement of Medical Expenses	1.84	5.54	3.70
		2055 Police			
		104 Special Police			
		06 Internal Security Cell			
		003 Pay – Staff	0.68	2.45	1.77
2055 Police					
108 State Headquarters Police					
01 Commissioner of Police					

Sl. No.	Grant	Head of Account	Budget Provision	Expenditure	Excess
(1)	(2)	(3)	(4)	(5)	(6)
		004 Interim Relief	0.00	11.29	11.29
		2055 Police			
		108 State Headquarters Police			
		01 Commissioner of Police			
		021 Reimbursement of Medical Expenses	4.16	15.85	11.69
		2055 Police			
		109 District Police			
		1 Police Force			
		01 Police Establishment in Existing Districts			
		004 Interim Relief	0.00	20.53	20.53
		2070 Other Administrative Services			
		108 Fire Protection Control			
		1 Direction and Administration			
		01 Director of Fire Force			
		004 Interim Relief	0.00	1.83	1.83
5	08 – Forest, Ecology and Environment	2406 Forestry and Wild Life			
		01 Forestry			
		001 Direction and Administration			
		2 Executive Establishment			
		01 General Establishment			
		004 Interim Relief	0.00	3.05	3.05
		2406 Forestry and Wild Life			
		02 Environmental Forestry and Wild Life			
		110 Wild Life Preservation			
		35 Rehabilitation of Villages of Bhadra Wild life Sanctuary			
		051 General Expenses	0.00	2.00	2.00
6	09 – Co-operation	2425 Co-operation			
		107 Assistance to Credit Co-operatives			
		2 General			
		45 Interest Subvention for Loans to SHG			
		106 Subsidies	10.00	35.00	25.00
		3475 Other General Economic Services			
		107 Regulation of Markets			
		02 Marketing Committees			
		004 Interim Relief	0.00	1.01	1.01
7	10 – Social Welfare	2225 Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes			
		01 Welfare of Scheduled Castes			
		197 Assistance to Block Panchayats/ Intermediate Level Panchayats			
		1 Taluk Panchayats			
		01 Block Grants			
		300 Lumpsum – Zilla Panchayats	0.00	1.53	1.53
		2225 Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes			
		01 Welfare of Scheduled Castes			
		197 Assistance to Block Panchayats/ Intermediate Level Panchayats			
		6 Taluk Panchayats – CSS/CPS			
		03 Post-Matric Scholarships to Scheduled Castes			
		462 Gadag	1.00	3.50	2.50
		466 Koppal	0.40	2.10	1.70
		2225 Welfare of Scheduled Castes, Scheduled Tribes and Other Backward			

Sl. No.	Grant	Head of Account	Budget Provision	Expenditure	Excess
(1)	(2)	(3)	(4)	(5)	(6)
		Classes			
		03 Welfare of Schedules Castes			
		196 Assistance to Block Panchayats/ District Level Panchayats			
		1 Zilla Panchayats			
		01 Block Grants			
		300 Lumpsum – Zilla Panchayats	0.00	2.49	2.49
8	14 – Revenue	2029 Land Revenue			
		101 Collection Charges			
		1 Revenue Divisions			
		01 Village Establishments			
		004 Interim Relief	0.00	3.29	3.29
		2053 District Administration			
		094 Other Establishments			
		7 Taluk Establishments			
		01 Taluk Officers Establishment			
		004 Interim Reflief	0.00	3.98	3.98
9	17 – Education	2202 General Education			
		01 Elementary Education			
		196 Assistance to Zilla Panchayats/ District Level Panchayats			
		6 Akshara Dasoha Scheme			
		01 Block Assistance to Zilla Panchayats			
		401 Bangalore (Urban)	20.90	119.37	98.47
		2202 General Education			
		01 Elementary Education			
		197 Assistance to Block Panchayats/ Intermediate Level Panchayats			
		1 Taluk Panchayats			
		01 Block Grants			
		300 Lumpsum – Zilla Panchayats	0.00	95.63	95.63
		2202 General Education			
		02 Secondary Education			
		197 Assistance to Zilla Panchayats/District Level Panchayats			
		1 Zilla Panchayats			
		01 Block Grants			
		300 Lumpsum – Zilla Panchayats	0.00	1.95	1.95
		2202 General Education			
		02 Secondary Education			
		197 Assistance to Block Panchayats/ Intermediate Level Panchayats			
		1 Taluk Panchayats			
		01 Block Grants			
		300 Lumpsum – Zilla Panchayats	0.00	28.30	28.30
		2202 General Education			
		03 University and Higher Education			
		103 Government Colleges and Institutes			
		2 Other Government Colleges			
		01 Other Government Colleges			
		003 Pay – Staff	18.61	65.62	47.01
		004 Interim Relief	0.00	2.16	2.16
		2203 Technical Education			
		105 Polytechnics			
		01 Polytechnics			
		014 Other Allowance	3.21	11.78	8.57
		2203 Technical Education			
		112 Engineering /Technical Colleges and Institutes			

Sl. No.	Grant	Head of Account		Budget Provision	Expenditure	Excess
(1)	(2)	(3)		(4)	(5)	(6)
		02	S.K.S.J.T Institute, Bangalore			
		003	Pay – Staff	1.03	5.06	4.03
		014	Other Allowance	0.29	1.87	1.58
10	18 – Commerce and Industries	2851	Village and Small Industries			
		107	Sericulture Industries			
		1	State Sericulture Industries			
		01	Sericulture and Other Offices			
		004	Interim Relief	0.00	1.38	1.38
11	20 – Public Works	2059	Public Works			
		80	General			
		001	Direction and Administration			
		05	Execution (C&B South)			
		004	Interim Relief	0.00	1.97	1.97
		2059	Public Works			
		80	General			
		001	Direction and Administration			
		09	Execution (C&B North)			
		004	Interim Relief	0.00	1.42	1.42
12	21 – Water Resources	2705	Command Area Development			
		800	Other Expenditure			
		1	Expenditure met from Development Fund – World Food Programme			
		03	WALMI			
		101	Grants-In-Aid	5.00	17.72	12.72
13	22 – Health and Family Welfare	2210	Medical and Public Health			
		01	Urban Health Services – Allopathy			
		001	Direction and Administration			
		01	Directorate of Health and Family Welfare Services (Medical Branch)			
		002	Pay Officers	0.21	2.61	2.40
		2210	Medical and Public Health			
		01	Urban Health Services- Allopathy			
		110	Hospitals and Dispensaries			
		2	Major Hospitals			
		39	Karnataka Health Systems Development Project – State Share			
		004	Interim Relief	0.00	1.92	1.92
		2210	Medical and Public Health			
		03	Rural Health Services – Allopathy			
		110	Hospitals and Dispensaries			
		01	Taluk Level General Hospitals			
		004	Interim Relief	0.00	1.09	1.09
14	23 – Labour	2210	Medical and Public Health			
		01	Urban Health Services- Allopathy			
		102	Employees State Insurance Scheme			
		01	Administrative Unit			
		004	Interim Relief	0.00	1.35	1.35
		2230	Labour and Employment			
		03	Training			
		101	Industrial Training Institutes			
		01	Industrial Training Institutes/ Centers			
		004	Interim Relief	0.00	1.25	1.25
15	27 – Law	2014	Administration of Justice			
		114	Legal Advisers and Counsels			
		01	Advocate General			
		014	Other Allowance	0.66	3.91	3.25
			Total	67.99	498.12	430.13

APPENDIX 2.7

**UNNECESSARY SUPPLEMENTARY PROVISION
(MORE THAN ONE CRORE)
(REFERENCE: PARAGRAPH 2.3.8; PAGE 81)**

(₹ in crore)

Sl. No	Grant	Head of Account	Provision			Expenditure	Unspent Provision
			Original	Supplementary	Total		
1	02 – Animal Husbandry and Fisheries	2405- 00- 103- 0- 18- 059	0.00	2.00	2.00	0.00	2.00
		4403- 00- 101- 0- 17- 386	0.00	9.08	9.08	0.00	9.08
		4404- 00- 190- 0- 01- 211	0.00	4.00	4.00	0.00	4.00
2	07 – Rural Development and Panchayat Raj	2515- 00- 196 -1- 05- 300	60.00	7.97	67.97	0.17	67.80
		4702- 00- 101- 9- 04- 133	13.84	0.11	13.95	11.34	2.61
3	10 – Social Welfare	2225- 02 -197- 6- 03- 401	1.85	2.71	4.56	1.86	2.70
		2225- 02 - 197- 6- 03- 402	0.28	0.27	0.55	0.20	0.35
		2225- 02- 197- 6- 03- 403	2.50	2.26	4.76	2.33	2.43
		2225 -02- 197- 6- 03- 406	3.50	1.44	4.94	3.48	1.46
		2225- 02- 197- 6- 03- 407	4.00	2.76	6.76	3.85	2.91
		2225- 02- 197- 6- 03- 453	2.03	1.50	3.53	1.94	1.59
		2225- 02- 197- 6- 03- 456	0.90	1.19	2.09	0.90	1.19
		2225- 02- 197- 6- 03- 457	0.35	1.08	1.43	0.25	1.18
		2225- 02- 197- 6- 03- 466	0.38	1.63	2.01	0.38	1.63
		2225- 02- 794- 0- 01- 059	100.00	62.00	162.00	97.41	64.59
4	14 - Revenue	2053- 00- 093-1- 01- 053	0.00	2.00	2.00	0.00	2.00
		2053- 00-101- 0- 03- 200	1.17	5.00	6.17	1.15	5.02
5	20 – Public Works	2216- 01-700- 3- 01- 200	64.29	5.00	69.29	62.88	6.41
		3054- 04-337- 1- 09- 172	171.25	14.25	185.50	166.90	18.60
		4711- 01-103- 1- 00- 436	0.00	2.00	2.00	0.00	2.00
		5054- 03- 337-0- 81- 172	0.00	25.00	25.00	0.00	25.00
6	21- Water Resources	2700- 08-101- 0- 01 -200	0.74	1.69	2.43	0.50	1.93
7	22- Health and Family Welfare Services	4210-01-110- 1- 01- 145	0.00	10.85	10.85	0.00	10.85
Total			427.08	165.79	592.87	355.54	237.33

APPENDIX 2.8

EXCESSIVE SUPPLEMENTARY PROVISION
(ALL SELECTED GRANTS : MORE THAN ONE CRORE)
(REFERENCE: PARAGRAPH 2.3.9; PAGE 81)

(₹ in crore)

Sl. No	Grant	Head of Account	Provision			Expenditure	Unspent Provision
			Original	Supplementary	Total		
1	02 – Animal Husbandry and Fisheries	2403- 00- 191- 1-11- 059	10.00	15.00	25.00	16.31	8.69
		2403- 00- 196- 1- 01- 300	0.00	7.10	7.10	2.46	4.64
		4405- 00- 104- 0- 02- 386	9.00	15.00	24.00	9.76	14.24
2	07 – Rural Development and Panchayat Raj	2515- 00- 101- 0- 25- 059	0.00	8.21	8.21	2.05	6.16
		3054- 80- 196- 1- 01- 405	1.18	5.96	7.14	3.18	3.96
		4215- 01- 102- 9- 01- 059	300.50	86.00	386.50	308.46	78.04
		4215- 02- 800- 0- 02- 132	292.18	350.00	642.18	605.26	36.92
		5054- 04- 337- 7- 01- 132	400.00	444.63	844.63	824.09	20.54
3	08 - Forest, Ecology and Environment	2406- 01- 001- 1- 01- 004	0.00	5.17	5.17	0.15	5.02
4	09 – Co-operation	2425- 00- 001- 0- 01- 004	0.00	3.11	3.11	0.79	2.32
		2425- 00- 107- 2- 41- 106	255.00	350.00	605.00	405.00	200.00
5	10 – Social Welfare	2225- 01- 196- 1- 01- 300	0.00	6.25	6.25	1.20	5.05
6	14 – Revenue	2029- 00- 001- 0- 01- 004	0.00	12.74	12.74	0.07	12.67
		2075- 00- 800- 4- 03- 101	0.18	1.17	1.35	0.21	1.14
		2235- 60- 001- 0- 01- 059	0.00	6.85	6.85	0.48	6.37
		2235- 60- 102- 1- 03- 059	25.00	10.00	35.00	31.03	3.97
7	18 – Commerce and Industries	2851- 00- 102- 0- 69- 106	30.00	83.92	113.92	73.40	40.52
		2851- 00- 103- 0- 62- 059	33.30	4.00	37.30	33.82	3.48
		2851- 00- 107- 1- 35- 059	29.50	24.67	54.17	44.98	9.19
		2851- 00- 107- 1- 45- 059	0.00	6.00	6.00	3.39	2.61
		2851- 00- 107- 1- 80- 004	0.00	3.14	3.14	0.28	2.86
		4702- 00- 102- 1- 80- 396	0.00	3.30	3.30	0.22	3.08
		2702- 02- 005- 0- 80- 200	0.08	4.77	4.85	0.54	4.31
		4851- 00- 107- 1- 01- 139	5.00	10.00	15.00	5.54	9.46
		4860- 04- 800- 0- 01- 172	8.50	5.00	13.50	11.31	2.19
8	20 - Public Works	2059- 80- 001- 0- 01- 004	0.00	5.69	5.69	0.17	5.52
		2059- 80- 001- 0- 04- 051	1.11	2.50	3.61	2.14	1.47
		2059- 80- 053- 4- 00- 200	158.52	28.40	186.92	184.15	2.77
		4059- 80- 051- 0- 32- 386	75.00	72.78	147.78	112.78	35.00
		4059- 80- 051- 0- 40- 386	50.00	100.00	150.00	132.77	17.23
		4059- 80- 051- 0- 42- 386	30.00	14.45	44.45	36.62	7.83
		5054- 03- 337- 0- 02- 172	57.10	543.50	600.60	341.41	259.19
		5054- 03- 337- 0- 14- 172	0.00	300.00	300.00	199.86	100.14
		5054- 05- 337- 2- 01- 172	800.00	800.00	1,600.00	1,217.27	382.73
		7615- 00- 200- 2- 03- 394	50.00	58.00	108.00	88.54	19.46
9	21 – Water Resources	2700- 03- 001- 0- 01- 004	0.00	3.73	3.73	0.34	3.39
		4700- 13- 800- 0- 02- 132	0.00	10.00	10.00	2.50	7.50
		4702- 00- 101- 1- 13- 132	0.00	280.00	280.00	94.52	185.48
		4711- 01- 103- 1- 02- 139	1.00	58.46	59.46	6.74	52.72
10	22 – Health and Family Welfare Services	2210- 06- 001- 1- 01- 300	5.63	24.74	30.37	12.48	17.89
		2210- 01- 001- 0- 22- 004	0.00	11.10	11.10	1.76	9.34
11	24 – Energy	2801- 80- 101- 1- 04- 106	3,900.00	956.00	4,856.00	4,853.28	2.72

12	27 – Law	2014- 00- 105- 0- 01- 004	0.00	9.56	9.56	3.98	5.58
		2014- 00- 114- 0- 01- 059	4.50	0.65	5.15	0.46	4.69
13	28 – Parliamentary Affairs and Legislation	2011- 02- 101- 0- 05- 041	11.00	9.83	20.83	17.22	3.61
		2011- 02- 101- 0- 05- 001	10.50	1.76	12.26	10.73	1.53
		2011- 02- 101- 0- 05- 041	5.20	3.52	8.72	6.67	2.05
Total			6,558.98	4,766.66	11,325.64	9,710.37	1,615.27

APPENDIX 2.9

INADEQUATE SUPPLEMENTARY PROVISION
(MORE THAN ONE CRORE)

(REFERENCE: PARAGRAPH 2.3.10; PAGE 81)

(₹ in crore)

Sl. No.	Grant	Head of Account	Provision			Expenditure	Excess Uncovered
			Original	Supplementary	Total		
1	14 – Revenue	2235-60-001-0-02-059	305.98	239.00	544.98	730.98	186.00
		2235-60-102-1-01-251	277.22	22.00	299.22	400.85	101.63
		2235-60-102-2-01-251	412.17	125.00	537.17	597.81	60.64
2	18 - Commerce and Industries	3475-00-797-0-01-261	475.00	95.00	570.00	609.28	39.28
Total			1,470.37	481.00	1,951.37	2,338.92	387.55

APPENDIX 2.10

**INJUDICIOUS RE-APPROPRIATION OF FUNDS
(REFERENCE: PARAGRAPH 2.3.11: PAGE 81)**

							(₹ in crore)
Sl. No.	Head of Account		Provision (Original plus Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ unspent provision (-)
1	2210	Medical and Public Health					
	01	Urban Health Services – Allopathy					
	001	Direction and Administration					
	01	Directorate of Health and Family Welfare Services – Medical Branch					
	002	Pay Officers	0.21	(+0.78)	0.99	2.61	(+)1.62
2	2014	Administration of Justice					
	105	Civil and Session Courts					
	01	Establishment Charges					
	002	Pay Officers	32.52	(+3.56)	36.08	37.38	(+)1.30
3	2014	Administration and Justice					
	105	Civil and Session Courts					
	01	Establishment Charges					
	003	Pay Staff	87.88	(+3.18)	91.06	95.14	(+)4.08
		Total	120.61	(+)7.52	128.13	135.13	(+)7.00
4	2501	Special Programme for Rural Development					
	04	Integrated Rural Energy Planning Programme					
	105	Project Implementation					
	03	Karnataka State Bio Fuel Policy Implementation					
	059	Other Expenses	10.00	(-)1.08	8.92	7.50	(-)1.42
5	2515	Other Rural Development Programme					
	196	Assistance to Zilla Panchayats/ District Level Panchayats					
	1	Zilla Panchayats					
	05	Maintenance Grants					
	300	Lumpsum – Zilla Panchayats	67.97	(-)0.96	67.01	17.50	(-)49.51
6	2406	Forestry and Wildlife					
	02	Environmental Forestry and Wild Life					
	110	Wild Life Preservation					
	47	Development of Wild Life Sanctuaries and National Parks - CSS					
	139	Major Works	12.00	(-)2.50	9.50	6.58	(-)2.92
7	2425	Co-operation					
	001	Direction and Administration					
	01	Registrar of Co-operative Societies					
	004	Interim Relief	3.11	(-)0.94	2.17	0.79	(-)1.38
8	2225	Welfare of SCs/STs and OBCs					
	01	Welfare of SCs					
	196	Assistance to Zilla Panchayats/ District Level Panchayats					
	1	Zilla Panchayats					
	01	Block Grants					
	800	Lumpsum – Zilla Panchayats	6.25	(-)0.50	5.75	1.20	(-)4.55
9	2225	Welfare of SCs/STs and OBCs					
	03	Welfare of Backward Classes					
	277	Education					
	2	Welfare of OBCs					
	37	Koushalya – Backward Classes					
	059	Other Expenses	4.50	(-)1.95	2.55	0.01	(-)2.54
10	2225	Welfare of SC/ST and OBC					
	03	Welfare of Backward Classes					
	277	Education					
	2	Welfare of OBCs					
	57	Stipend to Backward Classes					

Sl. No.	Head of Account	Provision (Original plus Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ unspent provision (-)
	117 Nursing Students					
	Scholarships and Incentives	3.50	(-0.80)	2.70	1.54	(-1.16)
11	2408 Food, Storage and Ware Housing					
	01 Food					
	102 Food Subsidies					
	01 Food Subsidies					
	106 Subsidies	850.00	(-0.36)	849.64	791.43	(-58.21)
12	2030 Stamps and Registration					
	01 Stamps Judicial					
	101 Cost of Stamps					
	2 Upgradation of Standards of Administration					
	04 Charges of Supply of Registered Documents					
	051 General Expenses	27.82	(-3.40)	24.42	22.46	(-1.96)
13	2053 District Administration					
	093 District Establishments					
	7 Taluk Establishment					
	01 Taluk Offices Establishments					
	003 Pay Staff	96.96	(-1.21)	95.75	94.40	(-1.35)
14	2851 Village and Small Industries					
	107 Sericulture Industries					
	1 State Sericulture Industries					
	40 New Initiative for Sericulture Development					
	059 Other Expenses	65.00	(-2.00)	63.00	10.07	(-52.93)
15	2852 Industries					
	80 General					
	003 Industrial Education Research and Training					
	12 Establishment of New Industrial Clusters					
	133 Special Development Plan	30.85	(-13.33)	17.52	16.15	(-1.37)
16	2852 Industries					
	80 General					
	003 Industrial Education Research and Training					
	12 Establishment of New Industrial Clusters					
	422 Special Component Plan	20.86	(-2.54)	18.32	15.82	(-2.50)
17	2852 Industries					
	80 General					
	800 Other Expenses					
	43 Refund of ST to eligible Industries					
	059 Other Expenditure	50.00	(-3.25)	46.75	40.99	(-5.76)
18	2852 Industries					
	80 General					
	800 Other Expenditure					
	47 Establishment of Urban Haat					
	059 Other Expenses	5.50	(-1.00)	4.50	2.00	(-2.50)
19	4702 Capital Outlay on Minor Irrigation					
	102 Ground Water					
	1 Community Irrigation Works Ganga Kalyana Scheme					
	80 Construction of Regional Information and Training Centre					
	396 Construction	3.30	(-1.60)	1.70	0.22	(-1.48)
20	6852 Loans for Iron and Steel Industries					
	02 Manufacture					
	800 Other Loans					
	01 Loan against VAT Payment to Industrial Units					
	394 Loans	50.00	(-25.00)	25.00	14.91	(-10.09)
21	2217 Urban Development					
	04 Slum Area Improvement					
	191 Assistance to Local Bodies,					

Sl. No.	Head of Account	Provision (Original plus Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ unspent provision (-)	
	1 83 101	Corporations, Urban Development Authorities, Town Improvement Boards etc. Bangalore Metropolitan Regional Development Authority Karnataka Municipal Reforms Project –EAP Grants-in-Aid	325.00	(-)50.00	275.00	155.00	(-)120.00
22	3604 191 1 51 001	Compensation and Assignments to Local Bodies and Panchayati Raj Institutions Assistance to Municipal Corporation Entry Tax Devolution General Consolidated Salaries	8.40	(-)5.06	3.34	0.10	(-)3.24
23	3604 191 3 11 032	Compensation and Assignments to Local Bodies and Panchayati Raj Institutions Assistance to Municipal Corporation Mukhya Mantrigala Nagarothana Yojane Bellary Grants for creation of Capital Assets	33.00	(-)7.00	26.00	15.00	(-)11.00
24	3604 191 3 17 032	Compensation and Assignments to Local Bodies and Panchayati Raj Institutions Assistance to Municipal Corporation Mukhya Mantrigala Nagarothana Yojane Tumkur Grants for creation of Capital Assets	41.57	(-)12.00	29.57	0.00	(-)29.57
25	2059 80 001 09 011	Public Works General Direction and Administration Execution (C&B North) Dearness Allowances	25.33	(-)1.18	24.15	21.21	(-)2.94
26	2059 80 053 4 200	Public Works General Maintenance and Repairs Repair, Maintenance and Minor Alterations to various Departmental Buildings Maintenance	186.92	(-)0.32	186.60	184.15	(-)2.45
27	4059 80 051 50 386	Capital Outlay on Public Works General Construction Karnataka Bhavan I, II and III in Delhi Construction	10.00	(-)2.85	7.15	1.37	(-)5.78
28	5054 03 337 02 172	Capital Outlay on Roads and Bridges State Highways Road Works Other Road Formation Roads	600.60	(-)25.00	575.60	341.41	(-)234.19
29	5054 03 337 13 172	Capital Outlay on Roads and Bridges State Highways Road Works Renewal of State Highways Roads	210.00	(-)5.00	205.00	169.84	(-)35.16
30	5054 03 337 84	Capital Outlay on Roads and Bridges State Highways Road Works Karnataka State Highways Improvement Project					

Sl. No.	Head of Account	Provision (Original plus Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ unspent provision (-)
	172 Roads– II EAP (KSHIP)	600.00	(-)350.00	250.00	105.54	(-)144.46
31	2700 Major Irrigation 03 Tungabhadra Project 001 Direction and Administration 01 Maintenance Establishment 004 Interim Relief	3.73	(-)1.37	2.36	0.34	(-)2.02
32	2700 Major Irrigation 08 Karanja Project 101 Maintenance and Repairs 01 Maintenance and Repairs 200 Maintenance	2.43	(-)0.91	1.52	0.50	(-)1.02
33	2705 Command Area Development 201 CADA for T.B. Project 01 T.B. Project 101 Grants-in-Aid	24.73	(-)5.80	18.93	14.93	(-)4.00
34	2705 Command Area Development 205 CADA for Bhadra Project 01 Bhadra Project 101 Grants-in-Aid	24.51	(-)5.00	19.51	5.99	(-)13.52
35	2705 Command Area Development 206 CADA, Gulbarga 01 Projects 101 Grants-in-Aid	20.58	(-)3.75	16.83	5.67	(-)11.16
36	4701 Capital Outlay on Medium Irrigation 74 Karnataka Neeravari Nigam Ltd. 800 Other Expenditure 01 Accelerated Irrigation Benefit Programme (AIBP) 139 Major Works	1,389.00	(-)503.00	886.00	869.06	(-)16.94
37	4701 Capital Outlay on Medium Irrigation 80 General 190 Investment in Public Sector and Other Undertakings 3 Krishna Bhagya Jala Nigam Ltd. 132 Capital Expenses	1,346.90	(-)14.51	1332.39	1192.39	(-)140.00
38	4702 Capital Outlay on Minor Irrigation 101 Surface Water 1 Water Tanks – Construction of New Tanks, Pickups etc. 13 Repairs and Rejuvenation of Tanks - MI 132 Capital Expenses	280.00	(-)44.50	235.50	94.52	(-)140.98
39	2210 Medical and Public Health 01 Urban Health Services – Allopathy 001 Direction and Administration 01 Directorate of Health and Family Welfare Services (Medical Branch) 015 Subsidiary Expenses	15.60	(-)3.10	12.50	10.13	(-)2.37
40	2210 Medical and Public Health 01 Urban Health Services – Allopathy 110 Hospital and Dispensaries 1 Hospitals Attached to Teaching Institutions 22 Psychiatric Clinics, Hospitals for ED&TB Sanitarium, Major and Districts Hospitals and Blood Banks 004 Interim Relief	11.10	(-)5.70	5.40	1.76	(-)3.64
41	2210 Medical and Public Health 03 Rural Health Services - Allopathy 110 Hospitals and Dispensaries 01 Taluk Level General Hospitals 003 Pay Staff	25.72	(-)1.42	24.30	22.54	(-)1.76
42	2210 Medical and Public Health 03 Rural Health Services - Allopathy 110 Hospitals and Dispensaries 01 Taluk Level General Hospitals					

Sl. No.	Head of Account		Provision (Original plus Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ unspent provision (-)
	011	Dearness Allowance	23.25	(-)2.16	21.09	18.61	(-)2.48
43	4210	Capital Outlay on Medical and Public Health					
	01	Urban Health Services					
	110	Hospitals and Dispensaries					
	1	Buildings					
	01	Hospitals Construction/ Up-gradation					
	139	Major Works	25.00	(-)2.23	22.77	20.28	(-)2.49
44	4210	Capital Outlay on Medical and Public Health					
	03	Medical Education Training and Research					
	105	Allopathy					
	1	Buildings					
	09	Additional facilities in Existing Medical Colleges					
	423	Sub-plan	5.00	(-)2.18	2.82	1.50	(-)1.32
45	4210	Capital Outlay on Medical and Public Health					
	04	Public Health					
	200	Other Programme					
	1	Buildings					
	02	Arogya Bhavana					
	386	Construction	12.50	(-)1.60	10.90	0.42	(-)10.48
46	2014	Administration of Justice					
	105	Civil and Sessions Court					
	01	Establishment Charges					
	011	Dearness Allowance	94.18	(-)13.07	81.11	75.50	(-)5.61
		Total	6,652.67	(-)1,131.13	5,521.54	4,371.33	(-)1,150.21
47	2075	Miscellaneous General Services					
	101	Pensions in lieu of resumed Jagirs Lands Territories etc.					
	1	Land Revenue					
	01	Amount Payable to Religious and Charitable Institutions on abolition of Inams					
	100	Financial Assistance/ Relief	32.86	(+)1.50	34.36	31.30	(-)3.06
48	2851	Village and Small Industries					
	103	Handloom Industries					
	62	Weavers Package					
	059	Other Expenses	37.30	(+)1.00	38.30	33.82	(-)4.48
49	5054	Capital Outlay on Roads and Bridges					
	04	District and Other Roads					
	800	Other Expenditure					
	3	NABARD Assisted Works					
	01	Rural Roads					
	436	NABARD Works	200.00	(+)50.00	250.00	246.83	(-)3.17
50	5054	Capital Outlay on Roads and Bridges					
	80	General					
	190	Investment in Public Sector and Other Undertakings					
	01	Karnataka State Roads Development Corporation					
	132	Capital Expenses	180.00	(+)350.00	530.00	430.00	(-)100.00
51	2705	Command Area Development					
	203	CADA for Cauvery Basin Project					
	01	Cauvery Basin Projects					
	101	Grants-in-Aid	23.85	(+)25.55	49.40	45.46	(-)3.94
52	4701	Capital Outlay on Medium Irrigation					
	80	General					
	190	Investment in Public Sector and Other Undertakings					
	4	Karnataka Neeravari Nigam Ltd.					
	422	Special Component Plan	62.50	(+)30.00	92.50	57.50	(-)35.00

Sl. No.	Head of Account		Provision (Original plus Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ unspent provision (-)
53	4701 80 190 4 423	Capital Outlay on Medium Irrigation General Investment in Public Sector and Other Undertakings Karnataka Neeravari Nigam Ltd. Tribal Sub-Plan	27.50	(+)20.00	47.50	32.50	(-)15.00
54	4702 101 1 09 132	Capital Outlay on Minor Irrigation Surface Water Water Tanks – Construction of New Tanks, Pickups etc National Project for Repair, Renovation and Restoration of Water Bodies Capital Expenses	40.20	(+)50.00	90.20	88.59	(-)1.61
55	4702 101 1 10 139	Capital Outlay on Minor Irrigation Surface Water Water Tanks – Construction of New Tanks, Pickups etc AIBP Major Works	109.00	(+)139.50	248.50	181.45	(-)67.05
56	4702 789 422	Capital Outlay on Minor Irrigation Special Component Plan Special Component Plan	121.14	(+)20.00	141.14	105.13	(-)36.01
57	4702 796 423	Capital Outlay on Minor Irrigation Tribal Area Sub-plan Tribal Sub-plan	54.70	(+)5.00	59.70	41.15	(-)18.55
58	2501 04 105 02 059	Special Programmes for Rural Development Integrated Rural Energy Planning Programme Project Implementation Establishment of IREP Programme Centre Other Expenses	0.70	(+)1.08	1.78	0.70	(-)1.08
59	3604 191 3 23 032	Compensation and Assignments to Local Bodies and Panchayat Raj Institutions Assistance to Municipal Corporation Mukhya Mantrigala Nagarothana Yojane Mysore Grants for Creation of Capital Assets	33.00	(+)5.00	38.00	0.00	(-)38.00
60	6217 60 800 04 394	Loans for Urban Development Other Urban Development Schemes Other Loans Loans for BMRCL Loans	795.72	(+)132.28	928.00	833.00	(-)95.00
Total			1,718.47	(+)830.91	2,549.38	2,127.43	(-)421.95

APPENDIX 2.11

DEFECTIVE RE-APPROPRIATION ORDERS
(REFERENCE: PARAGRAPH 2.3.12; PAGE 82)

(₹ in crore)

Sl. No.	Grant/ Section		Re-appropriation Order		Amount	Issuing Authority	Reasons for rejection
			Number	Date			
1	2	Animal Husbandry and Fisheries	FD 265 EXP 4	31-03-2012	0.42	Under Secretary to Government, Finance Department	Annexure not issued
2	4	Department of Personnel and Administrative Reforms	FD 519 BRS 2011	31-03-2012	0.39	Deputy Secretary to Government, Finance Department,	Net Budget taken in Form 22A instead of Original Budget provision
3			FE 520 BRS 2011	31-03-2012	0.20	Deputy Secretary to Government, Finance Department,	Net Budget taken in Form 22A instead of Original Budget provision
4			FD 521 BRS 2011	31-03-2012	1.81	Deputy Secretary to Government, Finance Department,	Net Budget taken in Form 22A instead of Original Budget provision
5			FD 522 BRS 2011	31-03-2012	0.50	Deputy Secretary to Government, Finance Department,	Net Budget taken in Form 22A instead of Original Budget provision
6	5	Home and Transport	FD 508 BRS 2011	31-03-2012	39.18	Deputy Secretary to Government, Finance Department,	New Service
7	9	Co-operation	FD 450 BRS 2012	31-03-2012	25.00	Deputy Secretary to Government, Finance Department	New Service.
8			FD 202 EXP 2	29-03-2012	0.66	Deputy Secretary to Government, Finance Department	GO and Annexure not signed
9	11	Women and Child Development	MAMAE : LEKKA – 7/ 20 PUVI	26-11-2011	0.05	Director, Women and Child Development Bangalore	Form 22 A not balanced
10			FD 02 BRS 2011	31-03-2012	9.63	Deputy Secretary to Government, Finance Department	New Service
11	17	Education	FD 527 BRS 2011	31-03-2012	34.02	Deputy Secretary to Government, Finance Department	JE proposed for actual expenditure
12			FD 531 BRS 2012	31-03-2012	8.67	Deputy Secretary to Government, Finance Department	Revenue recovery head not admissible
13			FD 532 BRS 2012	31-03-2012	8.85	Deputy Secretary to Government, Finance Department	New Service
14			FD 533 BRS 2012	31-03-2012	7.76	Deputy Secretary to Government, Finance Department	New Service
15			FD 534 BRS 2012	31-03-2012	20.64	Deputy Secretary to Government, Finance Department	New Service and object code not indicated in Form 22 A.
16			FD 536 BRS 2012	31-03-2012	2.84	Deputy Secretary to Government, Finance Department	New service and Form 22 A does not tally.

Sl. No.	Grant/ Section		Re-appropriation Order		Amount	Issuing Authority	Reasons for rejection
			Number	Date			
17			FD 540 BRS 2012	31-03-2012	26.37	Deputy Secretary to Government, Finance Department	New Service.
18			FD 541 BRS 2011	31-03-2012	4.53	Deputy Secretary to Government, Finance Department	Revenue recovery head not admissible
19	21	Water Resources	PW 351 ACTT - 1/ 2012	31-03-2012	0.07	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
20			PW 351 (A) A/CS-1/ 2012	31-03-2012	0.64	Under Secretary to Government, Finance Department (PWD Cell)	Without provision - IR
21			PW 351 (B) ACTT -1/ 2012	31-03-2012	0.26	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
22			PW 352 ACTT - 1/2012	31-03-2012	0.19	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
23			PW 352 (A) A/C-1/ 2012	31-03-2012	0.02	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
24			PW 352 (B) A/C-1/ 2012	31-03-2012	0.15	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
25			PW 352 (C) A/C-1/ 2012	31-03-2012	0.12	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
26			LOE 353 ACTT-1/ 2012	31-03-2012	0.05	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
27			PW 353 (A) ACTT -1/ 2012	31-03-2012	0.89	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
28			PW 354 A/C-1/ 2012	31-03-2012	0.72	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
29			PW 354 (A) A/C-1/ 2012	31-03-2012	0.10	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
30			PW 354 (B) A/C-1/ 2012	31-03-2012	0.04	Under Secretary to Government, Finance Department (PWD Cell)	Re-appropriation against NIL budget for Interim Relief
31			PW 405 (A) EXP-1/ 2012	31-03-2012	0.13	Under Secretary to Government, Finance Department (PWD)	Form not self- balanced

Sl. No.	Grant/ Section		Re-appropriation Order		Amount	Issuing Authority	Reasons for rejection
			Number	Date			
32			PW 405 (B) EXP-1 / 2012	31-3-2012	1.48	Special Officer and Ex-Officio Deputy Secretary, Finance Department (PWD Cell)	Saving not available
33			PW 405 (C) EXP-1/ 2012	31-03-2012	1.31	Special Officer and Ex-Officio Deputy Secretary, Finance Department (PWD Cell)	Saving not available. Incomplete statement
34	22	Health and Family Welfare	AKUKA 32 KVM 2012	09-03-2012	0.50	Under Secretary to Government, Health and Family Welfare Department	Form 22 A does not tally
35	27	Law	FD 516 BRS 2011	31-03-2012	6.47	Deputy Secretary to Government, Finance Department	New Service
		Total			204.66		

APPENDIX 2.12

STATEMENT OF VARIOUS GRANTS/APPROPRIATIONS
IN WHICH UNSPENT PROVISION OCCURRED BUT NO PART OF WHICH WAS SURRENDERED

(REFERENCE: PARAGRAPH 2.3.13; PAGE 82)

(₹ in crore)

Sl. No.	Grant and Section		Unspent provision
1	4	Department of Personnel and Administrative Reforms (Capital Voted)	5.00
2	7	Rural Development and Panchayat Raj (Revenue Charged) (Capital Voted)	0.02 577.94
3	8	Forest, Ecology and Environment (Revenue Charged)	211.42
4	10	Social Welfare (Revenue Voted) (Capital Voted)	166.78 42.13
5	11	Women and Child Development (Capital Voted)	46.06
6	14	Revenue (Revenue Charged) (Capital Voted)	18.92 0.71
7	16	Housing (Revenue Voted)	176.04
8	19	Urban Development (Capital Voted)	514.76
9	22	Health and Family Welfare Services (Capital Charged)	10.85
10	23	Labour (Capital Voted)	4.75
11	26	Planning, Statistics, Science and Technology (Capital Voted)	40.27
		Total	1,815.65

APPENDIX 2.13

**SURRENDER OF UNSPENT PROVISION
(REFERENCE: PARAGRAPH 2.3.13; PAGE 82)**

(₹ in crore)					
Sl. No.	Grant/Section		Amount of unspent provision	Amount surrendered	Amount not surrendered
(1)	(2)		(3)	(4)	(5)
1	1	<i>Agriculture and Horticulture</i>			
		Revenue Voted	1,202.56	1,009.73	192.83
		Capital Voted	46.06	32.36	13.70
2	2	<i>Animal Husbandry & Fisheries</i>			
		Revenue Voted	172.82	118.23	54.59
		Capital Voted	36.19	21.10	15.09
3	3	<i>Finance</i>			
		Revenue Voted	260.68	198.07	62.61
		Capital Voted	17.80	0.40	17.40
4	4	<i>Department of Personnel and Administrative Reforms</i>			
		Revenue Voted	93.44	84.11	9.33
		Revenue Charged	6.01	4.65	1.36
		Capital Voted	5.00	0.00	5.00
5	5	<i>Home and Transport</i>			
		Revenue Voted	212.71	121.19	91.52
		Capital Voted	131.29	7.76	123.53
6	6	<i>Infrastructure Development</i>			
		Revenue Voted	11.25	7.62	3.63
		Capital Voted	265.46	209.17	56.29
7	7	<i>Rural Development and Panchayat Raj</i>			
		Revenue Voted	260.49	14.09	246.40
		Revenue Charged	0.02	0.00	0.02
		Capital Voted	577.94	0.00	577.94
8	8	<i>Forest, Ecology and Environment</i>			
		Revenue Voted	52.73	30.65	22.08
		Revenue Charged	211.42	0.00	211.42
		Capital Voted	0.74	0.40	0.34
9	9	<i>Co-operation</i>			
		Revenue Voted	217.32	13.09	204.23
		Capital Voted	19.14	14.09	5.05
10	10	<i>Social Welfare</i>			
		Revenue Voted	166.78	0.00	166.78
		Capital Voted	42.13	0.00	42.13
11	11	<i>Women and Child Development</i>			
		Revenue Voted	558.26	60.34	497.92
		Capital Voted	46.06	0.00	46.06
12	12	<i>Information, Tourism and Youth Services</i>			
		Revenue Voted	40.21	14.57	25.64
13	13	<i>Food and Civil Supplies</i>			
		Revenue Voted	86.33	47.31	39.02
14	14	<i>Revenue</i>			
		Revenue Voted	70.95	33.05	37.90
		Revenue Charged	18.92	0.00	18.92
		Capital Voted	0.71	0.00	0.71
15	15	<i>Information Technology</i>			
		Revenue Voted	4.05	3.27	0.78
16	16	<i>Housing</i>			
		Revenue Voted	176.04	0.00	176.04

Sl. No.	Grant/Section	Amount of unspent provision	Amount surrendered	Amount not surrendered
17	17 Education			
	Revenue Voted	596.17	105.41	490.76
	Capital Voted	103.58	64.76	38.82
18	18 Commerce and Industries			
	Revenue Voted	171.01	82.42	88.59
	Capital Voted	102.13	1.80	100.33
19	19 Urban Development			
	Revenue Voted	631.46	105.07	526.39
	Capital Voted	514.76	0.00	514.76
20	20 Public Works			
	Revenue Voted	224.61	3.75	220.86
	Capital Voted	809.36	11.77	797.59
21	21 Water Resources			
	Revenue Voted	571.46	8.33	563.13
	Capital Voted	779.91	23.53	756.38
22	22 Health and Family Welfare Services			
	Revenue Voted	162.26	75.59	86.67
	Capital Voted	78.12	23.64	54.48
	Capital Charged	10.85	0.00	10.85
23	23 Labour			
	Revenue Voted	226.66	93.84	132.82
	Capital Voted	4.75	0.00	4.75
24	24 Energy			
	Revenue Voted	4.32	4.27	0.05
	Capital Voted	547.36	347.36	200.00
25	25 Kannada and Culture			
	Revenue Voted	76.10	51.68	24.42
	Capital Voted	27.78	5.78	22.00
26	26 Planning, Statistics, Science and Technology			
	Revenue Voted	72.60	10.98	61.62
	Capital Voted	40.27	0.00	40.27
27	27 Law			
	Revenue Voted	69.31	51.09	18.22
28	28 Parliamentary Affairs and Legislation			
	Revenue Voted	20.23	19.85	0.38
	Revenue Charged	0.81	0.80	0.01
	Total	10,857.38	3,136.97	7,720.41

APPENDIX 2.14

**CASES OF SURRENDER OF FUNDS IN EXCESS OF ₹ FIVE CRORE ON
30 AND 31 MARCH 2012
(REFERENCE: PARAGRAPH. 2.3.13 PAGE 82)**

Sl. No.	Grant		(₹ in crore)		
			Total provision	Amount of surrender	Percentage to total provision
1	1	Agriculture and Horticulture	1,652.11	955.82	58
2	2	Animal Husbandry and Fisheries	182.80	104.26	57
3	3	Finance	395.59	163.71	41
4	4	Department of Personnel and Administrative Reforms	83.38	45.94	55
5	5	Home and Transport	135.20	87.24	65
6	6	Infrastructure Development	299.80	204.03	68
7	7	Rural Development and Panchayat Raj	75.00	14.09	19
8	8	Forest, Ecology and Environment	34.20	13.70	40
9	9	Co-operation	6.07	6.07	100
10	11	Women and Child Development	384.14	60.34	16
11	13	Food and Civil Supplies	875.62	42.70	05
12	14	Revenue	518.36	28.23	05
13	15	Information Technology	20.00	20.00	100
14	17	Education	433.64	95.79	22
15	18	Commerce and Industries	88.75	39.06	44
16	19	Urban Development	100.00	100.00	100
17	20	Public Works	108.00	11.33	10
18	21	Water Resources	59.46	19.72	33
19	22	Health and Family Welfare Services	161.88	56.00	35
20	23	Labour	88.94	75.70	85
21	24	Energy	950.00	347.36	37
22	25	Kannada and Culture	101.86	37.45	37
23	27	Law	75.48	48.54	64
24	28	Parliamentary Affairs and Legislation	10.00	10.00	100
25	29	Debt Servicing	3,548.28	2,243.60	63
		Total	10,388.56	4,830.68	46

APPENDIX 2.15

RESULTS OF REVIEW OF SUBSTANTIAL SURRENDERS MADE DURING THE YEAR
(REFERENCE: PARAGRAPH 2.3.14; PAGE 82)

(₹ in crore)

Sl No	Grant	Name of the Scheme (Head of Account)	Provision	Amount Surrendered	Percentage of Surrender	Reasons
1	02 Animal Husbandry and Fisheries	2403-00-001-0-01-222 – Drugs and Chemicals	23.80	17.06	72	Due to non participation of bidders in adequate numbers for private participation
2		2405-00-800-0-23-059 Other Expenses	32.00	26.56	83	Due to non availability of beneficiaries.
3		2405-00-800-0-23-422 – Special Component Plan	12.00	11.18	93	- Do -
4		2405-00-800-0-23-423 – Tribal Sub-Plan	6.00	5.65	94	- Do -
5	08 Forest, Ecology and Environment	3485-03-003-0-13-139 – Major Works	7.00	5.95	85	Due to non release of anticipated grants from Central Government.
6	09 – Co- Operation	4425-00-108-0-53-211 -Investments	6.07	6.07	100	Due to non utilization of funds owing to initial stage of implementation of the scheme
7	13 – Food and Civil Supplies	2408-01-102-0-04-125 - Modernisation	20.00	17.27	86	Due to delay in tender process
8		3456-00-800-0-09-059 – Other Expenses	5.62	5.62	100	Due to non release of grants by the Government
9	18 – Commerce and Industries	2851-00-107-1-40-059 – Other Expenses	65.00	34.44	53	Reasons not furnished
10		2851-00-107-1-40-422 – Special Component Plan	15.00	8.63	58	- Do -
11		2851-00-107-1-40-423 – Tribal Sub-Plan	8.75	8.21	94	- Do -
12	19 – Urban Development	3604-00-191-7-18-032 – Grants for creation of Capital assets	100.00	100.00	100	Due to non approval of the action plan
13	22 – Health and Family Welfare Services	2210-06-800-0-81-015 – Subsidiary Expenses	25.00	18.70	75	Due to non taking up of Phase-II training activities
14		2211-00-102-0-01-051 – General Expenses	7.56	5.83	77	Due to economy measure
15		4210-01-110-7-03-139 – Major Works	8.50	6.52	77	Due to pending cases in Supreme Court
16	27 – Law	2014-00-800-1-04-059 – Other Expenses	53.94	37.44	69	Due to non commencement of morning and evening Courts
17		2071-01-111-1-01-251 – Pension and Retirement benefits	21.54	11.10	52	Due to less number of pension claims
18	28 – Parliamentary Affairs and Legislation	2011-02-800-0-06-059 – Other Expenses	10.00	10.00	100	Due to non conducting of Legislative session at Belgaum

Sl No	Grant	Name of the Scheme (Head of Account)	Provision	Amount Surrendered	Percentage of Surrender	Reasons
19	29 – Debt Servicing	2049-01-101-1-80-240 – Debt Servicing	777.48	759.70	98	Due to erroneous budgeting
20		6003-00-101-2-45-240 - Debt Servicing	5.00	5.00	100	Due to excessive provision of funds
21		6003-00-110-1-00-240 - Debt Servicing	1000.00	991.64	99	Due to non availment of Ways and Means advances during the year
22		6003-00-110-2-00-240 – Debt Servicing	350.00	350.00	100	Due to non availment of Overdraft facility from RBI
	Total		2,560.26	2,442.57	95	

APPENDIX 2.16

**ERRORS IN BUDGETING
(REFERENCE: PARAGRAPH 2.5; PAGE 83)**

(₹ in crore)

Sl. No.	Grant	Head of account	Amount involved	Error
1	04 - Department of Personnel and Administrative Reforms	2052-	2.04	Provision made under Revenue Charged instead of Revenue Voted
		2052-	0.02	Provision made under Revenue Voted Plan instead of Non-Plan
		2070-	0.03	Provision made under Revenue Voted – Reimbursement of medical expenses under Voted instead of Charged
2	07 - Rural Development and Panchayat Raj	2801-	2.00	Provision and expenditure made under Grant No. 24 instead of Grant No. 07
3	08 - Forest, Ecology and Environment	2406-01-001-1-01	0.15	Provision made under Loan account instead of Revenue Voted
4	13 – Food and Civil Supplies	2408-01-102-0-04	20.00	Provision/ expenditure related to modernization. The minor head records expenditure related to subsidy.
5	14 - Revenue	2029-00-001-0-01	0.14	Provision made under plan head of account below salary where as all the other constituents of expenditure were under non-plan.
6	21 - Water Resources	4711-01-103-1-00 – NABARD Works	2.00	Supplementary provision made under Grant No. 20 instead of this Grant. However additional grants were provided through re-appropriation and expenditure has been accounted under this Grant.
7	29 – Debt Servicing	2049-01-101-1-	777.78	Provision made was unnecessary/ erroneous in view of the provision of funds made under the respective loans raised during 2010-11.
8		6003- -101-2-	1.00	Provision made under 6003-101-2-Debt Servicing made under Loan 12.25% KSDL 2009 (DOM 21-04-2009) which was not outstanding
		Total	805.16	

APPENDIX 2.17

RUSH OF EXPENDITURE – PUBLIC WORKS, MINOR IRRIGATION
(REFERENCE: PARAGRAPH 2.6.2.1; PAGE 87)

Sl. No	Head of Account	Total Expr. during the Year	Expenditure during last quarter		Expenditure during March		Remarks
			Amount	Percentage	Amount	Percentage	
PUBLIC WORKS, The Chief Engineer, C&B (South), Bangalore							
1	5054-03-337-0-02-172 Other Road Works	391.21	345.38	88	194.41	50	Reasons attributed by the department were releasing of grants based upon expenditure and release of more funds in the month of March for clearance of pending bills.
2	5054-03-337-0-02-172 Improvement of Roads in and around Bangalore	17.99	10.96	61	5.36	30	
3	5054-03-337-0-15-172 Core Road Network	111.45	88.41	79	39.22	35	
4	3054-03-337-0-05-200 State Highway Maintenance	84.48	57.19	68	23.16	27	
5	3054-03-337-0-06-059 13th Finance Commission (NP)	105.64	64.88	61	27.83	26	
6	4059-80-051-0-30-386 Mini Vidhanasoudha (District Administrative Building)	11.06	6.95	63	4.6	42	
7	4059-80-051-0-40-386 Belgaum Suvama Soudha	18.52	18.52	100	10.81	58	
8	4216-01-700-2-25-386 Construction of Residential quarters of High Court Judges	20.88	12.56	60	12.07	58	
PUBLIC WORKS, The Chief Engineer, C&B (North), Dharwad							
1	5054-03-337-0-02-172 Other Road Formation -Roads	465.22	413.75	89	239.46	51	Reasons attributed by the department were short release of funds by Government during the first three quarters of the financial year for the payment of pending bills.
2	3054-04-105-1-01-200 XII FC Grants for Maintenance	58.99	50.83	86	36.55	62	
3	4059-80-051-0-29-386 Departmental Building -Construction	63.48	38.77	61	29.95	47	
4	3054-03-337-0-05-200 State Highway Maintenance (Land Acquisition)	20.34	15.73	77	11.08	54	
5	5054-03-337-0-02-172 Other Road Formation -Roads	16.19	12.48	77	0.2	1	
6	3054-03-337-0-05-200 State Highway Maintenance	44.85	29.68	66	19.37	43	
7	54-03-337-0-13-423 Renewal of State Highways -Tribal Sub Plan	11.86	7.16	60	3.83	32	
8	5054-04-800-1-09-172 Suvarna Rashe Vikasa	81.96	45.81	56	38.78	47	
9	5054-03-337-0-02-423 Other Road Formation -Tribal Sub Plan	28.74	17.83	62	8.08	28	

MINOR IRRIGATION											
1	4702-00-101-1-07-436	Modernisation of Tanks	23.90	12.39	52	6.60	28	28	6.60	28	Reasons attributed by the department were release of funds at the fag end of the financial year resulting in expenditure being more during the last quarter, action plan for Capital and NABARD works being approved during the middle of the financial year and grants being released by the Government in March 2012 over and above the budget allocation.
2	4702-00-101-5-01-139	Dams and Ports	60.37	36.29	60	31.17	52	52	31.17	52	
3	4702-00-101-1-10-139	AIBP Major works Plan	181.38	106.92	59	76.62	42	42	76.62	42	
4	4702-00-101-1-09-132	Centrally Assisted Regeneration of Tanks	88.51	49.14	56	48.31	55	55	48.31	55	
5	4702-00-101-1-13-132	Repairs & Restoration of tanks	82.26	62.90	76	21.75	26	26	21.75	26	
6	4702-00-796-0-00-423	Tribal sub Plan	41.17	21.52	52	16.30	40	40	16.30	40	
7	4702-00-101-1-12-059	13th Finance Commission	17.18	17.18	100	16.57	96	96	16.57	96	
8	4702-00-789-0-00-422	Special Component Plan	55.45	29.73	54	21.07	38	38	21.07	38	

APPENDIX 3.1
MAJOR HEAD AND DEPARTMENT-WISE DETAILS OF OUTSTANDING UCs
SEPARATELY FOR EACH YEAR
(REFERENCE: PARAGRAPH 3.1; PAGE 99)

Sl. No.	Head of Account	Department	Year	Number of UCs	Amount (in crore)
1	2204	Sports and Youth Services	1989-90	12	0.06
			1990-91	1	0.01
			1998-99	2	0.95
				15	1.02
2	2210	Health and Family Welfare	2010-11	8	72.76
			2011-12	194	607.77
				202	680.53
3	2217	Urban Development	1993-94	6	2.73
			2001-02	5	2.94
			2002-03	1	1.38
			2003-04	4	14.68
			2004-05	13	149.31
			2005-06	16	58.71
			2011-12	18	32.27
				63	262.02
4	2220	Information and Publicity	2007-08	3	0.30
			2008-09	3	0.16
			2010-11	12	2.71
			2011-12	12	3.42
				30	6.59
5	2235	Social Welfare	1986-87	1	0.01
			1992-93	1	0.01
			1993-94	3	0.01
			2007-08	1	5.00
			2008-09	4	10.51
			2009-10	2	10.00
			2010-11	3	13.00
			2011-12	4	20.00
				19	58.54
6	2245	Revenue	2000-01	3	1.41
7	2404	Dairy Development	2007-08	1	2.00
8	2515	Rural Development and Panchayat Raj	1988-89	23	4.28
			1989-90	3	0.24
			1990-91	47	4.84
			1991-92	51	4.32
			1992-93	15	1.72
			1993-94	28	3.53
			1994-95	62	11.87
			1999-00	23	3.58

Sl. No.	Head of Account	Department	Year	Number of UCs	Amount (in crore)
			2000-01	37	5.66
			2001-02	93	78.60
			2002-03	14	0.77
			2003-04	10	1.38
			2004-05	56	21.24
			2005-06	54	15.05
			2006-07	43	7.77
			2007-08	56	10.16
			2008-09	21	2.52
			2010-11	1	0.25
			2011-12	4	1.40
				641	179.18
9	2851	Industries and Commerce	2006-07	3	0.35
10	3451	Rural Development and Panchayat Raj	2011-12	2	6.00
11	3475	Other General Economic Services	1997-98	1	9.79
			1998-99	2	3.71
			2001-02	5	1.20
			2002-03	8	1.93
				16	16.63
12	4210	Health and Family Welfare	2009-10	1	6.79
			2010-11	20	16.55
			2011-12	72	66.80
				93	90.14
	Total			1,088	1,304.41

Source: Office of the Pr.A. (A&E)

APPENDIX 3.2

**NON-RECEIPT OF INFORMATION PERTAINING TO INSTITUTIONS
SUBSTANTIALLY FINANCED BY THE GOVERNMENT
(REFERENCE: PARAGRAPH 3.2; PAGE 100)**

Sl. No.	Department	Number of Institutions	Years for which information not received
1.	Education	230	1992-93 to 2011-12
2.	Forest, Environment and Ecology	36	2007-08 to 2011-12
3.	Commerce and Industries	14	2000-01 to 2011-12
4.	Health & Family Welfare Services	7	1999-00 to 2011-12
5.	Public Works and CADA	6	2000-01 to 2011-12
6.	Co-operation	5	1980-81 to 1982-83 & 1993-94 to 2011-12
7.	Youth Services and Sports	4	1999-00 to 2011-12
8.	Planning	3	2000-01 to 2011-12
9.	Science and Technology	3	2007-08 to 2011-12
10.	Social Welfare	2	2003-04 to 2011-12
11.	Labour	1	1999-00 to 2011-12
12.	Revenue	1	2001-02 to 2011-12
13.	Animal Husbandry & Fisheries	1	2003-04 to 2011-12
	Total	313	

Source: Office of the Pr.AG (G&SSA)

APPENDIX 3.3

**STATUS OF SUBMISSION OF ACCOUNTS OF AUTONOMOUS BODIES AND
PLACEMENT OF AUDIT REPORTS BEFORE THE STATE LEGISLATURE
(REFERENCE: PARAGRAPH 3.3; PAGE 100)**

Sl. No	Body	Period of entrustment	Year upto which accounts rendered	Year up to which audit report issued	Placement of audit reports before the Legislature
1.	Karnataka State Khadi and Village Industries Board, Bangalore	2007-08 to 2011-12	2011-12	2010-11	<u>2010-11</u> <u>01-02-2012</u>
2.	Karnataka Industrial Areas Development Board, Bangalore	2009-10 to 2013-14	2010-11	2010-11	<u>2009-10</u> <u>05-12-2011</u>
3.	Karnataka Slum Clearance Board, Bangalore	2007-08 to 2011-12	2010-11	2010-11	<u>2009-10</u> <u>01-02-2012</u>
4.	Bangalore Water Supply and Sewerage Board, Bangalore	2009-10 to 2011-12	2011-12	2010-11	<u>2009-10</u> <u>05-12-2011</u>
5.	Karnataka Housing Board, Bangalore	2006-07 to 2010-11 & 2011-12 to 2015-16	2011-12	2010-11	<u>2010-11</u> <u>25-07-2012</u>
6.	Karnataka State Legal Services Authority, Bangalore and 30 District Legal Services Authorities	As per Act	2010-11	2010-11	<u>2009-10</u> <u>05-12-2011</u>
7.	Karnataka Bio Diversity Board, Bangalore	2008-09 to 2010-11 & 2011-12 to 2013-14	2011-12	2010-11	<u>2010-11</u> <u>25-07-2012</u>
8.	Karnataka Urban Water Supply & Drainage Board	2010-11 to 2014-15	2011-12	2010-11	<u>2010-11</u> <u>25-07-2012</u>
9.	Bangalore Development Authority, Bangalore	2010-11 to 2014-15	2011-12	2010-11	<u>2010-11</u> <u>25-07-2012</u>
10	Karnataka State Human Rights Commission, Bangalore	As per Act	2011-12	2010-11	<u>2010-11</u> <u>30-03-2012</u>
11	Karnataka Building & Other Construction workers Welfare Board, Bangalore	As per Act	2011-12	2009-10	<u>Not placed</u>

Source: Office of the PrAC&SSA)

APPENDIX 3.4

**POSITION OF ARREARS IN FINALIZATION OF PROFORMA ACCOUNTS BY THE
DEPARTMENTALLY MANAGED COMMERCIAL AND QUASI-COMMERCIAL
UNDERTAKINGS**

(REFERENCE: PARAGRAPH 3.4; PAGE 101)

(₹ in crore)

Sl. No.	Undertaking	Accounts finalized upto	Investment as per the last accounts finalized	Remarks
1	Chamarajendra Technical Institute Mysore	1984-85	-	Proforma accounts due from 1985-86
2	Government Saw Mills, Joida	1968-69	-	Proforma accounts due from 1969-70. Undertaking closed w.e.f. 27-4-1971.
3	Dasara Exhibition Committee, Mysore	1980-81	-	Proforma accounts due from 1981-82 to 1995-96
4	Bangalore Dairy, Bangalore	1973-74	-	Company stands transferred to Karnataka Milk Producers Co-operative Federation Limited from November 1984.
5	Government Milk Supply Scheme, Hubli , Dharwad	1980-81	-	Proforma accounts due from 1981-82 to 1984-85 (31.01.1985). Transferred to Karnataka Dairy Development Corporation (KDDC).
6	Government Milk Supply Scheme, Mysore	1968-69	-	Proforma accounts due from 1969-70 to 30.11.1975. Transferred to KDDC w.e.f 01.12.1975
7	Government Milk Supply Scheme, Belgaum	1976-77	-	Proforma accounts due from 1977-78 to 1984-85. Transferred to KDDC w.e.f 31.01.1985.
8	Government Milk Supply Scheme, Gulbarga	1982-83	-	Proforma accounts due from 1983-84 to 1984-85 (up to 31.01.1985). Transferred to KDDC.
9	Government Milk Supply Scheme, Bhadravathi	1980-81	-	Proforma accounts due from 1981-82 to 1984-85 (up to 14.02.1985). Transferred to KDDC.
10	Government Milk Supply Scheme, Mangalore	1982-83	-	Proforma accounts due from 1983-84 & 1984-85 (up to 14.02.1985). Transferred to KDDC.
11	Government Milk Supply Scheme, Kudige	1972-73	-	Proforma accounts due from 1973-74 & 1974-75 (up to 30.11.1975). Transferred to KDDC
12	Vaccine Institute, Belgaum	1992-93	-	Proforma accounts due from 1993-94
13	Government Silk Filature, Kollegal	2009-10	1.67	Proforma accounts due from 2010-11
14	Government Silk Filature, Chamrajanagar	2009-10	2.03	Proforma accounts due from 2010-11
15	Government Silk Filature, Santhemarahalli	2009-10	2.04	Proforma accounts due from 2010-11
16	Government Silk Filature, Mamballi	2009-10	2.48	Proforma accounts due from 2010-11
17	Government Silk Twisting and Weaving Factory, Mudigundam	2009-10	1.17	Proforma accounts due from 2008-09
18	Government Central Workshop, Madikeri	2008-09	0.07	Proforma accounts due from 2009-10
19	Karnataka Government Insurance Department, Bangalore	--	No capital account	

Source: Finance Account

APPENDIX 3.5
DEPARTMENT-WISE/DURATION-WISE BREAK UP OF THE CASES OF THEFT AND MISAPPROPRIATION
(REFERENCE: PARAGRAPH 3.5; PAGE 101)

(₹ in lakh)

Department	Upto 5 years		Upto 10 years		Upto 15 years		Upto 20 years		Upto 25 years		More than 25 years		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Animal Husbandry and Veterinary Services						1.10							1	1.10
Commerce and Industries					1	12.57	4	2.71	1	1.42			6	16.70
Education	3	5.59	1	2.00	1	1.25	3	2.88			4	0.50	12	12.22
Finance									1	0.53			1	0.53
Forest, Environment and Ecology	2	132.12					1	0.41			1	0.33	4	132.86
Health and Family Welfare											10	1.60	10	1.60
Home											1	0.64	1	0.64
Horticulture			2	26.68	4	13.31	1	1.21					7	41.20
Information, Tourism and Youth Services					14	32.04							14	32.04
Labour					1	3.10					1	0.89	2	3.99
Law and Parliamentary Affairs			5	2.42	2	1.07							7	3.49
Planning														
Public works			2	61.00	2	18.30							4	79.30
Revenue											3	0.29	3	0.29
Rural Development and Panchayat Raj														
Social Welfare											1	2.69	1	2.69
Water Resources	10	407.00	4	23.20	2	115.46	8	5.41	2	4.19	2	5.65	28	560.91
Women and Child Development					1	0.78							1	0.78
Total	15	544.71	14	115.30	28	197.88	18	13.72	4	6.14	23	12.59	102	890.34

Source: Office of Pr-A(C&SSA) Pr-A(G&RSA) & Pr-A(G&E)

APPENDIX 3.6

**DEPARTMENT- WISE AND CATEGORY-WISE DETAILS OF THEFT AND
MISAPPROPRIATION CASES
(REFERENCE: PARAGRAPH 3.5; PAGE 101)**

(₹ in lakh)

Department	Theft		Misappropriation/ Loss of Government Money		Total	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Animal Husbandry and Veterinary Services			1	1.10	1	1.10
Commerce and Industries			6	16.70	6	16.70
Education	3	0.99	9	11.23	12	12.22
Finance			1	0.53	1	0.53
Forest, Environment and Ecology			4	132.86	4	132.86
Health and Family Welfare	2	0.02	8	1.58	10	1.60
Home			1	0.64	1	0.64
Horticulture			7	41.20	7	41.20
Information, Tourism and Youth Services			14	32.04	14	32.04
Labour	1	3.10	1	0.89	2	3.99
Law and Parliamentary Affairs	6	1.45	1	2.04	7	3.49
Public works			4	79.31	4	79.31
Revenue	1	0.06	2	0.23	3	0.29
Social Welfare			1	2.69	1	2.69
Water Resources	4	3.39	24	557.51	28	560.90
Women and Child Development			1	0.78	1	0.78
Total	17	9.01	85	881.33	102	890.34

Source: Office of the PrACSS A) PrAC&RSA) & PrAC&E)

APPENDIX 3.7

DEPARTMENT- WISE DETAILS OF NON-SUBMISSION OF STORES AND STOCK ACCOUNTS

(REFERENCE: PARAGRAPH 3.6; PAGE 101)

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
Annual Accounts			
1	Agriculture	Director of Agriculture	2007-08 to 2011-12
2	Printing and Stationery	Director of Printing and Stationery	2010-11 & 2011-12
3	Commerce and Industries	Director of Commerce and Industries	2007-08 to 2011-12
4	Information and Publicity	Director of Information and Publicity	2009-10 to 2011-12
5	Animal Husbandry & Veterinary Services	Commissioner of Animal Husbandry & Veterinary Services	2007-08 to 2011-12
6	Stamps and Registration	Inspector General of Registration & Commissioner of Stamps	2001-02 to 2011-12
7	Home	Director General & Inspector General of Police	2011-12
8	Health and Family Welfare	Director, Health and Family Welfare Services	2008-09 to 2011-12
		Karnataka State Drugs Logistics and Warehousing Society (Govt. Medical Stores)	2009-10 to 2011-12
		Indian System of Medicine and Homeopathy (AYUSH)	2007-08 to 2011-12
		Director, Medical Education	2008-09 to 2011-12
Half Yearly Accounts			
9	Public Works		
		EE, NH Spl, Bangalore	Not Received
		EE, Public Works, Ports and Inland Water Transport Department, Belgaum	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Gadag	September 2011 & March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Bidar	September 2011 & March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Haveri	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Madikeri	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Raichur	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Koppal	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Chikkodi	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Dharwad	March 2012
		EE, KSHIP Raichur	Not Received
		EE, KSHIP Belgaum	Not Received

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
		EE, Public Works, Ports and Inland Water Transport Department, Gulbarga	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Yadgir	Not received
		EE, Public Works, Ports and Inland Water Transport Department, Davangere	March 2012
		NH Hubli	September 2011, March 2012
		NH Dharwad	Not Received
		EE, PW, QC Division., B'lore	Not Received
		EE, No. 1, Buildings Division, B'lore	Not Received
		EE, R&B Spl Division Blore	Not Received
		EE Ports Division Karwar	Not Received
		EE Ports & Fisheries Division, Udupi	Not Received
		EE NH, Karwar	March 2012
		EE NH, Chitradurga	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Mandya	March 2011, March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Shimoga	March 2012
		EE Public Works, Ports and Inland Water Transport Department, Spl Shimoga	March 2012
		EE, ESI Buildings, Bangalore	September 2010, March 2011 September 2011, March 2012
		EE Public Works, Ports and Inland Water Transport Department, Karwar	March 2012
		EE Public Works, Ports and Inland Water Transport Department, Spl Hunsur	March 2011, September 2011, March 2012
		EE Public Works, Ports and Inland Water Transport Department, Hoovinahadagali	March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Bagalkot	September 2011, March 2012
		EE, Public Works, Ports and Inland Water Transport Department, Bijapur	September 2011, March 2012
		EE N0.2 Buildings Division, Bangalore	March 2012
		EE Public Works, Ports and Inland Water Transport Department, Bellary	March 2012
		EE Public Works, Ports and Inland Water Transport Department, Chamarajanagar	March 2012
		EE Public Works, Ports and Inland Water Transport Department, Udupi	March 2011, September 2011, March 2012
		NH, Bijapur	September 2011, March 2012
10	Minor Irrigation	CE, Minor Irrigation (S) Bangalore	September 2009, March 2010, September 2010, March 2011, September 2011, March 2012
		CE, MI(N) Bijapur	September 2011
		EE, MI Haliyal	September 2011, March 2012

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
		EE, MI, Tumkur	September 2011, March 2012
		EE, MI, Bangalore	September 2011, March 2012
		EE, MI, Hassan	March 2012
		EE, MI Bidar	March 2012
		EE, MI Gulbarga	March 2012
		EE, MI Mangalore	March 2012
		EE, MI Dharwad	March 2012
		EE, MI QC Dharwad	March 2012
		EE, MI QC Bangalore	September 2011, March 2012
		EE MI Belgaum	Not received
11	Water Resources	CRO, Tech. Services Division., KRS	March 2012
		CRO, Coastal Engg. Division, KRS	March 2012
		CRO, Hydraulics, KRS	March 2012
		Director of KERS, KRS	March 2012
		EE No.4, I&I, Dharwad	March 2012
		EE, QC Division, Munirabad	March 2012
		EE No. 5 CD, Yermarus	March 2012
		EE No.3 CD, Sindhanur	September 2011, March 2012
		EE No.4 CD, Sirwar	September 2010, March 2011, September 2011, March 2012
		EE I&I Division, Mysore	March 2012
		EE WRD QC Gulbarga	March 2012
		EE W&M Bheemarayanagudi	March 2012
		EE I&I Gulbarga	March 2012
		EE, Sericulture, Bangalore	Not Received
12	Sericulture	EE, Sericulture, Bangalore	Not Received

Source: Office of the Pr.A(C&SSA) & Pr.A(C&RSA)

APPENDIX – 3.8

**BALANCES REMAINING (ADVERSE) UNDER OPERATIVE , IN-OPERATIVE
IN PD ACCOUNTS
(REFERENCE: PARAGRAPH 3.8.1 PAGE 105)**

(Amount in ₹)

Sl. No.	Administrator / Nomenclature	Balance as per the books of PAG(A&E)	Remarks
Inoperative PD Accounts			
1	Deposit of Private Estate under commercial organization	75.00	Prior to 2000
2	Chief Ministers Drought Relief Fund	82,45,390.20	Prior to 2000
3	Harijan Development Welfare Fund	5,08,896.71	In-operative
4	Block Development Officer	7,07,68,502.15	In-operative
5	P.D.Account of Municipal Commissioner, Tumkur	23,72,940.16	In-operative
6	Maharaja College of Education (Principal Maharaja College of Education)	570.00	In-operative since 2008-09
7	Village Land under attachment	2,51,457.05	In-operative since 1994-95
8	Asha Kiran	26,350.00	In-operative since 1994-95
9	Gram Panchayat	34,00,890.55	In-operative since 1994-95
10	Deposits of District Consumer Forum	1,24,360.00	
	Total	85,699,431.82	
Operative PD Accounts			
1	Religious Endowments Commissioner, Charitable Endowments Govt. of Karnataka, Bangalore	61,38,773.90	
2	Receipt Awaiting Transfer (Gaztted Sub-Treasury Officers)	35,16,48,933.00	
3	Industrial Training Institute	37,14,302.21	
4	Karnataka Consumer Protection Board	1,91,908.00	
	Total	36,16,93,917.11	

Source: Office of the PrAG&E & DDR Ledger

GLOSSARY

BASIS OF CALCULATION

Terms	Basis of calculation
Buoyancy of a parameter	Rate of Growth of the parameter/GSDP Growth Rate
Buoyancy of a parameter (X) With respect to another parameter (Y)	Rate of Growth of parameter (X)/ Rate of Growth of parameter (Y)
Rate of Growth (ROG)	$[(\text{Current year Amount} / \text{Previous year Amount}) - 1] * 100$
Development expenditure	Social services + economic services
Average interest paid by the State	Interest payment / $[(\text{Amount of previous year's Fiscal Liabilities} + \text{Current year's Fiscal Liabilities}) / 2] * 100$
Interest spread	GSDP growth rate – Average Interest Rate
Quantum spread	Debt stock * Interest spread
Interest received as <i>per cent</i> to Loans Outstanding	Interest Received $[(\text{Opening balance} + \text{Closing balance of Loans and Advances}) / 2] * 100$
Revenue Deficit	Revenue Receipt – Revenue Expenditure
Fiscal Deficit	Revenue Expenditure + Capital Expenditure + Net Loans and Advances – Revenue Receipts – Miscellaneous Capital Receipts
Primary Deficit	Fiscal Deficit – Interest payments
Balance from Current Revenue (BCR)	Revenue Receipts minus all Plan Grants and Non-Plan Revenue Expenditure excluding expenditure recorded under the major head 2048 – Appropriation for reduction of Avoidance of debt.

ABBREVIATION

Sl. No.	Abbreviation	Full Form
1	A&E	Accounts and Entitlement
2	AC	Abstract Contingent
3	AE	Aggregate Expenditure
4	AIBP	Accelerated Irrigation Benefit Programme
5	AICTE	All India Council for Technical Education
6	APDRP	Accelerated Power Development and Reform Programme
7	BESCOM	Bangalore Electric Supply Company
8	BMRL	Bangalore Metro Rail Corporation Limited
9	CADA	Command Area Development Authority
10	CAG	Comptroller and Auditor General
11	CAGR	Compounded Annual Growth Rate
12	CCOs	Chief Controlling Officers
13	CE	Capital Expenditure
14	CE (C&B)	Chief Engineer (Communication and Building)
15	CEOs	Chief Executive Officers
16	CESC	Chamundeshwari Electric Supply Company
17	CFA	Central Financial Assistance
18	CFC	Central Finance Commission
19	CGA	Controller General of Accounts
20	CMRRD	Chief Ministers Rural Road Development Fund
21	CPS	Central Plan Scheme
22	CRF	Calamity Relief Fund
23	CSS	Centrally Sponsored Scheme
24	CST	Central Sales Tax
25	DC	Deputy Commissioner
26	DCF	Deputy Conservator of Forests
27	DCRF	Debt Consolidation Relief Facility
28	DDF	Degraded Development Forest
29	DDOs	Drawing and Disbursing Officers
30	DDR	Debt, Deposit and Remittances
31	DE	Development Expenditure
32	DPC	Duties, Power and Conditions
33	EAP	Externally Assisted Project
34	ED&TB	Epidemic Diseases and Tuberculosis
35	EFC	Eleventh Finance Commission

36	ERC	Expenditure Reforms Commission
37	ESCOM	Electricity Supply Companies
38	FC	Finance Commission
39	FCG	Finance Commission Grants
40	FD	Finance Department
41	FRA	Fiscal Responsibility Act
42	FMRC	Fiscal Management Review Committee
44	G.O.	Government Order
45	GDP	Gross Domestic Product
46	GESCOM	Gulbarga Electric Supply Company
47	GIA	Grants-In-Aid
48	GIC	General Insurance Corporation
49	GOI	Government of India
50	GOK	Government of Karnataka
51	GP	Grama Panchayat
52	GSDP	Gross State Domestic Product
53	HUDCO	Housing Urban Development Corporation
54	IAY	Indira Awas Yojana
55	IFAs	Internal Financial Advisers
56	IGAS	Indian Government Accounting Standard
57	IIF	Infrastructure Initiative Fund
58	ITI	Industrial Training Institutes
59	JLRL	Jungle Lodges and Resorts Limited
60	JNNURM	Jawaharlal Nehru National Urban Renewal Mission
61	KBM	Karnataka Budget Manual
62	KFC	Karnataka Financial Code
63	KFDF	Karnataka Forest Development Fund
64	KMAY	Karnataka Mahila Abhivridhhi Yojane
65	KPSC	Karnataka Public Service Commission
66	K-RIDE	Investment in Rail Infrastructure Development Corporation (Karnataka) Ltd.
67	KRIDL	Karnataka Rural Infrastructure Development Corporation Ltd.
68	KSDL	Karnataka Soaps and Detergent Limited.
69	KSHIP	Karnataka State Highway Improvement Project
70	KSTDC	Karnataka State Tourism Development Corporation
71	LIC	Life Insurance Corporation
72	MPIC	Monthly Programme Implementation Calendar
73	MPLADS	Member of Parliament Local Area Development Scheme
74	MTFP	Medium Term Fiscal Plan

75	MVT	Motor Vehicle Tax
76	NABARD	National Bank for Agriculture and Rural Development
77	NCDC	National Co-operative Development Corporation
78	NDC	Non Payment detailed Contingent Bill
79	NLNORR	Non Loan Net Own Revenue Receipts
80	NORR	Net Own Revenue Receipts
81	NPRE	Non Plan Revenue Expenditure
82	NRHM	National Rural Health Mission
83	NSSF	National Small Savings Fund
84	NSSO	National Sample Survey Organisation
85	NTR	Non Tax Revenue Receipts
86	OBC	Other Backward Class
87	PAC	Public Accounts Committee
89	PD	Personal Deposit
90	PFC	Power Finance Corporation
91	PMGSY	Pradhan Mantri Gram Sadak Yojana
92	PPP	Public Private Partnership
93	PRI	Panchayat Raj Institutions
94	RBI	Reserve Bank of India
95	RDPR	Rural Development and Panchayat Raj
96	RGVY	Rajiv Gandhi Gramin Vidyut Yojana
97	RSPD	Raising of Seedlings for Public Distribution
98	SC	Scheduled Caste
99	SCP	Special Component Plan
100	SDRF	State Disaster Response Fund
101	SFC	State Finance Commission
102	SHG	Self Help Groups
103	SIDBI	Small Industries Development Bank of India
104	SKSJTI	Sri Krishna Rajendra Silver Jubilee Technical Institute Bangalore
105	SRS Bulletin	Sample Registration System Bulletin
106	SSA	Sarva Shiksha Abhiyan
107	ST	Scheduled Tribe
108	TAC	Technical Appraisal Committee
109	TE	Total Expenditure
110	TFC	Twelfth Finance Commission
111	TP	Taluk Panchayat
112	TSP	Tribal Sub Plan
113	UC	Utilisation Certificate
114	UGC	University Grants Commission

115	UID	Unique Identification
116	ULB	Urban Local Bodies
117	VAT	Value Added Tax
118	VRS	Voluntary Retirement Scheme
119	VVIP	Very Very Important Person
120	WMA/OD	Ways and Means Advance/Overdraft
121	XIII FC	Thirteenth Finance Commission
122	ZP	Zilla Panchayat