

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Summary

The State Government formulated the first Medium Term Fiscal Plan (MTFP) for the period 2000-01 to 2004-05 based on broad parameters of fiscal correction laid down by the Eleventh Finance Commission. The statutory backing for MTFP was provided by the Karnataka Fiscal Responsibility Act, 2002 (Act), which came into force from 1 April 2003. The Act, *inter-alia*, provided for elimination of revenue deficit and reduction of fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by the end of 2005-06. The State achieved these fiscal goals one year ahead, with the year 2004-05 ending in revenue surplus of Rs.1,638 crore. Fiscal deficit increased marginally from Rs.3,600 crore in 2004-05 to Rs.3,687 crore in 2005-06. Its ratio to GSDP was less than three *per cent* during the years 2004-05 and 2005-06. Revenue surplus increased to Rs.2,311 crore in 2005-06.

Revenue of the State consisting of its tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India (GOI) increased by 105 *per cent* from Rs.14,823 crore in 2000-01 to Rs.30,352 crore in 2005-06. Taxes on sales, trade *etc.*, was the major source of tax revenue which contributed 53 *per cent* followed by state excise (18 *per cent*), stamps and registration fees (12 *per cent*) and taxes on vehicles (6 *per cent*). Arrears of revenue increased by 91 *per cent* from Rs.1,894 crore in 2000-01 to Rs.3,620 crore to end of 2005-06.

Overall expenditure of the State increased by 78 *per cent* from Rs.19,143 crore in 2000-01 to Rs.34,163 crore in 2005-06. Revenue expenditure increased from Rs.16,685 crore in 2000-01 to Rs.28,041 crore in 2005-06 (increase:68 *per cent*). While plan expenditure increased from Rs.3,481 crore to Rs.5,069 crore (increase: 46 *per cent*) only, the non-plan expenditure increased from Rs.13,204 crore to Rs.22,972 crore (increase: 74 *per cent*). Interest payments at 12 *per cent* of revenue receipts were below the limit of 15 *per cent* prescribed by the Twelfth Finance Commission for the year 2005-06. The expenditure on salaries increased from Rs.4,630 crore in 2000-01 to Rs.5,932 crore in 2005-06. Pension payments constituted seven *per cent* of total revenue receipts in 2005-06. Subsidies paid to various corporations *etc.*, increased from Rs.1,514 crore in 2000-01 to Rs.3,712 crore in 2005-06. Capital expenditure increased by 149 *per cent* from Rs.2,458 crore in 2000-01 to Rs.6,122 crore in 2005-06.

The ratio of fiscal liabilities (Rs.52,236 crore) to GSDP was 31 *per cent* in 2005-06 and would be 34 *per cent* taking into account the off-budget borrowings (Rs.5,319 crore) of the State in 2005-06.

Net Availability of borrowed funds increased during 2005-06 mainly due to consolidation and rescheduling of Central loans.

The amount guaranteed by the State Government on behalf of Statutory Corporations, Government Companies, etc and outstanding as of March, 2006 was Rs.8,984 crore.

The return from investments to Government companies continued to be meagre and was at 0.1 *per cent* in 2005-06 as against the weighted interest rate of 9.2 *per cent* on the borrowings of the State Government.

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1-Part A**). The Finance Accounts of the Government of Karnataka are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, the Contingency Fund and the Public Account of the State. The layout of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table 1 below summarises the finances of the Government of Karnataka for the year 2005-06 as compared to the previous year, covering revenue receipts and expenditure, capital receipts and expenditure, contingency fund transactions and public account receipts/disbursements as emerging from statement-1 of Finance Accounts and other detailed statements.

Table 1: Summary of Receipts and Disbursements

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue							
					Non-Plan	Plan	Total
26,569.66*	Revenue receipts	30,352.05	24,931.85*	Revenue expenditure	22,972.22	5068.67	28,040.89
16,072.32*	Tax revenue	18,631.55	9,900.24	General Services	10,023.81	12.01	10,035.82
4,472.34*	Non-tax revenue	3,874.71	7,722.75	Social Services	5,787.97	3,110.82	8,898.79
3,878.44	State's share of Union Taxes and Duties	4,213.42	6,510.52*	Economic Services	6,001.48	1,945.84	7,947.32
2,146.56	Grants from GOI	3,632.37	798.34	Grants-in-aid/Contributions	1,158.96	---	1,158.96
Section-B: Others							
--	Misc. Capital Receipts	---	4,673.68	Capital Outlay	15.53	5,806.40	5,821.93
46.85*	Recoveries of Loans and Advances	123.55	611.43	Loans and Advances disbursements	43.66	255.94	299.60
8,509.43	Public debt receipts	5,663.55	4,029.40	Repayment of Public Debt	810.86	---	810.86
40.52	Contingency Fund (recoupment)	38.91	38.91	Contingency Fund	---	---	---
36,325.19	Public account Receipts	38,025.00	35,462.75	Public account disbursements	---	---	36,702.25
335.48	Opening Cash Balance	2,079.11	2,079.11	Closing Cash Balance			4,606.64
71,827.13	Total	76,282.17	71,827.13	Total	23,842.27	11,131.01	76,282.17

* Refer explanatory note no.5 below Statement-III -Sources and Applications of Funds.

Following are the significant changes in receipts and disbursements during 2005-06 over the previous year:

- Revenue receipts grew by Rs.3,782 crore due to rise in tax revenue (Rs.2,560 crore), grants from GOI (Rs.1,485 crore) and State's share of union taxes and duties (Rs.335 crore), partly off-set by fall in non-tax revenue (Rs.598 crore).
- Revenue expenditure increased by Rs.3,109 crore. Increase was mainly under social services (Rs.1,176 crore) and economic services (Rs.1,436 crore).
- Capital outlay was more by Rs.1,148 crore. Enhanced outlay was mainly under social services sector (Rs.619 crore) and economic services sector (Rs.447 crore).

- Public debt receipts decreased by Rs.2,845 crore due to reduction in internal debt (Rs.1,958 crore) and loans from Government of India (Rs.887 crore).
- Repayment of public debt was less by Rs.3,218 crore mainly due to consolidation and rescheduling of repayment of Central loans under Debt Consolidation Relief Facility recommended by the Twelfth Finance Commission (TFC).
- Cash balance of the State Government increased by Rs.2,528 crore.

1.1.2 Fiscal Reforms Path in Karnataka

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 2000-01 to 2004-05 based on broad parameters of fiscal correction laid down by the Eleventh Finance Commission (EFC). MTFP became a rolling annual document to report on the actual performance of the State against fiscal targets of the previous year and to put in place a multi-year medium term reform framework dovetailed to the budgetary exercise.

The statutory backing for MTFP was provided by the Karnataka Fiscal Responsibility Act, 2002 (Act), which came into force from 1 April 2003. The Act aims to ensure fiscal stability and sustainability, enhance the scope for improving social and physical infrastructure and human development by achieving revenue surplus, reducing fiscal deficit, removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on borrowings, debt and deficits, greater transparency in fiscal operations by the use of medium-term fiscal framework.

To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the State Government.

- Elimination of revenue deficit by the end of the financial year 2005-06.
- Reduction of fiscal deficit to not more than three *per cent* of the estimated Gross State Domestic Product (GSDP) by the end of the financial year 2005-06.
- Limiting the total liabilities to not more than 25 *per cent* of the estimated GSDP within a period of 13 financial years, i.e., by the end of the financial year 2014-15.
- Maintaining outstanding guarantees within the limit stipulated under the Karnataka Ceiling to Government Guarantees Act, 1999.

Revenue and fiscal deficits may exceed the specified limits due to unforeseen demands on the State finances on account of natural calamities to the extent of actual fiscal costs attributable to the situation.

1.1.3 Fiscal Policy Statements 2005-06

The State Government has laid the Medium Term Fiscal Plan (MTFP) for the period 2005-09 before the State Legislature along with the annual budget for the year 2005-06, which *inter alia* contained:

- medium term fiscal objectives of the State Government.
- evaluation of the performance of the prescribed fiscal indicators in the previous year.
- recent economic trends and prospects for growth and development.
- strategic priorities and key fiscal policies of the Government and evaluation of their consistency.
- four year rolling targets.
- assessment of sustainability relating to the revenue deficit and the use of capital receipts for productive purposes.

1.1.4 Roadmap to achieve the fiscal targets as laid down in the Act

Keeping in view the fiscal targets laid down in the Act, the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the TFC award period, the State Government has developed its own fiscal correction path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (**Appendix 1.2**).

The State achieved the fiscal targets laid down in the Act one year ahead, with the year 2004-05 ending in revenue surplus of Rs.1,638 crore. Fiscal deficit of Rs.3,600 crore was below three *per cent* of GSDP. Guarantees given by the State Government were within the prescribed limit. The ratio of fiscal liabilities to GSDP showed declining trend and was around 31 *per cent* in 2005-06 exclusive of off-budget borrowings. As a result, the State got the full benefit of incentive grants of Rs.286 crore for the EFC award period. The State also got interest relief of Rs.292 crore under Debt Consolidation and Relief Facility (DCRF) and waiver of Central loans of Rs.358 crore under Debt Write-off Scheme (DWS) for the year 2005-06.

1.1.5 Mid-term review of fiscal situation

According to the half-yearly review report placed before the State Legislature in compliance to the provisions of the Act, realisation of revenues to end of September 2005 was on target. Keeping in view additional expenditure approved in supplementary estimates, the half-yearly review acknowledged the need for expenditure restraints in the remaining period of the year. Expenditure at the year end was within the targets projected in MTFP.

1.2 Overview of Fiscal situation of the State

1.2.1 Trends in fiscal aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in Table 2:

Table 2 : Trends in fiscal aggregates

(Rupees in crore)

2004-05	Serial Number	Major Aggregates	2005-06
26,570*	1.	Revenue Receipts (2+3+4)	30,352
16,072*	2.	Tax Revenue	18,632
4,473*	3.	Non-Tax Revenue	3,875
6,025	4.	Other Receipts	7,845
47*	5.	Non-Debt Capital Receipts Loans and Advances recovered	124
26,617	6.	Total Receipts (1+5)	30,476
20,023	7.	Non-Plan Expenditure (8+10+11)	23,032
19,807	8.	On Revenue Account	22,972
3,794	9.	Interest Payments	3,765
88	10.	On Capital Account	16
128	11.	Loans and Advances disbursed	44
10,194	12.	Plan Expenditure (13+14+15)	11,131
5,125	13.	On Revenue Account	5,069
4,586	14.	On Capital Account	5,806
483	15.	Loans and Advances disbursed	256
30,217	16.	Total Expenditure (7+12)	34,163
3,600	17.	Fiscal Deficit (16-(1+5))	3,687
1,638	18.	Revenue Surplus (1-8-13)	2,311
194	19.	Primary Surplus (9-17)	78

* refer explanatory note No.5 below Sources and Applications of Funds

1.3 Audit Methodology

Audit observations on the statements of Finance accounts for the year 2005-06 bring out the trends in major fiscal aggregates of receipts and expenditure; wherever necessary, analyse these in the light of time series data (Statement IV) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The new GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State Government have been used. For tax revenue, non-tax revenue, revenue expenditure, *etc.*, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volumes and sources, (ii) application of resources (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are listed in this section; some of the terms used in this context are explained in **Appendix 1.1-Part C**.

1.4 State Finances by key indicators

1.4.1 Resources by Volumes and Sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recovery of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from public account.

Table 3 shows that the total receipts of the State Government for the year 2005-06 were Rs.74,203 crore. Of these, revenue receipts were Rs.30,352.05 crore (41 *per cent*). The balance came from borrowings, receipts from contingency fund and public account.

Table 3 : Resources of Karnataka

(Rupees in crore)

Revenue Receipts	30,352.05
Capital Receipts	5,787.10
Recovery of Loans and Advances	123.55
Public Debt Receipts	5,663.55
Contingency Fund	38.91
Public Account Receipts	38,025.00
Small Savings, Provident Fund, <i>etc.</i> ,	1,650.55
Reserve Funds	1,288.36
Deposits and Advances	15,926.09
Suspense and Miscellaneous	16,393.36
Remittances	2,766.64
Total Receipts	74,203.06

1.4.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts are linked to economic activity and GSDP is its natural base. Apart from the quantum and rate of growth of revenue receipts, it is equally important to look at these receipts relative to this base and its expansion over time. Overall revenue receipts, their annual rate of growth, ratio of these receipts to GSDP and their buoyancy are indicated in Table 4.

Table 4 : Revenue Receipts – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR) (Rupees in crore)	14,823	15,321	16,169	20,760	26,570	30,352
State's own taxes (<i>per cent</i>)	61.0	64.3	64.6	60.5	60.5	61.4
Non-Tax Revenue (<i>per cent</i>)	11.2	7.2	7.9	14.3	16.8	12.8
Central Tax Transfers (<i>per cent</i>)	17.4	17.1	17.2	15.6	14.6	13.9
Grants-in-aid (<i>per cent</i>)	10.4	11.4	10.3	9.6	8.1	11.9
Rate of Growth of RR (<i>per cent</i>)	14.8	3.4	5.5	28.4	27.9	14.2
RR-GSDP (<i>per cent</i>)	14.2	14.1	13.6	15.9	17.9	18.1
Revenue Buoyancy (ratio)	1.5	0.9	0.6	2.9	2.0	1.1
State's own taxes Buoyancy (ratio)	1.7	2.4	0.6	2.1	2.0	1.2
Revenue Buoyancy with respect to State's own taxes (ratio)	0.9	0.4	0.9	1.4	1.0	0.9
GSDP Growth (<i>per cent</i>)	10.1	3.7	9.3	9.7	14.1	12.7

Revenue receipts of the State increased from Rs.14,823 crore in 2000-01 to Rs.30,352 crore in 2005-06 (105 *per cent*). The low growth rate of around three and six *per cent* during the years 2001-02 and 2002-03 was due to deficient monsoons and severe drought coupled with depressed buoyancy in Central transfers. The growth increased to around 28 *per cent* during the years 2003-04 and 2004-05 due to increase in collections under various components of tax revenue on account of tax reforms initiated by the State Government.

The decline in revenue receipts during 2005-06 in real terms was by six percentage points only as revenue receipts for the year 2004-05 were overstated by Rs.900 crore due to transfer of unspent balances to revenue account from public account and loans and advances (mentioned in Audit Report for the year 2004-05).

There was increase in tax revenue by Rs.2,841 crore and non-tax revenue by Rs.1,526 crore over the normative assessment made by TFC in its report.

Tax revenue of the State increased from Rs.9,043 crore in 2000-01 to Rs.18,632 crore in 2005-06. Its rate of growth, however, fell from 28 *per cent* in 2004-05 to 16 *per cent* in 2005-06 mainly due to fall in rate of growth of taxes on sales, trade *etc.*, from 31 *per cent* to 13 *per cent* following introduction of Value Added Tax (VAT). The State Government received VAT loss compensation of Rs.1,039 crore from GOI for the period from April 2005 to February 2006. The compensation was received as part of non-plan grants from GOI.

Taxes on sales, trade *etc.*, was the major source of State's own tax revenue which contributed 53 *per cent* followed by state excise (18 *per cent*), stamps and registration fees (12 *per cent*) and taxes on vehicles (6 *per cent*).

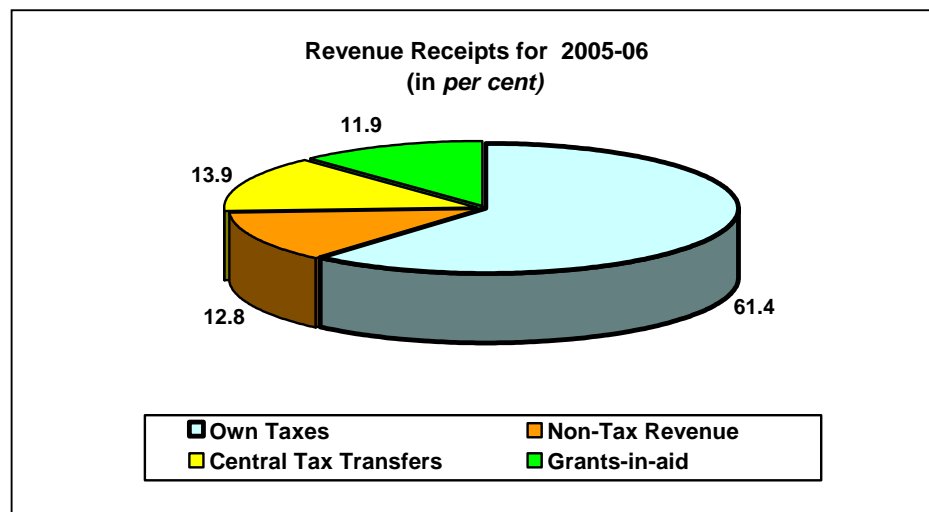
The main contributors of non-tax revenue (Rs.3,875 crore) during 2005-06 were State lotteries (Rs.1,767 crore), Non-ferrous Mining and Metallurgical Industries (Rs.325 crore), interest receipts (Rs.283 crore) and Other General Economic Services (Rs.295 crore). Non-tax revenue was however overstated to the extent of Rs.443 crore due to transfer of unspent balance of Rs.426 crore from Panchayat Raj Bodies Fund in public account to revenue account, and accounting of food subsidy of Rs.10 crore and grant-in-aid of Rs.seven crore for tourism development received from GOI as departmental receipts.

Central tax transfers for the State increased from Rs.3,878 crore in 2004-05 to Rs.4,213 crore in 2005-06. The share of the Central tax transfers in the revenue receipts, however, decreased from 15 per cent to 14 per cent. The increase in Central tax transfers (Rs.335 crore) was mainly due to increase in taxes on income other than corporation tax (Rs.109 crore), corporation tax (Rs.59 crore), service tax (Rs.105 crore), customs (Rs.42 crore) and union excise duties (Rs.17 crore).

Grants-in-aid from GOI increased from Rs.2,147 crore in 2004-05 to Rs.3,632 crore. The steep rise in receipt of non-plan grants from Rs.263 crore to Rs.1,736 crore was mainly on account of grants received towards VAT loss compensation (Rs.1,039 crore) and increase in grants for calamity relief (Rs.313 crore). Grants for State plan schemes decreased by Rs.167 crore (15 per cent), while grants for Central and Centrally sponsored plan schemes increased by Rs.185 crore (23 per cent) during 2005-06.

Arrears of revenue increased by 91 per cent from Rs.1,894 crore in 2000-01 to Rs.3,620 crore to end of 2005-06. Arrears were mainly in respect of taxes on sales, trade etc., (Rs.2,874 crore) and state excise (Rs.700 crore). State excise arrears of Rs.507 crore were outstanding for more than five years.

Composition of revenue receipts during 2005-06 is indicated graphically below:



1.4.3 Sources of Receipts -Trends

Sources of revenue under different heads and GSDP during 2000-2006 are indicated in Table 5.

Table 5 : Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts		Contingency Fund Receipts	Accruals in Public Account	Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts				
2000-01	14,823	101	3,371	15	24,797	43,107	1,04,541
2001-02	15,321	35	5,146	54	28,502	49,058	1,08,461
2002-03	16,169	928	5,433	8	27,879	50,417	1,18,604
2003-04	20,760	64	7,988	--	30,513	59,325	1,30,127
2004-05	26,570	47	8,509	41	36,325	71,492	1,48,521
2005-06	30,352	124	5,664	39	38,025	74,204	1,67,399

Total receipts of the State increased by 72 per cent from Rs.43,107 crore in 2000-01 to Rs.74,204 crore in 2005-06. Debt receipts which create future repayment obligation increased by 152 per cent from Rs.3,371 crore to Rs.8,509 crore during the period 2000-05. Fiscal reforms undertaken by State Government resulted in reduction of public debt receipts to Rs.5,664 crore (33 per cent) in 2005-06.

1.5 Application of Resources

1.5.1 Growth of Expenditure

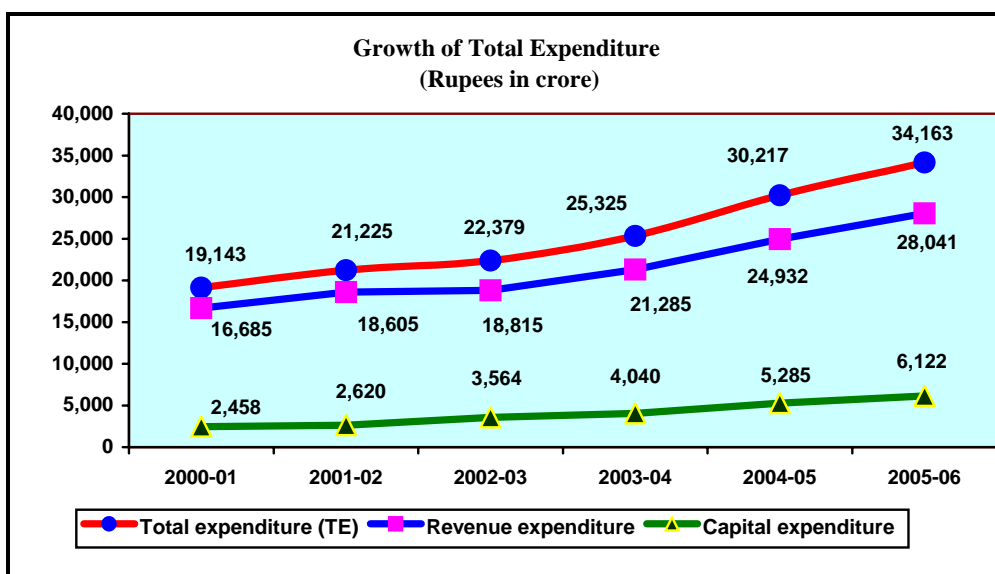
Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investments and discharge their debt servicing obligations.

Total expenditure, its annual growth rate and ratio of expenditure to GSDP and to revenue receipts and its buoyancy in relation to GSDP and revenue receipts are indicated in Table 6 below followed by its graphic representation.

Table 6 : Total Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure (TE)* (Rupees in crore)	19,143	21,225	22,379	25,325	30,217	34,163
Rate of Growth (Per cent)	10.5	10.9	5.4	13.2	19.3	13.1
TE/GSDP Ratio (Per cent)	18.3	19.6	18.9	19.5	20.3	20.4
Revenue Receipts/TE Ratio(Per cent)	77.4	72.2	72.2	82.0	87.9	88.8
Buoyancy of Total Expenditure with						
GSDP(Ratio)	1.0	2.9	0.6	1.4	1.4	1.0
Revenue Receipts (Ratio)	0.7	3.2	1.0	0.5	0.7	0.9

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



Capital expenditure includes disbursement of loans and advances

The total expenditure increased from Rs.19,143 crore in 2000-01 to Rs.34,163 crore in 2005-06 (78 per cent). Revenue expenditure as percentage of total expenditure declined from 87 per cent in 2000-01 to 82 per cent in 2005-06. There was significant increase in the ratio of revenue receipts to total expenditure from 77 per cent in 2000-01 to 89 per cent in 2005-06, indicating that nearly 89 per cent of the State's total expenditure was met from its revenue receipts, leaving the balance to be met from the borrowings. The buoyancy of total expenditure with reference to GSDP stood at one in 2005-06 indicating that the total expenditure grew with the same pace as that of GSDP.

Capital expenditure including loans and advances increased by 149 per cent from Rs.2,458 crore in 2000-01 to Rs.6,122 crore in 2005-06. It increased from 13 per cent of total expenditure in 2000-01 to 18 per cent in 2005-06. However, there was no visible increase in capital expenditure as a percentage of total expenditure in 2005-06 over the previous year. Capital expenditure of Rs.6,122 crore during 2005-06 included Rs.2,011 crore (33 per cent) on debt servicing. Thus, only 67 per cent of the capital outlay was towards developmental expenditure.

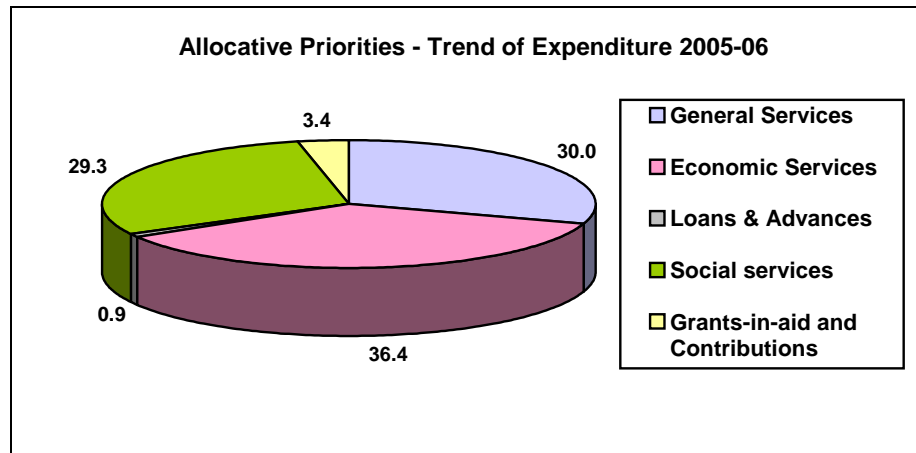
Trends in Total Expenditure by Activities:

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 share of these components in total expenditure (including disbursements of loans and advances) is indicated in Table 7.

Table 7 : Components of Expenditure – Relative Share

	(in per cent)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	29.7	29.5	32.1	36.2	33.2	30.0
<i>Of which interest payments</i>	42.0	42.8	45.8	40.5	37.8	36.7
Social Services	33.6	31.3	29.6	29.2	27.2	29.3
Economic Services	31.3	34.1	32.9	28.1	35.0	36.4
Grants-in-aid	2.8	2.7	2.6	2.5	2.6	3.4
Loans and advances	2.6	2.4	2.8	4.0	2.0	0.9

The components of expenditure during 2005-06 are indicated graphically below:



The movement of relative share of these components indicates that while the share of social services in total expenditure declined from 34 per cent in 2000-01 to 29 per cent in 2005-06, the relative share of general services, considered as non-developmental, increased from 30 per cent in 2000-01 to 36 per cent in 2003-04, thereafter declined to 30 per cent in 2005-06. The share of economic services expenditure increased from 31 per cent in 2000-01 to 36 per cent in 2005-06 with inter-year variations.

Interest payments, which constituted 46 per cent in 2002-03, highest during the six-year period, declined to 37 per cent in 2005-06 on account of replacement of high cost loans to the extent of Rs.5,642 crore with low cost loans under debt-swap scheme in 2002-03 (Rs.831 crore), 2003-04 (Rs.2,017 crore) and 2004-05 (Rs.2,794 crore). Consolidation and rescheduling of Central loans aggregating Rs.7,166 crore to be repaid in 20 years with the interest rate of 7.5 per cent was another factor for reduction of interest payments in 2005-06.

1.5.2 Incidence of revenue expenditure

Revenue expenditure has the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue

expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in Table 8.

Table 8 : Revenue Expenditure – Basic Parameters

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	16,685	18,605	18,815	21,285	24,932	28,041
Non-Plan Revenue (NPRE) Expenditure	13,204	14,662	15,570	17,732	19,807	22,972
Plan Revenue Expenditure (PRE)	3,481	3,943	3,245	3,553	5,125	5,069
Rate of Growth (Per cent)						
NPRE	7.9	11.0	6.2	13.9	11.7	16.0
PRE	16.3	13.3	(-17.70)	9.5	44.2	(-1.1)
NPRE/ GSDP (Per cent)	12.6	13.5	13.1	13.6	13.3	13.7
NPRE as per cent of TE	69.0	69.1	69.6	70.0	65.5	67.2
NPRE as per cent to Revenue Receipts	89.1	95.7	96.3	85.4	74.5	75.7
Buoyancy of Revenue Expenditure with						
GSDP (Ratio)	0.9	3.1	0.1	1.3	1.2	1.0
Revenue Receipts (Ratio)	0.6	3.4	0.2	0.5	0.6	0.9

Revenue expenditure increased from Rs.16,685 crore in 2000-01 to Rs.28,041 crore in 2005-06 (increase: 68 per cent). While plan expenditure increased from Rs.3,481 crore to Rs.5,069 crore only (increase: 46 per cent), the non-plan expenditure increased from Rs.13,204 crore to Rs.22,972 crore (increase: 74 per cent). The non plan revenue expenditure was at 67 per cent of total expenditure and 76 per cent of revenue receipts during 2005-06. The increase in non-plan expenditure by Rs.3,165 crore in 2005-06 over the previous year was mainly due to increase in subsidy payments (Rs.980 crore), salaries (Rs.540 crore) compensation and assignments to panchyat raj institutions and local bodies (Rs.361 crore).

1.5.3 Committed Expenditure

Expenditure on Salaries

The expenditure on salaries increased from Rs.4,630 crore in 2000-01 to Rs.5,932 crore in 2005-06 as indicated in Table 9:

Table 9 : Expenditure on Salaries

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 [®]
Expenditure on Salaries [§]	4,629.99	5,029.74	4,940.70	5,322.76	5,392.15	5,932.49
Non-plan Head	4,089.17	4,304.51	4,643.00	5,007.07	5,074.62	5,597.59
Plan Head [∇]	540.82	725.23	297.70	315.69	317.53	334.90
As percentage of GSDP	4.4	4.6	4.2	4.1	3.6	3.5
As percentage of Revenue Receipts	31.2	32.8	30.6	25.6	20.3	19.5

Expenditure on salaries as a percentage of GSDP declined from 5 per cent in 2001-02 to 3.5 per cent in 2005-06. As a percentage of revenue receipts, it decreased from 33 to 20 per cent due to reform measure undertaken by the

[§] Based on figures furnished by the Finance Department

[®] Figures for 2005-06 based on revised estimates.

[∇] Includes salaries under Centrally Sponsored Schemes

State Government, viz., freeze on creation of posts and recruitment except in high priority departments like health, police and education. It was however around 27 *per cent* of revenue expenditure net of pensions and interest payments, within the limit of 35 *per cent* recommended by TFC.

Pension payments

Year-wise break-up of expenditure incurred on pension payments during the years 2000-2001 to 2005-06 was as under:

Table 10 : Expenditure on Pensions

(Rupees in crore)

Head	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pension	1,583	1,641	1,773	1,901	2,157	2,237
As <i>per cent</i> of GSDP	1.5	1.5	1.5	1.5	1.4	1.3
As <i>per cent</i> of Revenue Receipts	10.7	10.7	11.0	9.2	8.1	7.4

The State Government estimated the pension liabilities based on the historical growth rate of pension and not on actuarial basis. Expenditure on pension payments was Rs.2,237 crore which constituted eight *per cent* of the total revenue receipts of the State in 2005-06. The State Government introduced contributory pension scheme to cover employees recruited after 1 April 2006. The Government, however, is yet to take action to appoint pension regulator as recommended by TFC.

Interest payments

The details of interest payments of the State Governments for the period 2000-01 to 2005-06 and its percentage with reference to revenue receipts and revenue expenditure are given in Table 11.

Table 11 : Interest Payments

Year	Revenue Receipts	Revenue Expenditure	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2000-2001	14,823	16,685	2,388	16.1	14.3
2001-2002	15,321	18,605	2,683	17.5	14.4
2002-2003	16,169	18,815	3,292	20.4	17.5
2003-2004	20,760	21,285	3,710	17.9	17.4
2004-2005	26,570	24,932	3,794	14.3	15.2
2005-2006	30,352	28,041	3,765	12.4	13.4

The ratio of interest payments to revenue receipts determines the sustainability of debt of the State. As per the recommendation of TFC, the level of interest payments relative to revenue receipts should fall to 15 *per cent* by 2009-10. Interest payments as a percentage of revenue receipts were 16 to 20 *per cent* during the years 2000-01 to 2003-04. Interest payments were below the limit of 15 *per cent* prescribed by TFC for the years 2004-05 (14 *per cent*) and 2005-06 (12 *per cent*). This was partly due to gain of Rs.292 crore in the nature of reduction of interest to be paid during 2005-06 under DCRF

envisaged by TFC. Even taking into account the interest (Rs.721 crore) paid on off-budget borrowings, the percentage of interest payments relative to revenue receipts was 15 *per cent* in 2005-06. Despite this, interest payments during the years 2003-04 to 2005-06 ranged between Rs.3,710 crore to Rs.3,794 crore due to increase in quantum of loan from National Small Savings Funds which carried a rate of interest of 9.5 *per cent* during the period.

Interest liability for 2002-03, 2003-04 and 2004-05 towards retirement of high cost debt under Debt Swap Scheme was Rs.10.96 crore. The Ministry of Finance, GOI, however, worked it out at Rs.92.47 crore and advised (March 2006) RBI to debit the State finances accordingly without consulting the Accountant General (Accounts & Entitlement) who is responsible for arranging repayment of loans along with interest to GOI. This resulted in avoidable outgo of cash of Rs.53.62 crore during 2005-06 (excluding Rs.27.89 crore paid in excess under DCRF and adjusted by the GOI).

Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various Corporations *etc.*, the trends in the subsidies given by the State Government are given in Table 12.

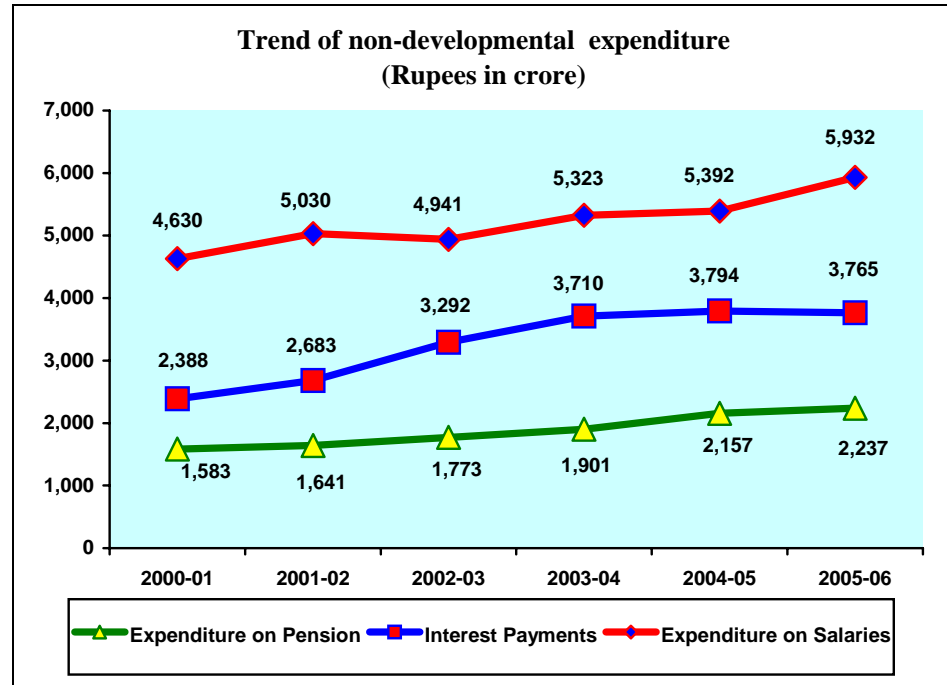
Table 12 : Subsidies

Year	Amount (Rs. in Crore)	Percentage Increase (+)/Decrease (-) over previous year	Percentage of Subsidy to revenue expenditure
2000-01	1,514	24	9
2001-02	2,861	89	15
2002-03	2,230	(-) 22	12
2003-04	2,066	(-) 07	10
2004-05	2,732	32	11
2005-06	3,712	36	13

Increase of subsidy payment by Rs.980 crore in 2005-06 over the previous years was mainly due to waiver of interest (Rs.850 crore) on crop loans ordered by the State Government. Power Sector continued to be highly subsidized with the subsidy of Rs.1,821 crore followed by co-operation (Rs.924 crore), food (Rs.744 crore), transport (Rs.98 crore) and industries (Rs.98 crore). Subsidy on housing and others accounted for Rs.25 crore.

As against subsidy of Rs.1,750 crore projected for power sector in MTFP for the year 2005-06, actual subsidy extended was Rs.1,821 crore. Food subsidy paid exceeded the allocation by Rs.229 crore, while transport subsidy paid was Rs.98 crore as against the estimated provision of Rs.70 crore for the year 2005-06.

Trends in expenditure on pension, interest payments and salaries are graphically depicted below:



1.6 Expenditure by Allocative Priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is the quality of expenditure. Table 13 gives these ratios during 2000-06.

Table 13 : Indicators of Quality of Expenditure

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	1947	2106	2936	3029	4674	5822
Revenue Expenditure of which	16685	18605	18815	21285	24932	28041
Social & Economic Services						
(i) Salary Component	3409.01	3679.87	3589.84	3796.48	3887.09	4315.19
(ii) Non-Salary Component	7110.89	8146.72	7538.83	7820.26	10346.18	12530.92
As per cent of Total Expenditure						
Capital Expenditure	10.45	10.17	13.50	12.46	15.79	17.19
Revenue Expenditure	89.55	89.83	86.50	87.54	84.21	82.81
As per cent of GSDP						
Capital Expenditure	1.86	1.94	2.48	2.33	3.15	3.48
Revenue Expenditure	15.96	17.15	15.86	16.36	16.79	16.75

Revenue expenditure declined from 90 per cent of total expenditure in 2000-01 to 83 per cent in 2005-06, while Capital expenditure increased from 10 per cent to 17 per cent during the period. Revenue expenditure as a percentage of GSDP increased from 16 per cent to 17 per cent while Capital expenditure increased from two to three per cent.

Salary component under social and economic services sectors, as a share of revenue expenditure, declined significantly from 20 per cent in 2000-01 to 15 per cent in 2005-06.

1.6.2 Expenditure on Social Services

Given the fact that human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. Table 14 summarises the expenditure incurred by the State Government in expanding and strengthening social services in the State during 2000-06.

Table 14 : Expenditure on Social Services

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports, Art and Culture	3488.75	3505.88	3570.72	3771.33	4362.83	4890.07
Revenue Expenditure of which	3482.61	3501.41	3564.01	3766.02	4357.91	4837.40
a) Salary component	1916.66	2104.99	2017.82	2142.56	2292.74	2606.79
b) Non Salary component	1565.95	1396.42	1546.19	1623.46	2065.17	2230.61
Capital Expenditure	6.14	4.47	6.71	5.31	4.92	52.67
Health and Family Welfare	1005.32	1085.84	1004.12	995.70	1043.91	1146.19
Revenue Expenditure of which	903.56	986.32	953.65	958.93	1035.61	1138.50
a) Salary component	535.55	559.71	570.10	581.78	573.95	616.03
b) Non Salary component	368.01	426.61	383.55	377.15	461.66	522.47
Capital Expenditure	101.76	99.52	50.47	36.77	8.30	7.69
Water Supply, Sanitation, Housing and Urban Development	782.29	769.34	743.36	1083.03	1269.27	1881.55
Revenue Expenditure of which	642.10	713.41	576.04	794.22	857.89	911.77
a) Salary component	11.51	12.47	12.02	13.34	12.86	14.69
b) Non Salary component	630.59	700.94	564.02	780.88	845.03	897.08
Capital Expenditure	140.19	55.93	167.32	288.81	411.38	969.78
Other Social Services	1154.25	1280.05	1303.35	1542.19	1532.78	2086.28
Revenue Expenditure of which	1103.64	1227.67	1232.55	1445.87	1471.34	2011.12
a) Salary component	174.73	187.59	189.40	207.16	216.59	214.12
b) Non Salary component	928.91	1040.08	1043.15	1238.71	1254.75	1797.00
Capital Expenditure	50.61	52.38	70.80	96.32	61.44	75.16
Total (Social Services)	6430.61	6641.11	6621.55	7392.25	8208.79	10004.09
Revenue Expenditure of which	6131.91	6428.81	6326.25	6965.04	7722.75	8898.79
a) Salary component	2638.45	2864.76	2789.34	2944.84	3096.14	3451.63
b) Non Salary component	3493.46	3564.05	3536.91	4020.20	4626.61	5447.16
Capital Expenditure	298.70	212.30	295.30	427.21	486.04	1105.30

In line with the Government's commitment to increase allocation to priority sectors like health, education, water supply and social welfare, expenditure on social services increased from Rs.6,431 crore in 2000-01 to Rs.10,004 crore in 2005-06 (56 per cent).

Out of the developmental expenditure (Rs.22,450 crore), Social Services (Rs.10,004 crore) accounted for 45 *per cent* during the year. General Education, Health and Family Welfare, Water Supply, Sanitation, Housing and Urban Development consumed 79 *per cent* of the expenditure on Social Services.

Capital expenditure on Social Services increased from Rs.299 crore in 2000-01 to Rs.1,105 crore in 2005-06 indicating improved quality of expenditure on these services. However, capital expenditure of Rs.1,105 crore in 2005-06 under Water Supply, Sanitation, Housing and Urban Development included Rs.353 crore (32 *per cent*) towards debt servicing, leaving only 68 *per cent* for developmental activities.

1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditures as to promote directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs.12,446 crore) accounted for 37 *per cent* of total expenditure of Rs.33,863 crore. Of this, Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport (Rs.10,103 crore) consumed nearly 81 *per cent* of the expenditure. Major trends were as follows:

Table 15 : Economic Services Sector Expenditure

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities	1201.71	1115.75	1100.05	1356.37	2083.71	2883.82
Revenue Expenditure of which	1169.72	1088.11	1077.10	1348.92	2064.90	2866.65
a) Salary component	401.54	422.89	413.68	430.70	420.01	459.07
b) Non Salary component	768.18	665.22	663.42	918.22	1644.89	2407.58
Capital Expenditure	31.99	27.64	22.95	7.45	18.80	17.17
Irrigation and Flood Control	1986.10	1715.62	2235.19	2060.52	3223.64	3545.50
Revenue Expenditure of which	764.71	190.76	206.73	179.06	213.91	215.81
a) Salary component	126.01	133.33	128.48	140.36	92.42	89.40
b) Non Salary component	638.70	57.43	78.25	38.70	121.49	126.41
Capital Expenditure	1221.39	1524.86	2028.46	1881.46	3009.73	3329.69
Power & Energy	939.29	2336.69	1906.92	1733.05	1896.71	1886.93
Revenue Expenditure of which	939.29	2336.69	1906.92	1733.05	1896.71	1836.93
a) Salary component	0.10	0.08	0.09	0.09	0.13	0.25
b) Non Salary component	939.19	2336.61	1906.83	1732.96	1896.58	1836.68
Capital Expenditure	---	---	---	---	---	50.00
Transport	694.57	778.28	818.87	821.64	1513.42	1786.55
Revenue Expenditure of which	404.38	513.62	395.79	311.43	617.60	756.10
a) Salary component	14.35	15.44	16.21	17.80	15.01	18.27
b) Non Salary component	390.03	498.18	379.58	293.63	602.59	737.83
Capital Expenditure	290.19	264.66	423.08	510.21	895.82	1,030.45
Other Economic Services	1166.87	1293.27	1306.24	1153.87	1844.47	2343.23
Revenue Expenditure of which	1109.89	1268.60	1215.88	1079.24	1717.39	2271.83
a) Salary component	228.57	243.37	242.04	262.68	263.37	296.58
b) Non Salary component	881.32	1025.23	973.84	816.56	1454.02	1975.25
Capital Expenditure	56.98	24.67	90.36	74.63	127.08	71.40
Total (Economic Services)	5988.54	7239.61	7367.27	7125.45	10561.95	12446.03
Revenue Expenditure of which	4387.99	5397.78	4802.42	4651.70	6510.52	7947.32
a) Salary component	770.57	815.11	800.51	851.63	790.95	863.57
b) Non Salary component	3617.42	4582.67	4001.91	3800.07	5719.57	7083.75
Capital Expenditure	1600.55	1841.83	2564.85	2473.75	4051.43	4498.71

Out of developmental expenditure (Rs.22,450 crore), Economic Services accounted for 55 *per cent* (Rs.12,446 crore) during the year 2005-06. Agriculture and Allied Activities (Rs.2,884 crore), Irrigation and Flood Control (Rs.3,546 crore), Power and Energy (Rs.1,887 crore) and Transport (Rs.1,787 crore) accounted for 81 *per cent*.

Capital expenditure on Economic Services increased from Rs.1,601 crore in 2001-02 to Rs.4,499 crore in 2005-06 indicating improvement in quality of expenditure. However, one half of capital expenditure of Rs.3,330 crore on irrigation and flood control during 2005-06 only was available for developmental activities as it included Rs.1,658 crore (50 *per cent*) towards debt servicing.

Non-salary expenditure of Rs.2,575 crore on power and transport included subsidy element of Rs.1,919 crore (75 *per cent*) paid to electricity supply companies (Rs.1,821 crore) and transport corporation (Rs.98 crore), leaving only 25 *per cent* of non-salary expenditure available for developmental activities.

1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2000-06 is presented in Table 16.

Table 16 : Financial assistance to local bodies and other institutions

(Rupees in crore)

Description	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06*
Panchayat Raj Institutions and Urban Local Bodies	4,867.29	4,461.63	5,160.08	5,207.76	5,704.08	7,694.46
Educational Institutions (including Universities)	586.31	499.85	646.99	603.16	688.93	695.62
Co-operative Societies and Co-operative Institutions	5.25	3.34	5.00	57.62	167.65	955.45
Other Institutions and bodies (including statutory bodies)	992.24	2,464.01	1,863.28	1,911.84	1,745.28	1,837.43
Total	6,451.09	7,428.83	7,675.35	7,780.38	8,305.94	11,182.96
Percentage growth over previous year	10	15	3	1	7	35
Revenue receipts	14,822.72	15,321.25	16,168.76	20,759.88	26,569.66	30,352.05
Assistance as a percentage of revenue receipts	44	48	47	37	31	37
Revenue expenditure	16,684.95	18,605.70	18,814.50	21,284.71	24,931.85	28,040.89
Percentage of assistance to revenue expenditure	39	40	41	37	33	40
Percentage of assistance to Panchayat Raj Institutions/ Municipalities, etc., to total assistance	75	60	67	67	69	69

The assistance to Panchayat Raj Institutions (PRI) and Urban Local Bodies (ULB) increased from Rs.4,867 crore in 2000-01 to Rs.7,694 crore in 2005-06. Out of the total devolution of Rs.7,694 crore to PRIs & ULBs, Rs.3,176 crore

* Excludes assistance of Rs.517.70 crore given to NGOs and Rs.1.62 crore towards miscellaneous compensations and assignments.

(41 per cent) were towards salaries during 2005-06 as the State Government's functions viz., education, water supply and sanitation, housing, health and family welfare *etc.*, remained transferred to PRIs and ULBs. The increase of Rs.788 crore in assistance to cooperative institutions during 2005-06 was on account of waiver of interest on crop loans by the Government.

The Second State Finance Commission recommended (December 2002) that 40 per cent of the Non Loan Gross Own Revenue Receipts (NLGORR) of the State comprising of all taxes, interest receipts, duties, fees and other non-loan, non-tax receipts levied and collected by the State Government should devolve to PRIs (32 per cent) and ULBs (8 per cent). However, of the total NLGOR receipts of Rs.22,507 crore, devolution to PRIs and ULBs (Rs.7,694 crore) constituted only 34 per cent during 2005-06.

1.6.5 Delay in furnishing Utilisation Certificates

Of the 690 utilization certificates (UC) due in respect of grants and loans aggregating Rs.731.60 crore paid upto 2005-06, 671 UCs for an aggregate amount of Rs.729.62 crore were in arrears. Department-wise break-up of outstanding UCs is given in **Appendix 1.3**.

1.6.6 Non-Submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of March 2006, 16 departments of the Government have not furnished details for the year 2004-05 as shown in **Appendix 1.4**.

1.6.7 Audit of performance of the Autonomous Bodies

The audit of accounts of eight bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment to audit, rendering of accounts to audit, issuance of separate audit report and its placement in the Legislature is indicated in **Appendix 1.5**.

1.6.8 Misappropriations, losses, defalcations, etc.

The State Government reported 220 cases of misappropriation, defalcation, *etc.*, involving Government money amounting to Rs.10.03 crore upto the period 31 March 2006 on which final action was pending. The department wise breakup of pending cases is given in **Appendix 1.6**.

1.6.9 Write-off of losses, etc.

As reported to audit, loss due to theft, fire and irrecoverable revenue, *etc.*, amounting to Rs.1.45 lakh in eight cases relating to three departments were written-off during 2005-06 by competent authorities. The details are given in **Appendix 1.7**.

1.7 Assets & Liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. Statement I gives an abstract of such liabilities and assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While liabilities shown in this statement consist mainly of internal borrowings, loans and advances from GOI, receipts from the public account and reserve funds; assets comprise mainly of capital outlay and loans and advances given by the State Government and the cash balances. The liabilities of the State depicted in the Finance Accounts, however, do not include pension, other retirement benefits payable to retired / retiring State employees, guarantees / letters of comfort issued by State Government and borrowings through special purpose vehicles termed off-budget borrowings. Statement I shows that liabilities grew by 13 per cent as against 12 per cent in the previous year, while the growth rate of assets remained stagnant at 22 per cent. Low priority for capital outlay and reduced spending on developmental activities had adverse effect on asset formation. Statement IV depicts the time series data on State Government finances for the period 2000-06.

1.7.1 Incomplete projects

Incomplete projects/works reflect failure on part of the State to prioritise expenditure and to spread its resources adequately over these projects. Additional Statement of Finance Accounts gives the details of these works. As reported by the departments of the State Government, there were 120 incomplete projects/works on which expenditure of Rs.3,450 crore was incurred as of 31 March 2006. Inadequate flow of funds was the reason for the stoppage works in respect of 22 projects on which an expenditure of Rs.2.23 crore had been incurred.

1.7.2 Investments and Returns

As on 31 March 2006, Government had invested Rs.14,052.53 crore in statutory corporations, rural banks, Government companies, joint stock companies and co-operatives. (Table 17).

Table 17 : Return on Investment

(Rupees in crore)

Year	Investment at the end of the year	Amount of return	Percentage of return	Weighted interest rate on Government borrowing – Market Loans (<i>per cent</i>)	Difference between interest rate and return
2000-2001	4,215.27	8.9	0.2	12.1	11.9
2001-2002	4,840.34	10.6	0.2	11.1	10.9
2002-2003	6,150.37	21.3	0.4	9.9	9.5
2003-2004	7,984.19	18.0	0.2	8.6	8.4
2004-2005	10,741.40	16.7	0.2	8.5	8.3
2005-2006	14,052.53	16.9	0.12	9.2	9.1

The return on this investment was 0.1 *per cent* to 0.4 *per cent* in the last five years, while the Government paid interest on its borrowing at the average rate of 09 - 12 *per cent*.

The investment of the State Government included Rs.43.94 crore in 16 Government companies which were either liquidated or under liquidation and yielded no dividend to the State. In the case of 32 companies, the cumulative loss of Rs.3,269 crore far exceeded the investment of Rs.1,887 crore made by the Government.

1.7.3 Loans and Advances by State Government

In addition to investment in corporations, companies and cooperative societies, Government has also been providing loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2006 was Rs.5,943.57 crore (Table 18).

Table 18 : Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	3,666.62	4,076.69	4,556.46	4,256.04	5,202.95	5,767.53
Amount advanced during the year	511.30	514.47	627.58	1,011.20	611.43	299.60
Amount repaid during the year	101.23	34.70	928.00	64.29	46.85	123.55
Closing Balance	4,076.69	4,556.46	4,256.04	5,202.95	5,767.53	5,943.58*
Net Addition (+) / Reduction (-)	410.07	479.77	(-) 300.42	946.91	564.58	176.04
Interest Received (Rupees in crore)	129.42	112.11	19.98	96.27	88.18	94.95
Interest received as <i>per cent</i> to outstanding loans and advances	3.3	2.6	0.4	2.0	1.6	1.6
Weighted interest	12.1	11.1	9.9	8.6	8.5	9.2
Difference between weighted interest and interest received (%)	8.8	8.5	9.5	6.6	6.9	7.6

♦ Differs in closing balance by Rs.0.01 crore due to rounding as shown in Statement No.1.

Outstanding loans included Rs.374 crore given to two companies for implementation of voluntary retirement scheme and Rs.799 crore given to nine institutions for loan repayment. The interest earned during 2005-06 was about two *per cent* of the outstanding loans.

As of March 2006, recovery of Rs.1,747 crore (principal: Rs.763 crore and interest: Rs.984 crore) was over-due. In nine cases recovery of loans is remote as these companies have either been liquidated or under liquidation.

1.7.4 Management of Cash Balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) - ordinary and special - from Reserve

Bank of India (RBI) has been put in place. The operative limit for normal Ways and Means Advances is reckoned on the three-year average of revenue receipts and the operative limit for special WMA are fixed by the RBI from time to time depending on the holdings of Government Securities. During the year, the limit of normal Ways and Means Advances was fixed at Rs.570 crore. The operative limit of special Ways and Means Advances varied between Rs.2.21 crore and Rs.2,810.63 crore during the year depending on the securities held by the State. Ways and Means Advances and Overdraft availed and interest paid by the State is detailed in the Table below.

Table 19 : Ways and Means Advances and Overdrafts of the State and Interest paid thereon

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Ways & Means Advances						
Availed in the Year	--	735.88	4,045.45	4,623.92	1,462.79	--
Interest Paid	--	0.91	5.22	7.94	1.20	--
No. of days availed	--	40	170	163	61	--
Overdraft						
Availed in the Year	--	--	47.84	757.72	--	--
Interest Paid	--	--	0.01	0.90	--	--
Number of days	--	--	1	33	--	--

Fiscal discipline improved the liquidity position of the State. In 2004-05 the utilisation of normal Ways and Means Advances declined and the State did not avail special Ways and Means Advances and over draft. In continuation with this trend, the State Government did not avail Ways and Means Advances or over draft and maintained the minimum cash balance with RBI throughout the year.

1.8 Un-discharged Liabilities

1.8.1 Fiscal Liabilities-Public Debt and Guarantees

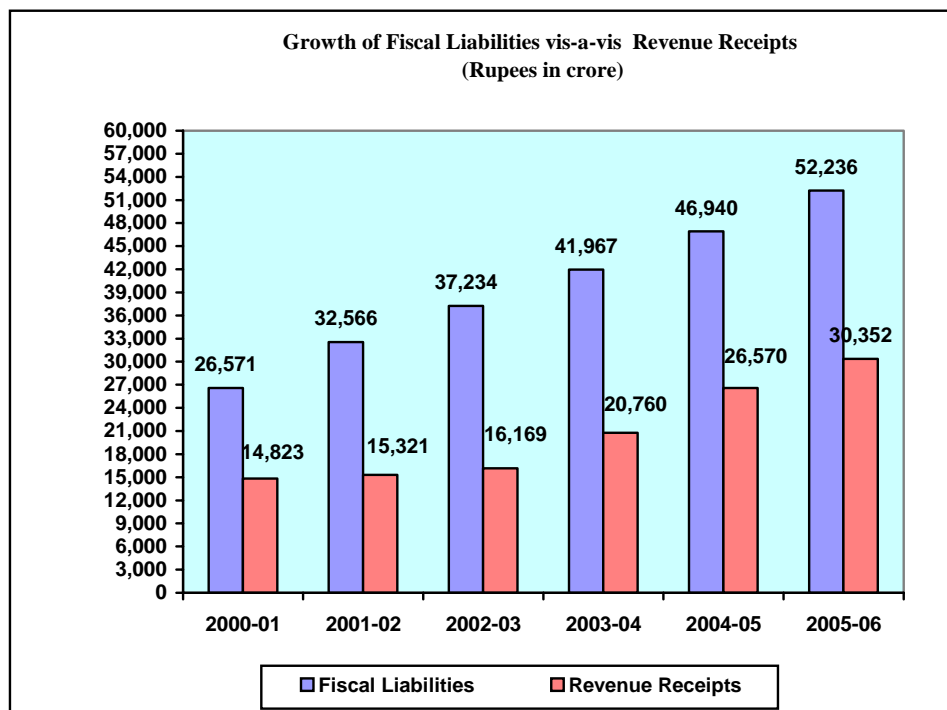
There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the annual financial Statements under the consolidated fund – Capital account. It includes market loans, special securities issued to RBI and loans and advances from Central Government. The Constitution of India provides that State may borrow within the territory of India upon the security of its consolidated fund, 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. Other liabilities which are a part of public account include deposits under small savings scheme, provident funds, and other deposits.

Table 20 and the graph below show the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 20 : Fiscal Liabilities –Basic Parameters

(Amount Rupees in crore and Ratios in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities	26,571	32,566	37,234	41,967	46,940	52,236
Rate of growth (<i>per cent</i>)	19.2	22.6	14.3	12.7	11.8	11.3
Ratio of Fiscal Liabilities to						
GSDP (<i>Per cent</i>)	25.4	30.0	31.4	32.2	31.6	31.2
Revenue Receipts (<i>Per cent</i>)	179.3	212.6	230.3	202.1	176.7	172.1
Own Resources (<i>Per cent</i>)	248.3	198.4	213.41	270.3	229.6	232.1
Buoyancy of Fiscal Liabilities to						
GSDP(ratio)	1.9	6.1	1.5	1.3	0.8	0.9
Revenue Receipts (ratio)	1.3	6.6	2.6	0.4	0.4	0.8
Own Resources(ratio)	1.3	9.9	2.0	0.4	0.4	1.2



Fiscal liabilities (Rs.52,236 crore) of the State for the year 2005-06 comprised of consolidated fund liabilities (Rs.40,049 crore) and public account liabilities (Rs.12,187 crore). Consolidated fund liabilities comprising of loans from GOI and other negotiated loans constituted 77 *per cent* of the total liabilities of the State, while public account liabilities viz., small savings, reserve funds and deposits constituted 23 *per cent*.

As per the recommendation of the TFC, all states were required to set-up a Sinking Fund for amortisation of all loans including liabilities on account of National Small Saving Fund, *etc.*. The State Government had already constituted a Sinking Fund for amortisation of open market loans. However, there were no contributions to the Sinking Fund since 1999-2000 onwards. The Sinking Fund was yet to be revived.

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2000-01 as per Statement 6 of Finance Accounts are given in Table 21.

Table 21 : Guarantees given by the Government of Karnataka

(Rupees in crore)

Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2000-01	16,425	13,004	111
2001-02	20,823	12,279	136
2002-03	20,973	13,314	130
2003-04	21,225	14,179	102
2004-05	19,910	11,574	75
2005-06	20,107	8,984	66

The Karnataka Ceiling on Government Guarantees Act, 1999, provides for a cap on outstanding guarantees at the end of any year at 80 *per cent* of the State's revenue receipts of the previous year. The outstanding guarantees to the end of 2005-06 constituted 34 *per cent* of the revenue receipts of the year 2004-05. TFC recommended setting up of Guarantee Redemption Fund through earmarked guarantee fees based on risk weighing of guarantees. The State Government had already set-up a Guarantee Reserve Fund in 1999-2000 with a corpus of Rs.one crore. During the year Rs.7.47 crore collected as guarantee fees were, however, not transferred to the Fund.

1.8.3 Off-budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in Table 20, the State guaranteed loans taken 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. Although the estimates of the plan programmes of the State Government projected that funds for these programmes would be met out of resources of the companies/corporations outside the State budget, in reality the borrowings of many of these concerns were ultimately the committed liabilities of the State Government termed 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State resorted to off-budget borrowings as evident by the data furnished by the Finance Department. Table 22 captures the trends in the off-budget borrowings of the State during 2000-06 while Table 23 gives the entity-wise position of borrowings.

Table 22 : Trend in Off-budget borrowings

(Rupees in crore)

Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)
Amount as per MTFP [^]	1,648	1,533	1,388	1,104	838	997

[^] figures are yet to be reconciled with those of the financial institutions.**Table 23 : Entity-wise position of Off-budget borrowings**

(Rupees in crore)

Company/Corporation/Board	Off-budget borrowings			Repayment of principal upto 2005-06
	up to 2004-05	during 2005-06	Total	
Krishna Bhagya Jala Nigam	3460.07	350.96	3811.03	1287.03
Karnataka Neeravari Nigam	1567.56	250.00	1817.56	245.65
Karnataka Road Development Corporation	553.76	1.75	555.51	104.84
Slum Clearance Board	186.05	0	186.05	33.80
Rajiv Gandhi Rural Housing Corporation	897.38	157.26	1054.64	91.67
Karnataka State Electronics Development Corporation Limited (Mahithi Bonds)	65.35	0	65.35	0
Karnataka Police Housing Corporation	255.56	38.92	294.48	6.27
Karnataka Land Army Corporation	143.76	0	143.76	68.23
Karnataka Renewable Energy Development Limited	105.66	0	105.66	0
Cauvery Neeravari Nigam	423.87	264.67	688.54	0
Karnataka Residential Education Institution Society	0	0	0	15.88
Karnataka Small Industrial Investment Development Corporation	863.92	77.70	941.62	2279.45
Karnataka Housing Board	0	0	0	212.63
Total	8522.94	1141.26	9664.20	4345.45

As per MTFP, the State was required to phase out off-budget borrowings. Accordingly, State Government extended budgetary support to the extent of Rs.2,007 crore to seven entities during 2005-06. Taking into account the off-budget borrowings of the State, the total liabilities at the end of March 2006 work out to Rs.57,555 crore as against Rs.52,236 crore reflected in Table 20. In view of this the ratio of fiscal liabilities to GSDP would increase to 34 per cent at the end of the year.

1.8.4 Debt Sustainability

The debt sustainability is defined as the ability to maintain a constant debt – GDP ratio over a period of time. In simple terms, public debt is considered sustainable as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero.

Table 24 : Debt Sustainability – Interest Rate and GSDP Growth

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	12.1	11.1	9.9	8.6	8.5	9.2
GSDP Growth	10.0	3.7	9.3	9.7	14.1	12.7
Interest spread	-2.0	-7.4	-0.6	1.1	5.6	3.5
Quantum Spread (Rs. in crore)	-531	-2,410	-223	462	2,629	1,828
Primary deficit (Rs. crore)	1,831	3,186	1,990	791	---	---
Primary surplus (Rs. crore)	---	---	---	---	194	78

GSDP growth rate exceeded the average interest rate from 2004-05 onwards.

1.8.5 Net Availability of Borrowed Funds

Another important indicator of debt sustainability is the net availability of funds after payment of the principal on account of earlier contracted liabilities and interest. Table 25 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table 25 : Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt						
Receipts	2,295.58	2,969.48	3,888.52	6,531.33	6,953.68	4,994.89
Repayment (Principal + interest)	859.35	1,193.45	1,618.53	2,523.27	2,666.13	2,910.82
Net Fund Available	1,436.23	1,776.03	2,269.99	4,008.06	4,287.55	2,084.07
Net Fund Available (<i>Per cent</i>)	63	60	58	61	62	42
Loans and Advances from GOI						
Receipt	1,07,565	2,176.88	1,544.22	1,457.00	1,555.75	668.66
Repayment (Principal + Interest)	1,652.09	1,799.41	2,932.84	4,196.92	4,703.74	1,132.66
Net Fund Available	(-)576.44	377.47	(-) 1,388.62	(-) 2,739.92	3,147.99	(-)464.00
Net Fund Available (<i>Per cent</i>)	-	17	-	-	-	-
Other obligations *						
Receipt	13,265.64	15,531.58	15,077.11	16,426.71	19,227.98	18,806.35
Repayment (Principal + Interest)	12,228.96	14,373.54	14,582.31	16,671.81	19,188.30	18,895.15
Net Fund Available	1036.68	1,158.04	494.80	(-)245.10	39.68	(-)88.80
Net Fund Available (<i>Per cent</i>)	8	7	3	-	0.2	-
Total liabilities						
Receipt	16,636.87	20,677.94	20,509.85	24,415.04	27,737.41	24,469.90
Repayment (Principal + Interest)	14,740.40	17,366.40	19,133.68	23,392.06	26,558.17	22,938.63
Net Fund Available	1,896.47	3,311.54	1,376.17	1,023.04	1,179.24	1,531.27
Net Fund Available (<i>Per cent</i>)	11	16	7	4	4	6

Net Availability of the borrowed funds increased during 2005-06 mainly due to consolidation and rescheduling of Central loans.

1.9 Management of Deficits

The deficits in the Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of prudence in fiscal management by the State. Further, the ways in which deficit is financed and resources so raised are applied, are important pointers to fiscal health.

The revenue deficit of the State, which is the excess of its revenue expenditure over revenue receipts declined from Rs.1,862 crore in 2000-01 to Rs.525 crore in 2003-04. Revenue surplus of Rs.1,638 crore in 2004-05 increased to Rs.2,311 crore in 2005-06. Fiscal deficit, which represents the total borrowing of the State and its total resource gap was Rs.3,687 crore in 2005-06. It was, however, overstated to the extent of Rs.358 crore being loans waived under the Debt Write-off Scheme but not taken into account in 2005-06. Table 26

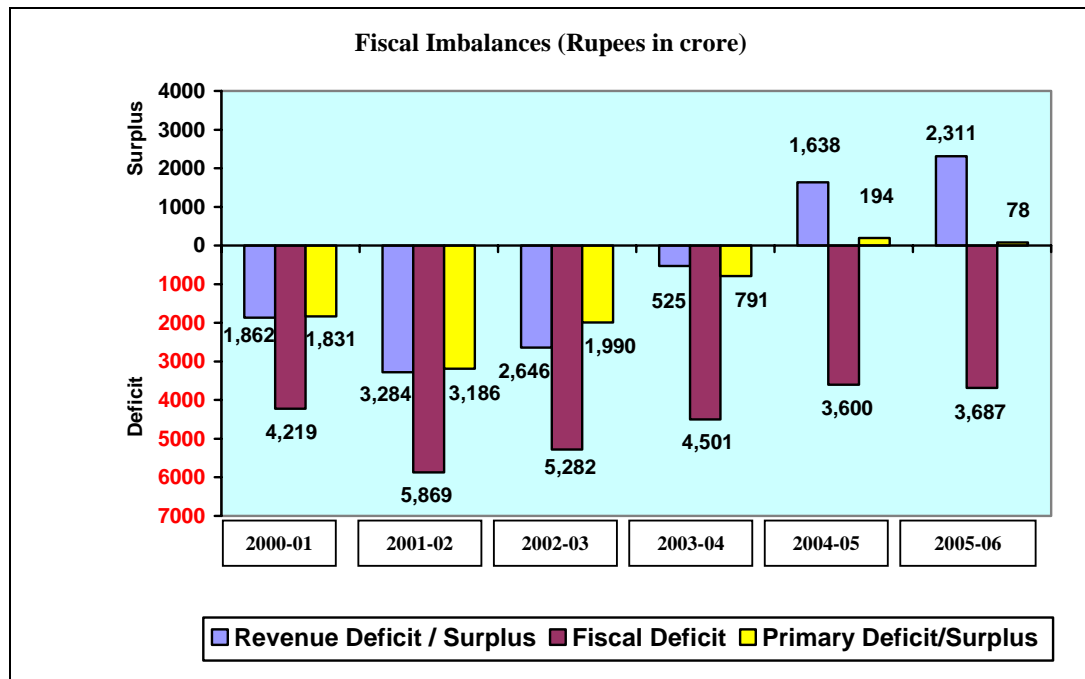
* Small savings, provident funds, reserve funds and deposits.

and graphic representation below brings out the basic parameters of fiscal imbalance.

Table 26 : Fiscal Imbalances – Basic Parameters

(Amount Rupees in crore and Ratios in per cent)

Parameters	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit (RD)	1,862	3,284	2,646	525	---	---
Revenue surplus (RS)	---	---	---	---	1,638	2,311
Fiscal deficit (FD)	4,219	5,869	5,282	4,501	3,600	3,687
Primary Deficit (PD)	1,831	3,186	1,990	791	---	---
Primary Surplus	---	---	---	---	194	78
RD/ GSDP	1.78	3.02	2.23	0.40	---	---
FD/ GSDP	4.03	5.41	4.45	3.45	2.42	2.20
PD/ GSDP	1.75	2.93	1.67	0.60	0.13	0.05
RD/FD	44.1	55.9	50.1	11.7	---	---



The years 2004-05 and 2005-06 ended with revenue surplus of Rs.1,638 crore and Rs.2,311 crore respectively and there was increase in cash balance of Rs.2,528 crore at end of 2005-06 over the previous year. Despite this, fiscal deficit did not show declining in trend during the 2005-06 due to increase in capital expenditure including loans and advances from Rs.5,285 crore to Rs.6,122 crore.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 27 below presents a summarised position of Government Finances during the period 2000-2006, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their application, highlight areas of concern and captures its important facts.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of its resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. Various ratios of expenditure management of the State indicate the quality of expenditure and its sustainability in relation to resources mobilisation.

Table 27 : Indicators of Fiscal Health (in per cent)

Fiscal Ratios	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
I. Resource Mobilisation						
Revenue Receipts (RR)/GSDP	14.2	14.1	13.6	15.9	17.9	18.1
Revenue Buoyancy	1.5	0.9	0.6	2.9	2.0	1.1
Own Tax/GSDP	8.6	9.1	8.8	9.7	10.8	11.1
II. Expenditure Management						
Total Expenditure (TE)/GSDP	18.3	19.6	18.9	19.5	20.3	20.4
Revenue Receipts /Total Expenditure	77.4	72.2	72.2	82.0	87.9	88.8
RE/Total Expenditure	87.2	87.7	84.1	84.0	82.5	82.1
Salary Expenditure on Social & Economic Services/RE	20.4	19.8	19.1	17.8	15.6	15.4
Non-salary expenditure on Social & Economic Services/RE	42.6	43.8	40.1	36.7	41.5	44.7
Capital Expenditure (CE)/TE	10.45	10.1	13.5	12.4	15.8	17.2
CE on Social & Economic Services/TE	10.2	9.9	13.1	11.9	15.4	16.5
Buoyancy of TE with RR	0.7	3.2	0.9	0.5	0.7	0.9
Buoyancy of RE with RR	0.6	3.4	0.2	0.5	0.6	0.9
Management of Fiscal Imbalances						
Revenue deficit (Rs. in crore)	1,862	3,284	2,646	525	---	---
Revenue Surplus (Rs. in crore)	---	---	---	---	1,638	2,311
Fiscal deficit (Rs. in crore)	4,219	5,869	5,282	4,501	3,600	3,687
Primary Deficit (Rs. in crore)	1,831	3,186	1,990	791	---	---
Primary Surplus (Rs. in crore)	---	---	---	---	194	78
Revenue Deficit/Fiscal Deficit	44.1	55.9	50.1	11.7	---	---
Management of Fiscal Liabilities						
Fiscal Liabilities (FL)/GSDP	25.4	30.0	31.4	32.2	31.6	31.2
Fiscal Liabilities/RR	179.3	212.6	230.3	202.1	176.7	172.1
Buoyancy of FL with RR	1.3	6.6	2.6	0.4	0.4	0.8
Buoyancy of FL with Own Receipts	1.3	9.9	2.0	0.4	0.4	1.2
PD vis-a-vis quantum spread	(-)3.4	(-) 1.3	(-) 8.9	1.7	0.07	0.04
Net Fund Available (%)	11	16	7	4	4	6
Other Fiscal Health Indicators						
Return on Investment (Rs. in crore)	8.9	10.6	21.3	18.0	16.7	17
BCR (Rs. in crore)	(-)1,140	(-) 879	(-) 645	1,571	4,879	5,483
Financial Assets/Liabilities	0.8	0.7	0.7	0.7	0.8	0.8

The ratio of revenue receipts to total expenditure increased to 89 per cent indicating that the growth of expenditure was less than the growth of revenue receipts.

Balance from Current Revenue (BCR) which became positive in 2004-05 continued to be so during 2005-06 indicating availability of resources from current revenue for meeting plan expenditure. Revenue surplus increased from Rs.1,638 crore in 2004-05 to Rs.2,311 crore. Fiscal deficit of the State increased to Rs.3,687 crore in 2005-06. Return from investments remained stagnant in 2005-06. The liabilities of the State reduced due to re-scheduling of Central loans under DCRF.

1.11 Conclusion

BCR which turned positive during the year 2003-04 had continued to be so in 2004-05 and 2005-06. The BCR was Rs.5,483 crore, indicating the availability of money for programme spending after meeting the non-plan expenditure on revenue account. Ratio of Fiscal Deficit to GSDP was below three *per cent*. Revenue surplus increased from Rs.1,638 crore in 2004-05 to Rs.2,311 crore in 2005-06 and there was an increase of Rs.2,528 crore in cash balance over the previous year. Despite this, fiscal deficit did not show declining trend during 2005-06 due to increase in capital expenditure including loans and advances. Committed expenditure on salaries, interest payments and pensions consumed 39 *per cent* of revenue receipts. Recovery of outstanding loans and advances was meagre as also the return on investment in Government companies, corporations *etc.* The ratio of fiscal liability to GSDP stabilised and stood at 31 *per cent*. However, taking into account the off-budget borrowings of Rs.5,319 crore outstanding at the end of the year 2005-06, the ratio would be 34 *per cent*. Measures like rationalisation of user charges, targeting of subsidy to deserving section of the society, recovery of arrears of revenue are the best means available to ensure fiscal stability and sustainability.

Statement I
Summarised Financial Position of the Government of Karnataka
as on 31 March 2006

(Rupees in Crore)

As on 31.3.2005	Liabilities		As on 31.3.2006
26,165.18	Internal Debt		30,766.71
	11,762.00	Market Loans bearing interest	11,933.46
	7.49	Market Loans not bearing interest	1.54
	747.67	Loans from Life Insurance Corporation of India	712.94
	1,092.41	Loans from other Institutions	1,291.61
	12,555.61	Loans from RBI – Spl. Securities issued to National Small Savings fund of the Central Government.	16,827.16
9,031.06	Loans and Advances from Central Government -		9,282.22
	50.19	Pre 1984-85 Loans	0.07
	482.62	Non-Plan Loans	118.41
	8,290.62	Loans for State Plan Schemes	8,960.12
	43.94	Loans for Central Plan Schemes	40.23
	163.69	Loans for Centrally Sponsored Plan Schemes	163.39
41.09	Contingency Fund		80.00
6,469.68	Small Savings, Provident Funds, etc.		7,125.55
2,468.54	Reserve Funds		2,941.83
2,826.94	Deposits		2,464.73
1,020.11	Suspense and Miscellaneous balances		1,468.46
-	Remittances		4.15
0.69[◇]	Remittances in transit		-
48,023.29	Total		54,133.65*
Assets			
30,137.91	Gross Capital Outlay on Fixed Assets -		35,959.83
	10,740.04	Investments in shares of Companies, Corporations, etc.	14,051.17
	19,397.87	Other Capital Outlay	21,908.66
5,767.52[♦]	Loans and Advances -		5,943.57
	1,236.93 [♦]	Loans for Power Projects	1,248.70
	4,408.26	Other Development Loans	4,644.09
	122.33	Loans to Government servants and Miscellaneous Loans	50.78
14.25	Other Advances		20.43
35.51	Remittance balances		-
2,079.79	Cash -		4,606.64
	0.85	Cash in treasuries	1.18
	5.28	Departmental Cash Balance including permanent Advances	5.16
	22.40	Deposits with Reserve Bank of India	50.90
	-	Remittances in Transit	0.08
	2,029.83	Cash Balance Investments	4,204.34
	21.43	Investment from earmarked funds	344.98
9,988.31	Deficit on Government Accounts		7,603.18
	11,700.30	Accumulated Deficit	9,988.31
	1,637.81 [♦]	Deduct Revenue Surplus	2,311.16
	74.18	Deduct Other adjustments	73.97
48,023.29	Total		54,133.65

◇ This reflects an adjusting entry on account of remittances between Treasuries and Currency chest remaining unadjusted as on 31 March 2005

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

♦ Please refer explanatory note No.5 below Statement No.III.

Statement II
Abstract of Receipts and Disbursements for the year 2005-06

(Rupees in crore)

2004-05	Receipts		2005-06	2004-05	Disbursements			2005-06
					Non Plan	Plan	Total	
Section-A: Revenue								
26569.66	I. Revenue receipts		30352.05	24931.85	I. Revenue expenditure-	22972.22	5068.67	28040.89
16072.32	Tax revenue	18631.55		9900.24	General Services	10023.81	12.01	10035.82
4472.34	Non-tax revenue	3874.71			Social Services			
3878.44	State's share of Union Taxes & Duties	4213.42		4357.91	Education, Sports, Art and Culture	3783.74	1053.66	4837.40
262.73	Non Plan grants	1735.74		1035.61	Health and Family Welfare	749.08	389.42	1138.50
1088.79	Grants for State Plan Schemes	915.28		857.89	Water Supply, Sanitation, Housing and Urban Development	87.73	824.04	911.77
795.04	Grants for Central and Centrally Sponsored Schemes	981.35		26.45	Information and Broadcasting	17.09	2.37	19.46
				534.92	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	261.32	414.22	675.54
				68.24	Labour and Labour Welfare	43.77	22.93	66.70
				785.66	Social Welfare and Nutrition	802.09	300.22	1102.31
				56.07	Others	43.15	103.96	147.11
				7722.75	Total	5787.97	3110.82	8898.79
					Economic Services			
				2064.91	Agriculture and Allied Activities	2208.79	657.86	2866.65
				696.86	Rural Development	145.50	630.50	776.00
				46.73	Special Areas Programmes	142.45	29.00	171.45
				213.91	Irrigation and Flood Control	151.20	64.61	215.81
				1896.71	Energy	1822.68	14.25	1836.93
				315.26	Industry and Minerals	222.58	135.11	357.69
				617.60	Transport	441.22	314.88	756.10
				8.86	Science, Technology and Environment	0.01	15.77	15.78
				649.68	General Economic Services	867.05	83.86	950.91
				6510.52	Total	6001.48	1945.84	7947.32
				798.34	Grants-in-aid and Contributions	1158.96	---	1158.96
				1637.81	II Revenue surplus carried over to Sec-B			2311.16
26569.66	Total		30352.05	26569.66	Total			30352.05
Section-B - Others								
335.48	II. Opening Cash balance including Permanent Advances & Cash Balance Investments & investments from earmarked funds.	2079.11	4673.68	III. Capital Outlay	15.53	5806.40		5821.93
			136.21	General Services	---	217.92	217.92	
				Social Services				

2004-05	Receipts		2005-06	2004-05	Disbursements			2005-06	
					Non Plan	Plan	Total		
---	III. Miscellaneous Capital receipts			4.92	Education, Sports, Art and Culture	2.09	50.58	52.67	
				8.30	Health and Family Welfare	---	7.69	7.69	
				411.38	Water Supply, Sanitation, Housing and Urban Development	---	969.78	969.78	
				0.66	Information and Broadcasting	---	1.80	1.80	
				55.29	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	---	66.37	66.37	
				5.46	Social Welfare and Nutrition	---	3.57	3.57	
				0.03	Other Social Services	---	3.42	3.42	
				486.04	Total	2.09	1103.21	1105.30	
					Economic Services				
				18.80	Agriculture and Allied Activities	(-) 9.45*	26.62	17.17	
				0.93	Rural Development	0.96	---	0.96	
				3009.73	Irrigation and Flood Control	3.44	3326.25	3329.69	
				---	Energy	---	50.00	50.00	
				8.87	Industry and Minerals	---	12.10	12.10	
				895.82	Transport	19.04	1011.41	1030.45	
				117.28	General Economic Services	(-)0.55*	58.89	58.34	
				4051.43	Total	13.44	4485.27	4498.71	
46.85	IV. Recoveries of Loans and Advances		123.55	611.43	IV. Loans and Advances	43.66	255.94	299.60	299.60
2.25	From Power Projects	6.36		147.78	For Power Projects	---	18.13	18.13	
(-)6.75	From Government Servants	6.22		6.75	To Government Servants	2.27	0.03	2.30	
37.85	From others	110.97		456.90	To Others	41.39	237.78	279.17	
8509.43	V. Public debt receipts		5663.55	4029.40	V. Repayment of Public Debt	810.86		810.86	810.86
6953.68	Internal debt other than Ways and Means Advances and Overdraft	4994.89		621.81	Internal debt other than Ways and Means Advances & Overdraft	393.36		393.36	
1555.75	Loans and Advances from the Central Government	668.66		3407.59	Repayment of Loans and Advances to Central Government	417.50		417.50	
40.52	VI. Contingency Fund (recoupment)		38.91	38.91	VI. Contingency Fund			---	---
36325.19	VII. Public Account Receipts		38025.00	35462.75	VII. Public Account Disbursements				36702.25
1521.49	Small Savings and Provident funds, etc.	1650.55		936.10	Small Savings and Provident Funds etc.			994.68	
569.97	Reserve funds	1288.36		104.91	Reserve Funds			815.07	
17211.29	Deposits and Advances	15926.09		17773.09	Deposits and Advances			16294.49	

* Represents receipts and recoveries on capital account during 2005-06.

2004-05	Receipts		2005-06	2004-05	Disbursements			2005-06
					Non Plan	Plan	Total	
14389.56	Suspense and Miscellaneous	16393.36		14124.50	Suspense and Miscellaneous			15871.03
2632.88	Remittances	2766.64		2524.15	Remittances			2726.98
1637.81	VIII. Revenue Surplus carried over from Section-A.		2311.16	2079.11	VIII. Cash Balance at end			4606.64
				0.17	Cash in Treasuries and Local Remittances			1.26
				22.40	Deposits with Reserve Bank			50.90
				5.28	Departmental Cash Balance including Permanent Advances			5.16
				2029.83	Cash Balance Investment			4204.34
				21.43	Investment from earmarked funds			344.98
46895.28	Total		48241.28	46895.28	Total			48241.28

Statement III
Sources and Applications of Funds

(Rupees in crore)

Sources			
2004-2005			2005-06
26569.66*		1. Revenue receipts	30352.05
46.85*		2. Recoveries of Loans and Advances	123.55
4480.03		3. Increase in Public debt	4852.69
862.44		4. Net receipts from Public account	1322.75
	585.39	Increase in Small Savings, PF, etc	655.87
	(-)561.80	Net effect of Deposits and Advances	(-)368.40
	465.06	Increase in Reserve funds	473.29
	265.06	Net effect of Suspense and Miscellaneous transactions	522.33
	108.73	Net effect of Remittance transaction	39.66
	--	5. Closing Cash Balance (Decrease)	---
1.61		6. Net effect of Contingency Fund Transaction	38.91
31960.59		Total	36689.95
Applications			
24931.85*		1. Revenue expenditure	28040.89
611.43		2. Lending for development and other purposes	299.60
4673.68		3. Capital expenditure (Net)	5821.93
1743.63		4. Increase in cash Balance	2527.53
31960.59		Total	36689.95

* refer footnote 5 below.

Explanatory Notes for Statement I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Statement I, 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.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and others pending settlement, *etc.*
4. There was a difference of Rs.23.55 crore (credit) between the figures reflected in the accounts and that intimated by the RBI under "Deposit with Reserve Bank". A net difference of Rs.2.07 crore (debit) had since been reconciled and adjusted. The remaining difference of Rs.25.62 crore (credit) is under reconciliation.
5. The figures of revenue receipts (Rs.26,162.91 crore), tax revenue (Rs.15,769.13 crore), Non tax revenue (Rs.4,368.78 crore) and recoveries of loans and advances (Rs.44.60 crore), revenue expenditure (Rs.24,522.85 crore) as appearing in the Audit Report (Civil) for the 2004-05 have been corrected proforma after closure of the accounts to revenue receipts (Rs.26,569.66 crore), tax revenue (Rs.16,072.32 crore), Non tax revenue (Rs.4,472.34 crore) and recoveries of loans and advances (Rs.46.85 crore), revenue expenditure (Rs.24,931.85 crore) being the transactions relating to power subsidy not carried out in the Annual Accounts of 2004-05 in the books of accounts of AG(A&E).

Statement IV Time Series Data on State Government Finances

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
PART A. RECEIPTS						
1. Revenue Receipts	14,823	15,321	16,169	20,760	26,570	30,352
(i) Tax Revenue	9,043 (61)	9,853 (64)	10,440(65)	12,570 (61)	16,072(60)	18,632(61)
Taxes on Agricultural Income	24 (-)	3 (-)	1 (-)	1 (-)	2	2
Taxes on Sales, Trade, etc.	5,386 (60)	5,269 (53)	5,474 (52)	6,649 (53)	8,700(54)	9,870(53)
State Excise	1,523 (17)	1,977 (20)	2,094 (20)	2,334 (19)	2,806(17)	3,397(18)
Taxes on vehicles	502 (6)	712 (7)	676 (6)	800 (6)	983(6)	1,105(6)
Stamps and Registration fees	638 (7)	855 (9)	1,115 (11)	1,356 (11)	1,760(11)	2,213(12)
Land Revenue	43 (-)	50 (1)	60 (1)	68 (-)	118(1)	117(1)
Other Taxes	927 (10)	987 (10)	1,020 (10)	1,362 (11)	1,703(11)	1,928(10)
(ii) Non Tax Revenue	1,660 (11)	1,094 (7)	1,278 (8)	2,958 (14)	4,473(17)	3,875(13)
(iii) State's share in Union taxes and duties	2,574 (17)	2,623 (17)	2,786 (17)	3,245 (15)	3,878(15)	4,213(14)
(iv) Grants in aid from Government of India	1,546 (11)	1,751 (12)	1,665 (10)	1,987 (10)	2,147(8)	3,632(12)
2. Miscellaneous Capital Receipts (non debt)	Nil	Nil	Nil	Nil	Nil	Nil
3. Total revenue & Non debt capital receipts (1+2)	14,823	15,321	16,169	20,760	26,570	30,352
4. Recoveries of Loans and Advances	101	35	928	64	47	124
5. Public Debt Receipts	3,371	5,146	5,433	7,988	8,509	5,664
Internal Debt (excluding Ways & Means Advances and Overdrafts)	2,295 (68)	2,969 (58)	3,889 (72)	6,531 (82)	6,953(82)	4,995(88)
Loans & Advances from Government of India *	1,076 (32)	2,177 (42)	1,544 (28)	1,457 (18)	1,556(18)	669(12)
6. Total receipts in the Consolidated Fund (3+4+5)	18,295	20,502	22,530	28,812	35,126	36,140
7. Contingency Fund Receipts	15	54	8	--	41	39
8. Public Account Receipts	24,797	28,502	27,879	30,513	36,325	38,025
9. Total receipts of the State (6+7+8)	43,107	49,058	50,417	59,325	71,492	74,204
PART B. EXPENDITURE/DISBURSEMENT						
10. Revenue expenditure	16,685	18,605	18,815	21,285	24,932	28,041
Plan	3,481 (21)	3,943 (21)	3,245 (17)	3,553 (17)	5,125(21)	5,069(18)
Non Plan	13,204 (79)	14,662 (79)	15,570 (83)	17,732 (83)	19,807(79)	22,972(82)
General Services (incl. Interest Payments)	5,634 (34)	6,215 (33)	7,112 (38)	9,039 (42)	9,900(40)	10,036(36)
Social Services	6,132 (37)	6,429 (35)	6,326 (34)	6,965 (33)	7,723(31)	8,899(32)
Economic Services	4,388 (26)	5,397 (29)	4,803 (25)	4,652 (22)	6,511(26)	7,947(28)
Grants in aid and Contributions	531 (3)	564 (3)	574 (3)	629 (3)	798(3)	1,159(4)
11. Capital Expenditure	1,947	2,106	2,936	3,029	4,674	5,822
Plan	1,705 (88)	1,899 (90)	2,734 (93)	2,930 (97)	4,586(98)	5,806(100)
Non Plan	242 (12)	207 (10)	202 (7)	99 (3)	88(2)	16
General Services	48 (3)	52 (2)	76 (3)	128 (4)	136(3)	218(4)
Social Services	299 (15)	212 (10)	295 (10)	427 (14)	486(10)	1,105(19)
Economic Services	1,600 (82)	1,842 (88)	2,565 (87)	2,474 (82)	4,052(87)	4,499(77)
12. Disbursement of Loans and Advances	511	514	628	1,011	611	300
13. Total (10+11+12)	19,143	21,225	22,379	25,325	30,217	34,163
14. Repayments of Public Debt	521	712	1,696	3,441	4,029	811
Internal Debt (excluding Ways & Means Advances and Overdrafts)	101 (19)	231 (32)	287 (17)	780 (23)	622(15)	393
Net transactions under Ways & Means Advances and Overdraft	--	--	--	--	--	-
Loans and Advances from Government of India *	420 (81)	481 (68)	1,409 (83)	2,661 (77)	3,407(85)	418
15. Appropriation to Contingency Fund	--	--	--	--	--	-
16. Total disbursement out of Consolidated Fund (13+14+15)	19,664	21,937	24,075	28,766	34,246	34,974
17. Contingency Fund disbursements	53	8	--	41	39	--
18. Public Account disbursements	23,260	27,107	26,825	30,665	35,463	36,702
19. Total disbursement by the State (16+17+18)	42,977	49,052	50,900	59,472	69,748	71,676
PART C. DEFICIT/SURPLUS						
20. Revenue Deficit 1-(10)	1,862	3,284	2,646	525	--	---
Revenue Surplus (10-1)	--	--	--	--	1,638	2,311
21. Fiscal Deficit (3+4-13)	4,219	5,869	5,282	4,501	3,600	3,687
22. Primary Deficit (21-23)	1,831	3,186	1,990	791	---	---
Primary Surplus (23-21)	---	---	---	---	194	78
PART D. OTHER DATA						
23. Interest Payments (included in revenue expenditure)	2,388	2,683	3,292	3,710	3,794	3,765
24. Arrears of Revenue (Percentage of Tax & Non-Tax Revenue Receipts)	1,894 (18)	2,634 (24)	3,390 (29)	3,104 (20)	3,604 (18)	3,620 (16)
25. Financial Assistance to local bodies, etc.	6,451	7,429	7,675	7,780	8,306	11,183
26. Ways and Means Advances/Overdraft availed (days)	-	40	171	196	61	--

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
27. Interest on WMA/Overdraft	-	0.91	5.23	8.85	1.20	-
28. Gross State Domestic Product (GSDP)	1,04,541	1,08,461	1,18,604	Φ1,30,127	Φ1,48,521	1,67,399
29. Outstanding Debt (year end)	26,571	32,566	37,234	41,967	46,940	52,236
30. Outstanding Guarantees (year end)	13,004	12,279	13,314	14,179	11,574	8,984
31. Maximum amount Guaranteed (year end)	16,425	20,823	20,973	21,225	19,910	20,107
32. Number of incomplete projects (as per material in Finance Accounts)	97	103	35	70	238	120
33. Capital blocked in incomplete projects	3,295	4,814	6,141	8813	9,496	3,450 ♦

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

* - Excludes Ways and Means Advances from Government of India

Φ - Provisional

⊕ - Quick estimates

GSDP figures for 2005-06 have been adopted as in overview of budget for 2006-07.

♦ - This includes Rs.3,243 crore invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Ltd, a Government Undertaking.

