CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of Government of Karnataka, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of State Government. In addition, the Chapter contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the contents in the Finance Accounts and other information furnished by State Government. Some of the terms used in this chapter are described in the Appendix to this chapter.

1.2 Financial position of the State

In the system of Government accounting, comprehensive accounting of the fixed assets like land and buildings etc., 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 by the Government. Exhibit I gives an abstract of such liabilities and the assets as on 31 March 2001, compared with the corresponding position on 31 March 2000. The liabilities consist of internal borrowings, loans and advances from the Government of India (GOI), receipts from the Public Account - viz., Small Savings and Provident Funds etc., Deposits, Reserve Funds and Remittance balances. The assets comprise the capital outlay, loans and advances given by the State Government, Advances and the Cash balances. It would be seen from Exhibit I that while the liabilities grew by 19 per cent, the assets grew by only 13 per cent during 2000-2001, mainly as a result of a very high (51 per cent) growth in the deficit on the Government account. This shows an overall deterioration in the financial condition of the Government.

EXHIBIT-I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF KARNATAKA AS ON 31 MARCH 2001

(Rupees in Crore)

As on 31.3.2000		Liabilities		As on 31.3.2001
5547.95		**Internal Debt**		**7742.36**
	3665.03	Market Loans bearing interest	4490.64	
	1.29	Market Loans not bearing interest	1.24	
	404.02	Loans from Life Insurance Corporation of India	552.74	
	527.69	Loans from other Institutions	703.39	
	949.92	Loans from RBI – Spl. Securities issued to National Small Savings fund of the Central Government.	1994.35	
9599.31		**Loans and Advances from Central Government -**		**10255.57**
	237.34	Pre 1984-85 Loans	199.50	
	4566.97	Non-Plan Loans	4464.54	
	4604.19	Loans for State Plan Schemes	5404.89	
	60.36	Loans for Central Plan Schemes	57.90	
	130.45	Loans for Centrally Sponsored Plan Schemes	128.74	
65.25		**Contingency Fund**		**26.51**
3542.92		**Small Savings, Provident Funds, etc.**		**4125.81**
2375.60		**Deposits**		**3038.56**
1245.15		**Reserve Funds**		**1431.28**
1208.16		**Suspense and miscellaneous balances**		**1262.34**
4.86		**Remittance balances**		**44.14**
-		**Shortfall with Reserve Bank Deposit**		**28.30**
4.80		**Remittances in transit**[♣]		**4.88**
23,594.00		**Total**		**27959.75***

		Assets		
15,446.26		**Gross Capital Outlay on Fixed Assets -**		**17393.16**
	3564.89	Investments in shares of Companies, Corporations, etc.	4213.84	
	11881.37	Other Capital Outlay	13179.32	
3666.62		**Loans and Advances -**		**4076.69**
	1365.35	Loans for Power Projects	1332.79	
	2283.16	Other Development Loans	2726.85	
	18.11	Loans to Government servants and Miscellaneous Loans	17.05	
25.54		**Other Advances**		**13.66**
834.63		**Cash -**		**993.06**
	1.19	Cash in treasuries	2.42	
	6.18	Deposits with Reserve Bank of India	-	
	3.53	Departmental Cash Balance including permanent Advances	3.52	
	799.91	Cash Balance Investments	964.67	
	23.82	Investment from earmarked funds	22.45	
3620.95		**Deficit on Government Accounts**		**5483.18**
	1368.98	Accumulated Deficit up to March 2000	3620.95	
	2325.30	Add Revenue Deficit of the current year	1862.23	
	73.33	Deduct Other adjustments	-	
23,594.00		**Total**		**27959.75**

* - The liabilities shown above does not include contingent liabilities like guarantees extended by the Government and off budget borrowings which are discussed separately in para 1.9.6 and 1.12 (i)

[♣] This reflects an adjusting entry on account of remittances between Treasuries and Currency chest remaining unadjusted as on 31 March 2001.

EXHIBIT-II

ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001

(Rupees in Crore)

		Receipts					Disbursements				
1999-2000				**2000-2001**	**1999-2000**						**2000-2001**
		Section-A:	**Revenue**					Non-plan	Plan	Total	
12906.45	**I.**	**Revenue receipts**		**14822.72**	**15231.75**	**I.**	**Revenue expenditure-**				**16684.95**
7744.36	**(i)**	-Tax revenue	9042.68		**5332.95**		**General services**	**5628.64**	**4.98**	**5633.62**	
							Social Services-				
1611.29	**(ii)**	-Non-tax revenue	1659.97		3000.91		-Education, Sports, Art and Culture	2833.04	649.57	3482.61	
					868.29		-Health and Family Welfare	587.82	315.74	903.56	
2132.78	**(iii)**	-State's share of Union Taxes & Duties	2573.83		600.83		-Water Supply, Sanitation, Housing and Urban Development	38.86	603.24	642.10	
					22.10		-Information and Broadcasting	14.20	6.04	20.24	
150.72	**(iv)**	-Non-Plan grants	246.04		429.11		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	138.10	335.86	473.96	
					69.50		-Labour and Labour Welfare	31.75	36.09	67.84	
532.70	**(v)**	-Grants for State Plan Schemes	621.71		462.32		-Social Welfare and Nutrition	321.02	192.75	513.77	
					26.03		-Others	27.43	0.40	27.83	
	(vi)	-Grants for Central and			**5479.09**		**TOTAL**	**3992.22**	**2139.69**	**6131.91**	
		Centrally sponsored					**Economic Services-**				
734.60		Plan Schemes	678.49		1149.31		-Agriculture and Allied Activities	811.80	357.92	1169.72	
					445.42		-Rural Development	100.66	355.96	456.62	
					14.64		-Special Areas Programmes	-	15.78	15.78	
					698.78		-Irrigation and Flood Control	710.92	53.79	764.71	
					788.39		-Energy	870.79	68.50	939.29	
					316.97		-Industry and Minerals	149.45	190.87	340.32	
					347.17		-Transport	338.48	65.90	404.38	
							-Science, Technology				
					7.30		and Environment	0.01	3.20	3.21	
					236.07		-General Economic Services	69.22	224.74	293.96	
					4004.05		**Total**	**3051.33**	**1336.66**	**4387.99**	
					415.66		-Grants-in-aid and Contributions	**531.43**	**-**	**531.43**	
2325.30	**II.**	**Revenue deficit carried over to Section B**		**1862.23**							-
15231.75		**Total**		**16684.95**	**15231.75**		**TOTAL**	**13203.62**	**3481.33**		**16684.95**
		Section-B - Others									
793.83	**III**	Opening Cash balance including Permanent Advances and Cash Balance Investments & investments from earmarked funds.		829.83							-
Nil	**IV**	Miscellaneous Capital receipts		Nil	**1779.30**	**II**	**Capital Outlay-**				**1946.90**
					49.94		**General Services-**	**0.80**	**46.85**	**47.65**	
							Social Services-				
					14.25		-Education, Sports, Art and Culture	1.88	4.26	6.14	
					108.21		-Health and Family Welfare	-	101.76	101.76	
							-Water Supply, Sanitation,				
					206.81		Housing and Urban Development	-	140.19	140.19	
					0.23		-Information and Broadcasting	-	0.15	0.15	
							-Welfare of Scheduled				

		Receipts					Disbursements				
1999-2000				**2000-2001**	**1999-2000**						**2000-2001**
							Castes,				
					44.27		Scheduled Tribes and Other Backward Classes	-	47.49	47.49	
					1.13		-Social Welfare and Nutrition	-	1.11	1.11	
					2.26		-Other Social Services	-	1.86	1.86	
					377.16		**Total**	**1.88**	**296.82**	**298.70**	
							Economic Services-				
					12.63		-Agriculture and Allied Activities	-	31.99	31.99	
					0.01		-Rural Development	1.57	-	1.57	
					1107.76		-Irrigation and Flood Control	235.00	986.39	1221.39	
					57.12		-Industry and Minerals	-	49.84	49.84	
					175.13		-Transport	3.00	287.19	290.19	
					(-)0.45		-General Economic Services	0.12	5.45	5.57	
					1352.20		**TOTAL**	**239.69**	**1360.86**	**1600.55**	
144.71	**V.**	**Recoveries of Loans and Advances-**		**101.23**	**316.59**	**III**	**Loans and Advances disbursed-**				**511.30**
110.85		-From Power Projects	73.31		-		-For Power Projects			40.75	
10.27		-From Government Servants	10.18		11.53		-To Government Servants			8.00	
23.59		-From others	17.74		305.06		-To Others			462.55	
					2325.30	**IV**	**Revenue deficit brought down**				**1862.23**
3172.64	**VI**	**Public debt receipts-**		**3371.23**	**490.59**	**V**	**Repayment of Public Debt-**				**520.55**
2244.92		-Internal debt other than Ways and Means Advances and Overdraft	2295.58		146.83		-Internal debt other than Ways and Means Advances & Overdraft			101.16	
927.72		-Loans and Advances from the Central Government	1075.65		343.76		-Repayment of Loans and Advances to Central Government			419.39	
27.27	**VII**	**Contingency Fund (recoupement)**		**14.75**	**14.75**	**VI**	**Expenditure from Contingency Fund**				**53.49**
21662.12	**VIII**	**Public Account Receipts-**		**24797.06**	**20044.21**	**VII**	**Public Account Disbursements-**				**23259.75**
1073.12		-Small Savings and Provident funds etc.	1209.21		474.34		-Small Savings and Provident Funds etc.			626.33	
176.70		-Reserve funds	214.83		96.72		-Reserve Funds			28.70	
8894.91		-Suspense and Miscellaneous	9319.50		8291.46		-Suspense and Miscellaneous			9265.32	
1895.85		-Remittances	2074.46		1855.58		-Remittances			2035.18	
9621.54		-Deposits and Advances	11979.06		9326.11		-Deposits and Advances			11304.22	
					829.83	**VIII**	**Cash Balance at end-**				**959.88**
					(-) 3.61		-Cash in Treasuries and Local Remittances			(-) 2.46	
					6.18		-Deposits with Reserve Bank			(-) 28.30	
					3.53		-Departmental Cash Balance including				
							Permanent Advances			3.52	
					799.91		-Cash Balance Investment			964.67	
					23.82		Investment from earmarked funds			22.45	
25800.57		**Total**		**29114.10**	**25800.57**		**Total**				**29114.10**

EXHIBIT III

SOURCES AND APPLICATIONS OF FUNDS

(Rupees in crore)

		Sources		
1999-2000				**2000-2001**
12906.45		**1. Revenue receipts**		**14822.72**
144.71		**2. Recoveries of Loans and Advances**		**101.23**
2682.05		**3. Increase in Public debt**		**2850.68**
1617.91		**4. Net receipts from Public account**		**1537.31**
	598.78	Increase in Small Savings, PF etc	582.88	
	295.43	Increase in Deposits and Advances	674.84	
	79.98	Increase in Reserve funds	186.13	
	603.45	Net effect of Suspense and Miscellaneous transactions	54.18	
	40.27	Net effect of remittance transaction	39.28	
12.52		**5.** Net effect of contingency fund transaction	-	
17363.64		**Total**		**19311.94**

		Applications		
15231.75		**1.** Revenue expenditure		16684.95
316.59		**2.** Lending for development and other purposes		511.30
1779.30		**3.** Capital expenditure (Net)		1946.90
		4. Net effect of contingency fund transaction		38.74
36.00		**5.** Increase in closing cash balance		130.05
17363.64		**Total**		**19311.94**

Explanatory Notes for Exhibit 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 Exhibit 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.830.56 lakh (debit) between the figures reflected in the accounts and that intimated by the RBI under “Deposit with Reserve Bank”. A net difference of Rs.56.12 lakh (debit) had been reconciled.

EXHIBIT IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
PART A. RECEIPTS					
1. Revenue Receipts	**9622**	**10613**	**11230**	**12906**	**14823**
(i) Tax Revenue	**5768**	**6412**	**6943**	**7744**	**9043**
Taxes on Agricultural Income	40	30	49	35	24
Taxes on Sales, Trade etc.	3510	3829	4265	4683	5386
State Excise	844	864	1005	1215	1523
Taxes on vehicles	326	444	387	449	502
Stamps and Registration fees	488	609	548	566	638
Land Revenue	46	45	38	39	43
Other Taxes	514	591	651	757	927
(ii) Non Tax Revenue	**1342**	**1264**	**1470**	**1611**	**1660**
(iii) State's share in Union taxes and duties	**1730**	**2176**	**1924**	**2133**	**2574**
(iv) Grants in aid from Government of India	**782**	**761**	**893**	**1418**	**1546**
II. Capital Receipts					
2. Miscellaneous Capital Receipts (non debt)	Nil	Nil	Nil	Nil	Nil
3. Total revenue & Non debt capital receipts (1+2)	9622	10613	11230	12906	14823
4. Recoveries of Loans and Advances	173	70	138	145	101
5. Public Debt Receipts	1407	1564	2424	3173	3371
Internal Debt (excluding Ways & Means Advances and Overdrafts)	342	431	872	2245	2295
Loans & Advances from Government of India	1065	1133	1552	928	1076
6. Total receipts in the Consolidated Fund (3+4+5)	11202	12247	13792	16224	18295
7. Contingency Fund Receipts	96	9	15	27	15
8. Public Account Receipts	11652	14097	16679	21662	24797
9. Total receipts of the State (6+7+8)	22950	26353	30486	37913	43107
PART B. EXPENDITURE/DISBURSEMENT					
10. Revenue expenditure	10201	10890	12446	15231	16685
Plan	2360	2297	2541	2992	3481
Non Plan	7841	8593	9905	12239	13204
General Services (incl. Interest Payments)	3106	3581	4126	5333	5634
Social Services	3701	4138	4657	5479	6132
Economic Services	3200	2896	3331	4004	4388
Grants in aid and Contributions	194	275	332	415	531
11. Capital Expenditure	1152	1210	1744	1779	1947
Plan	863	914	1451	1517	1705
Non Plan	289	296	293	262	242
General Services	34	35	35	50	48
Social Services	51	138	455	377	299
Economic Services	1067	1037	1254	1352	1600
12. Disbursement of Loans and Advances	387	193	290	317	511
13. Total (10+11+12)	11740	12293	14480	17327	19143
14. Repayments of Public Debt	241	307	405	491	521
Internal Debt (excluding Ways & Means Advances and Overdrafts)	20	51	107	147	101
Net transactions under Ways & Means Advances and Overdraft	-	-	-	-	-
Loans and Advances from Government of India *	221	256	298	344	420
15. Appropriation to Contingency Fund	-	-	-	-	-

	1996-97	1997-98	1998-99	1999-2000	2000-2001
16. Total disbursement out of Consolidated Fund (13+14+15)	11981	12600	14885	17818	19664
17. Contingency Fund disbursements	97	15	27	15	53
18. Public Account disbursements	10804	13148	15553	20044	23260
19. Total disbursement by the State (16+17+18)	22882	25763	30465	37877	42977
PART C. DEFICITS					
20. Revenue Deficit (1-10)	579	277	1216	2325	1862
21. Fiscal Deficit (3+4-13)	1945	1610	3112	4276	4219
22. Primary Deficit (21-23)	736	216	1495	2264	1831
PART D. OTHER DATA					
23. Interest Payments (included in revenue expenditure)	1208	1394	1617	2012	2388
24. Arrears of Revenue (Percentage of Tax & Non-Tax Revenue Receipts)	1050 (15)	1170 (15)	1122 (13)	1826 (20)	1894 (18)
25. Financial Assistance to local bodies etc.	3956	4318	4884	5847	6451
26. Ways and Means Advances/Overdraft availed (days)	114	46	-	4	-
27. Interest on WMA/Overdraft	2.37	1.20	-	0.02	-
28. Gross State Domestic Product (GSDP)^	65585	71685	85286**	94991***	105174
29. Outstanding Debt (year end)	13495	15627	18617	22287	26571
30. Outstanding Guarantees (year end)	4887	5594	8023	9829	13004
31. Maximum amount Guaranteed (year end)	8991	9719	13368	13334	16425
32. Number of incomplete projects	NA	138	77	112	97
33. Capital blocked in incomplete projects	NA	459	2811	3894	3295^^

* - Includes Ways and Means Advances from Government of India
** - Partially revised estimates
*** - Quick estimate
^ - As the GSDP figures for the year 2000-2001 were not furnished by the Government, the same was worked out by adopting the national growth rate of 10.72 per cent over the previous year
^^ - This includes Rs.3224 crore invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Ltd, a Government Undertaking.

1.3 Sources and applications of fund

1.3.1 Exhibit III gives the position of sources and applications of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and lending for developmental/non-developmental purposes. The revenue receipts constitute the most significant source of fund for the State Government. Their relative share in total receipts went up from 74 per cent in 1999-2000 to 77 per cent during 2000-2001. The net receipts from the Public Account, however, came down from 9 per cent in 1999-2000 to 8 per cent in 2000-2001. This was mainly due to decrease in Net Receipts under Small Savings and Provident Funds etc., and transactions under Suspense and Miscellaneous balances. As in the previous year (1999-2000), the receipts from the public debt remained at 15 per cent of the total receipts.

1.3.2 The funds were mainly applied for revenue expenditure, the share of which in total expenditure declined marginally from 88 per cent in 1999-2000 to 87 per cent in 2000-2001, but the total expenditure remained significantly higher than the share of the revenue receipts (77 per cent). There was a decrease in the Revenue Deficit during the current year, which came down to Rs.1862 crore in 2000-2001, from Rs.2325 crore in 1999-2000 (20 per cent), the reasons for which are discussed in Para 1.9.5.2

1.4 Financial operations of the State Government

1.4.1 Exhibit II gives the details of the receipts and disbursements. The revenue expenditure (Rs.16684.95 crore) during the year exceeded the revenue receipts (Rs.14822.72 crore) by Rs.1862.23 crore. The revenue receipts comprised tax revenue (Rs.9042.68 crore), non-tax revenue (Rs.1659.97 crore), States' share of Union taxes and duties (Rs.2573.83 crore) and grants-in-aid from the Central Government (Rs.1546.24 crore). The main sources of tax revenue were 'Taxes on Sales, Trade etc' (60 per cent), 'State Excise' (17 per cent) and 'Stamps and Registration fees' (7 per cent). Non-tax revenue came mainly from 'Interest Receipts' (43 per cent), Economic Services (38 per cent) and General Services (11 per cent).

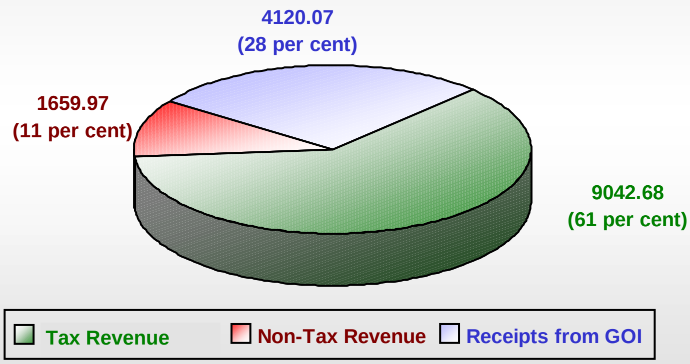
1.4.2 The capital receipts comprised Rs.101.23 crore from recoveries of loans and advances and Rs.3371.23 crore from public debt, against which the expenditure was Rs.1946.90 crore on capital outlay, Rs.511.30 crore on disbursement of loans and advances and Rs.520.55 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.24797.06 crore, against which the disbursements were made for Rs.23259.75 crore. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance (Rs.130.05 crore) from Rs.829.83 crore at the beginning of the year to Rs.959.88 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit II and the data for the five year period from 1996-97 to 2000-2001, presented in Exhibit IV.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India in the form of States' Share of Union Taxes & Duties and Grants-in-aid for Plan and Non-Plan Schems. Their relative shares are shown in Figure 1. The revenue receipts grew at an average annual rate of 11.7 per cent during 1996-2001 and it was 15 per cent during 2000-2001 over 1999-2000.

Figure 1
Revenue Receipts 2000-2001
(Rupees in crore)
14822.72



1.5.2 Tax revenue

This constitutes the major share (61 per cent) of the revenue receipts. The rate of growth of tax revenue during 1996-2001 was erratic. The growth rate which was 9 per cent in 1996-97 declined to 8 per cent in 1998-99 and increased to 17 per cent in 2000-2001. This was mainly due to unsteady growth in 'Taxes on Sales, Trade etc' (though its relative contribution to the total receipts was almost constant during 1996-2001), and decrease in realisation of 'Stamps and Registration fees' during 1996-97 and 1998-99. Exhibit IV shows that the relative contribution of 'excise duty' varied between 13 and 17 per cent during the same period.

The tax revenue during 2000-2001, grew at the rate of 17 per cent over the previous year mainly on account of more receipts under 'Taxes on Sales Trade etc' (15 per cent), 'State Excise' (25 per cent), 'Stamps and Registration Fees' (13 per cent), 'Taxes on Vehicles' (12 per cent). While the increase under Taxes on Sales Trade etc., was mainly on account of rationalisation of tax rates on goods, the additional resource mobilisation included increase in tax rates on goods, sales to CSD made liable to tax at 4 per cent and increased rate of tax on beer. Under State Excise the increase was mainly due to increase in license fee/duty/litre fee/label approval fee and issue fee/import fee on rectified spirit/beer/Indian made liquor and levy of 25 per cent on license fee for shifting of liquor shop. Under Stamp and Registration fees, increase was due to rationalisation of fees under Karnataka Societies Registration Act. Under taxes on vehicles the increase was due to enhancement of tax on tourist vehicles and rationalisation of taxes on vehicles etc.

1.5.3 Non-tax revenue

Non-tax revenue constituted 11 per cent of the revenue receipts during 2000-2001 and its share varied between 11 and 14 per cent during 1996-2001. The growth rate during the above period was also erratic. After a negative growth during 1997-98 compared to 1996-97, it increased by 10 per cent during 1999-2000 over 1998-99. However, during 2000-2001 the growth rate was only 3 per cent of the previous year. There was a decline in receipts under 'interest receipts, dividends and profits' by 10 per cent. The receipts under 'General Services' was more by 25 per cent and that under 'Social Services' by 14 per cent and 'Economic Services' by 15 per cent. The reasons for poor growth rate were, low and declining cost of recoveries on many of the services provided by the Government, substantial investments in various public enterprises which were making huge losses perpetually yielding no/negligible returns.

1.5.4 States' share of Union taxes and duties and grants-in-aid from the Central Government

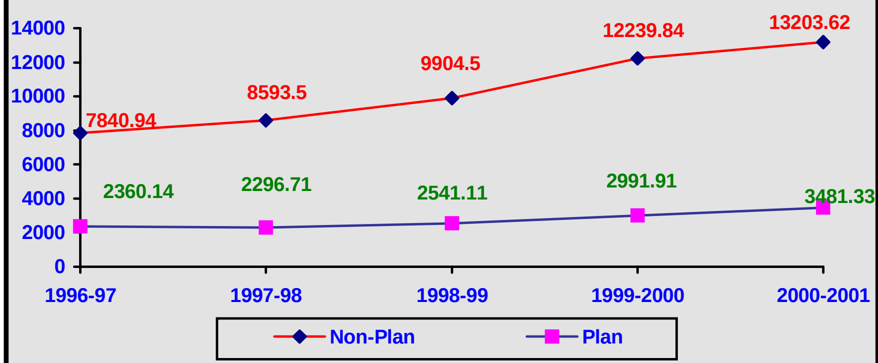
The States' share of Union taxes and duties (excise duties, taxes on income other than corporation tax, Corporation Tax, Customs, Service Tax and Taxes on Wealth) increased by 21 per cent during the year, while the grants in aid from the Central government increased by 9 per cent. However, as a percentage of revenue receipts they (both taken together) remained at 28 per cent, the same level at which they were in 1999-2000.

Consequent on the implementation of the recommendations of the Eleventh Finance Commission, all Union Taxes and Duties are shareable with the States. As a result of this, more receipts were noticed under 'Union Excise Duties', 'Customs', 'Corporation Tax', 'Taxes on Wealth' and 'Service Tax'. However, receipts under 'taxes on income other than corporation tax' decreased. Under grants-in-aid, there were more receipts under non-plan grants (Rs.95.32 crore), grants for State/Union Territory plan schemes (Rs.89.01 crore), grant for Central Plan Schemes (Rs.18.45 crore) and the percentage increase was 63, 17 and 14 respectively compared to previous year. There was substantial decrease (Rs.74.56 crore – 12 per cent) under grants for Centrally Sponsored Plan Schemes compared to 1999-2000.

1.6 Revenue expenditure

1.6.1 Revenue expenditure accounted for major portion (90 per cent) of the expenditure of the State Government and increased by 10 per cent during 2000-2001 over 1999-2000, the increase being higher on the Plan side (16 per cent). The rate of growth of Non-Plan component of revenue expenditure was 68 per cent and of Plan component was 48 per cent during 1996-97 to 2000-2001 (figure 2). The major constituents of Non-Plan revenue expenditure were salaries (31 per cent) which amounted to approximately Rs.4144.59 crore, and interest payment (18 per cent) which amounted to Rs.2387.55 crore during 2000-2001. The share of revenue expenditure varied between 88 and 90 per cent of the total expenditure during 1996-2001.

Figure 2
Growth of Plan and Non-Plan revenue expenditure
(Rupees in crore)



1.6.2 Sector-wise analysis shows that as a proportion of total expenditure, the share of General Services increased from 30 per cent in 1996-97 to 34 per cent in 2000-2001, the share of Social Services varied between 36 and 38 per cent and that of Economic Services between 26 and 31 per cent during the same period. In absolute terms, the expenditure on General Services increased by 81 per cent, from Rs.3106 crore in 1996-97 to Rs.5634 crore in 2000-2001 and the corresponding increase in expenditure on Social Services and Economic Services was only 66 and 37 per cent respectively. The increase in interest payments alone constitutes 47 per cent of increase in expenditure under General Services during 1996-2001.

The following table indicates sector-wise increase in expenditure.

	Total expenditure (Rupees in crore)		
Sector	**1999-2000**	**2000-2001**	**Increase (Percentage)**
General Services	5333	5634	301 (6)
Economic Services	4004	4388	384 (10)
Social Services	5479	6132	653 (12)
Grants-in-aid & contributions	415	531	116 (28)

General Services:- The expenditure under General Services was more by Rs.301 crore during the year (6 per cent) over the previous year. The increase was noticed mainly under 'Interest Payments' (Rs.375.25 crore, 19 per cent over the previous year), in which the payment of interest on 'Internal Debt – Market Loans' rose by Rs.78.10 crore (20 per cent) and there was an increase of Rs.179.37 crore (176 per cent) towards payment of interest on 'Other

Internal Debts'. Decrease was noticed under 'Elections' (Rs.43.60 crore) and 'Other Fiscal Services' (Rs.34.58 crore).

Economic Services:- Under Economic Services, the expenditure was more by Rs.384 crore (10 per cent), the increase being mainly under 'Energy' (Rs.150.90 crore – 19 per cent), 'Irrigation and Flood Control' (Rs.65.94 crore – 9 per cent), 'General Economic Services' (Rs.57.89 crore – 25 per cent), and under 'Transport' (Rs.57.21 crore – 16 per cent). Under 'Energy', increase was mainly under 'Power' (Rs.144.38 crore) on account of subsidy for rural electrification and Accelerated Power Development Project. Under 'Irrigation and Flood Control' it was under 'Major and Medium Irrigation' (Rs.56.95 crore) and under 'General Economic Services', the increase was under Secretariat – Economic Services (Rs.22 crore) and other General Economic Services (Rs.27.31 crore). Under 'Transport', the increase was mainly under 'Roads and Bridges' (Rs.44.86 crore) and Road Transport (Rs.12.70 crore).

Social Services:- Under Social Services, the increase was Rs.653 crore (12 per cent). The increase was mainly under 'Education, Sports, Art and Culture', (Rs.481.71 crore – 16 per cent), 'Social Welfare and Nutrition' (Rs.51.45 crore – 11 per cent), 'Welfare of Scheduled Caste, Scheduled Tribe and Other Backward Classes' (Rs.44.85 crore – 10 per cent) 'Water Supply, Sanitation, Housing and Urban Development' (Rs.41.27 crore – 7 per cent).

Grants-in-aid and Contributions:- The increase in expenditure of Rs.116 crore during the year (28 per cent) was towards 'Compensation and Assignments to Local bodies and Panchayathi Raj Institutions', on the recommendations of the State Finance Commission.

1.6.3 Interest payments

Interest payments increased by 98 per cent from Rs.1208 crore in 1996-97 to Rs.2388 crore in 2000-2001 as indicated here under.

(Rupees in crore)

	1996-97	**2000-2001**
Interest on Internal Debt	263.83	758.19
Interest on Loans and Advances from Government of India	727.34	1232.70
Interest on Public Account – Small Savings, PF etc. Reserve Funds, Deposits.	216.89	396.66
Total	**1208.06**	**2387.55**

This is further discussed in the section on financial indicators in Para 1.11.3 (ii).

1.6.4 Financial assistance to local bodies and others

The quantum of assistance (Grant-in-aid) provided to different bodies in the last five years was as under:

(In crore of rupees)

Description	1996-97	1997-98	1998-99	1999-2000	2000-2001	Total
Panchayat Samitis and Zilla Panchayats/Municipalities	2676.34	3371.33	3813.18	4591.43	4867.29	19319.57
Educational Institutions (including Universities)	266.76	301.00	348.37	411.08	586.31	1913.52
Co-operative Societies and Co-operative Institutions	24.17	5.78	7.21	10.81	5.25	53.22
Other Institutions and bodies	988.28	640.08	714.82	833.27	992.24	4168.69
Total	**3955.55**	**4318.19**	**4883.58**	**5846.59**	**6451.09**	**25455.00**
Percentage growth over previous year	25	9	13	20	10	-
Revenue receipts	9622.18	10613.39	11230.44	12906.45	14822.72	59195.18
Percentage of assistance to revenue receipts	41	41	43	45	44	-
Revenue expenditure	10201.08	10890.21	12445.61	15231.75	16684.95	65453.60
Percentage of assistance to revenue expenditure	39	40	39	38	39	-
Percentage of assistance to Panchayat Raj Institutions/ Municipalities etc. to total assistance.	68	78	78	79	75	-

A notable feature of the revenue expenditure of the State was that 38 to 40 per cent of it comprised of assistance to local bodies etc., during 1996-2001. The assistance from the State Government rose from Rs.3955.55 crore in 1996-97 to Rs.6451.09 crore in 2000-2001 and the rate of growth varied between 9 and 25 per cent. The increase was Rs.604.50 crore during 2000-2001 over 1999-2000 (10 per cent). Assistance to Panchayat Raj Institutions/ Municipalities accounted for 68 to 79 per cent of the total assistance to various bodies indicated in the table during 1996-2001 and it was 75 per cent of the total assistance during 2000-2001. The salary component constituted major portion of the assistance which was Rs.1551.77 crore in 1996-97 (58 per cent) rose to Rs.2477.85 crore (51 per cent) during 2000-2001. The assistance to other institutions and bodies comprise 'Assistance to Electricity Board' which is in the nature of subsidy discussed separately under para 1.8.4.

1.6.5 Loans and Advances by the State Government

The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives, non-Government institutions, etc., for developmental and non-developmental activities. The position for the last five years given below shows that while outstanding loans increased by 36 per cent during 1996-2001, repayments remained insignificant and ranged between 2 and 5 per cent of the loan outstanding at the close of the year. While the percentage of recovery of loans was 4 per cent in 1999-2000, it had come down to 2 per cent during 2000-2001. Such low recoveries of loans was one of the contributory factors of unsatisfactory financial condition of the State.

(Rupees in Crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Opening balance	3005.78	3218.97	3342.04	3494.74	3666.62
Amount advanced during the year	386.63	193.08	290.40	316.59	511.30
Repayments realised during the year	173.45	70.01	137.70	144.71	101.23
Closing Balance	3218.97	3342.04	3494.74	3666.62	4076.69
Net addition	213.18	123.07	152.70	171.88	410.07
Interest received and credited to revenue	324.24	161.70	219.33	271.07	129.42

An analysis of the loans advanced during 2000-2001 revealed that while the loans and advances grew by 62 per cent over the previous year, that about 13 per cent (Rs.64.83 crore) of the loans were made to Government Companies/Corporations etc., (New Government Electric Factory – Rs.20.31 crore, Mysore Minerals Limited – Rs.3.00 crore, Karnataka Agro Industries Corporation – Rs.4.50 crore, Chamundi Machine Tools – Rs.2.07 crore, Mysore Electrical Industries Limited – Rs.2.90 crore, Mysore Lamp works – Rs.6.92 crore, Sugar Factories – Rs.15.46 crore, Co-operative Spinning Mills – Rs.1.39 crore, Karnataka State Silk Co-operative Marketing Federation – Rs.2.44 crore, Karnataka State Financial Corporation – Rs.4.84 crore and Others – Rs.1.00 crore) towards salaries of their employees, for implementation of voluntary retirement scheme, conversion of sales tax/purchase tax arrears into interest free loan and discharge of contingent liabilities by invoking guarantees. Since these companies/corporations etc., have not been able to make repayments towards loans/payment of interest on them, the possibility of recovery of fresh loans advanced to these companies/corporations appears bleak.

1.6.6 Loans overdue

In respect of Rs.4077 crore loans advanced to various bodies, the detailed accounts of which are kept in the office of the Accountant General (Accounts & Entitlement), recovery of Rs.1068.56 crore (Principal Rs.423.63 crore and interest Rs.644.93 crore) was in arrears as on 31 March 2001. Few cases in which large amounts were overdue are as follows.

Sl. No.	Name of the Institution	Amount outstanding (Rs. in crore)			
		Principal	Interest	Total	Repayments during the year
01	Karnataka Agro Industries Corporation (Government Company)	9.27	15.61	24.88	-
02	Karnataka Urban Water Supply and Drainage Board (Autonomous Body)	114.28	189.82	304.10	0.56
03	Local Bodies and Municipalities (Autonomous Bodies)	31.40	49.03	80.43	0.12
04	Karnataka Housing Board (Autonomous Body)	16.66	79.10	95.76	0.36
05	Mangalore Chemicals and Fertilizers (Joint Stock Company)	10.49	21.89	32.38	-
06	Karnataka Co-operative Milk Producers Federation (Co-operative Body)	21.01	-	21.01	-
07	Bangalore Water Supply and Sewerage Board (Autonomous Body)	50.37	105.94	156.31	0.50
08	Karnataka Power Transmission Corporation Ltd (formerly Karnataka Electricity Board)	22.53	50.55	73.08	-
09	New Government Electric Factory (Government company)	51.82	13.19	65.01	0.20

As per the Finance Accounts of the State Government the loans over due as on April 1, 2000 in those cases was Rs.488.23 crore. However, during 2000-2001 against budgeted recoveries of Rs.164.67 crore under loans and advances made by State Government, the realisation was Rs.101.23 crore (61 per cent). As per the information available in the Finance Accounts, the loans over due in respect of Karnataka Antibiotics and Pharmaceuticals Ltd (Rs.113.89 lakh – under major head 6210), Karnataka Forest Plantation Corporation (Rs.116.00 lakh – under Major Head 6406), Mangalore Chemicals and Fertilizers (Rs.1049.00 lakh – under Major Head 6855), Karnataka Telecom, KEONICS, REMCO etc (Rs.1365.00 lakh under Major Head 6859), Karnataka Shipping Corporation (Rs.252 lakh – under Major Head 7052), Karnataka State Road Transport Corporation and Karnataka Truck Terminals Ltd (Rs.525 lakh – under Major Head 7055) and Mysore Sales International Ltd and Mysugar Company (Rs.800 lakh under Major Head 7465) were not reflected in the budget estimate of the State.

In respect of other departmental loans, the detailed accounts of which were maintained by the Departmental officers, none of the 13 Chief Controlling Officers furnished the statement of arrears in recovery of loan and interest as on 31 March 2001 to the Accountant General (Accounts & Entitlement).

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. Public Sector Undertakings (PSUs), Corporations, etc and loans and advances. The growth in capital expenditure was 69 per cent during 1996-2001. During 2000-2001, the share of capital expenditure in total expenditure was 10 per cent. Exhibit IV shows that most of the capital expenditure was on plan side of economic and social services. However, of the total capital outlay of Rs.1947 crore during 2000-2001, Rs.470.44 crore remained unspent with Government in the Public Account. Thus the amount was actually utilised to shore up the Ways and Means position of Government.

Sectoral analysis

General Services

Under General Services, the expenditure had come down by Rs.2.29 crore (5 per cent) during the year over previous year, mainly under 'Capital outlay on Public Works' (Rs.2.89 crore).

Social Services

Under Social Services, there was a decrease in expenditure by Rs.78.46 crore (21 per cent), mainly under 'capital outlay on Water Supply and Sanitation' (Rs.58.27 crore) and 'capital outlay on Medical and Public Health' (Rs.22.57 crore). There was increase in expenditure of Rs.16.11 crore under 'capital outlay on Family Welfare'.

Economic Services

Under Economic Services, there was an increase in expenditure by Rs.248.35 crore (18 per cent) during the year. The increase was mainly under 'Capital outlay on Major and Medium Irrigation' (Rs.102.21 crore) 'capital outlay on Roads and Bridges' (Rs.102.56 crore) and 'capital outlay on Forestry and Wild Life' (Rs.11.01 crore).

Out of investment of Rs.584.49 crore made in Krishna Bhagya Jala Nigam (Rs.506.51 crore), Karnataka Neeravari Nigam (Rs.75.98 crore) and Rajiv Gandhi Rural Housing Corporation (Rs.2.00 crore), an amount of Rs.470.44 crore (KBJNL - Rs.466.44 crore, KNNL - Rs.2.00 crore and RGRHC Rs.2.00 crore) remained in the Public Account. Thus the capital as well as plan expenditure during the year was inflated to the extent indicated above. Moreover, the entire amount of Rs.2.00 crore released for construction of 1.5 lakh Houses in rural areas through RGRHC remained unspent with State Government. These amounts were transferred by debit to Consolidated Fund (capital heads of account) and credit to Public Account (deposit heads of account) through transfer credit without actual cash outgo. The amount so transferred has been shown as investment out of Consolidated Fund.

1.8 Quality of Expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and revenue and capital. While the Plan and Capital expenditure are usually associated with asset creation, non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, in general, the Plan and Capital expenditure can be viewed as contributing to the quality of expenditure.

1.8.2 Wastage in public expenditure, diversion of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to funds/Deposit heads in the Public Account, after booking them as expenditure, can also to be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General services, to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators:

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1. Plan expenditure as a percentage of:					
- Revenue expenditure.	23	21	20	20	21
- Capital expenditure	75	76	83	85	88
2. Non-Plan expenditure as a percentage of					
- Revenue expenditure	77	79	80	80	79
- Capital expenditure	25	24	17	15	12
3. Capital expenditure (per cent)	10	10	12	10	10
4. Expenditure on General services (per cent)					
-Revenue	30	33	33	35	34
-Capital	3	3	2	3	2
5. Non-remunerative expenditure (Rs.in crore) on incomplete works (at end of the year)[1]	NA	458.56	370.97	3894.26	3294.80[2]
6. Unspent balances (Rs.in crore) under funds/deposit heads, booked as expenditure at the time of their transfer to the deposit head (test checked cases)	8.15	147.71	85.33	37.54	205.15

While the share of Plan expenditure on revenue account declined from 23 to 21 per cent, it increased from 75 to 88 per cent on capital account during 1996-2001. The capital expenditure in 2000-2001 though increased by 9 per cent over the previous year, its share in the total expenditure remained at the same percentage as in the previous year. The plan expenditure was however, inflated atleast to the extent of Rs.470.44 crore as discussed in para 1.7.1.

1.8.4 Subsidies

In the accounts, expenditure on subsidies are accounted under Social and Economic Services Sector under the Revenue Section as follows.

(Rupees in crore)

Major Head	Total Expenditure	Expenditure on subsidies
2216 – Housing	263.39	141.09
2225 – Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	473.96	5.70
2405 – Fisheries	25.77	1.65
2408 – Food, Storage and Ware Housing	308.40	295.04
2425 – Co-operation	42.04	2.51
2801 – Power	920.20	877.10
2851 – Village and Small Industries	224.40	73.99
2852 – Industries	99.52	69.09
3055 – Road Transport	48.09	47.89
3456 – Civil. Supplies	3.38	0.14
Total	**2409.15**	**1514.20**

[1] Information as furnished by the Public Works/Irrigation Divisions
[2] This includes Rs. 3224 crore invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Ltd, a Government undertaking.

During the year, expenditure on subsidies, in respect of certain major heads was Rs.1514.20 crore which constituted 9 percent of revenue expenditure (Rs.16684.95 crore) and 81 per cent of Revenue deficit (Rs.1862.23 crore) of the Government. The net increase in subsidy during the year was Rs.289.91 crore (24 per cent) over 1999-2000. The increase in Social Services was Rs.83.35 crore (Housing Rs.81.53 crore and Welfare of Scheduled Castes/Scheduled Tribes and Other Backward Classes – Rs.1.82 crore) and under Economic Services it was Rs.206.56 crore (Power – Rs.106.09 crore, Food Storage and Warehousing – Rs.3.66 crore, Industries – Rs.15.71 crore, Village and Small Industries – Rs.73.13 crore, Fisheries – Rs.0.99 crore, Road Transport – Rs.12.90 crore and Civil Supplies – Rs.0.01 crore and decrease in subsidy to Co-operatives - Rs.5.93 crore).

1.8.5 Plan Expenditure

Out of Rs.7274 crore of estimated plan expenditure, Rs.2848 crore related to various state plan programmes to be financed by State undertakings and other bodies out of their own resources outside the State budget and the balance Rs.4426 crore was provided in the State budget. The estimated receipts under Centrally Sponsored Schemes (CSS) and Central Plan Schemes (CPS) were Rs.823.13 crore and Rs.408.73 crore respectively. Against the estimated plan expenditure of Rs.5657.86 crore (budgeted State Plan Schemes, CSS and CPS), the expenditure was Rs.5670.38 crore.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

1.9.1 Investments and returns

Investments are made out of capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as follows:

(Rupees in crore)

Sl. No.	**Sector**	**Number of concerns**	**Amount invested**	
			As on 31.3.2001	**During 2000-2001**
1.	Statutory Corporations	27	904.26	7.99
2.	Government Companies	80	3002.56	633.04*
3.	Joint Stock Companies	43	3.89	1.30
4.	Co-operative Institutions	(A)	304.56	7.21
	Total		**4215.27**	**649.54**

(A) – Information is awaited from Department

* - includes Rs.90.00 crore released to KBJNL towards repayment of debt obligation.

The details of investments and the returns realized during the last five years by way of dividend and interest were as follows:

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (%)
1996-97	2477.32	9	0.38	13.75 & 13.85
1997-98	2727.74	9	0.34	12.30 & 13.05
1998-99	3107.19	8	0.25	12.15 & 12.50
1999-2000	3565.73	12	0.34	11.08, 11.85 & 12.25
2000-2001	4215.27	9	0.21	10.52, 10.82 & 11.57

Thus, while the Government was raising high cost borrowings from the market for its investments in Government Companies etc., these fetched insignificant returns. As of 31 March 2001, 37 of the Government Companies/ Corporations in which Government had invested Rs.320.32 crore, were running under loss and the accumulated loss was Rs.589.66 crore.

1.9.2 Incomplete Projects

As of 31 March 2001, according to the information made available by the Public Works/Irrigation divisions, there were 97 incomplete works in which Rs.3294.80 crore were blocked. This included Rs.3224 crore (98 per cent) invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Ltd, a Government undertaking.

1.9.3 Arrears of revenue

The arrears of revenue pending collection increased by 4 per cent during the year over the previous year. Their percentage varied between 13 and 20 per cent of the tax and non-tax revenue raised during the period 1996-2001. In absolute terms, arrears increased from Rs.1050 crore in1996-97 to Rs.1894 crore in 2000-2001. Of the arrears of Rs.1894 crore as of March 2001, Rs.436.16 crore (23 per cent) were pending under State Excise, out of which Rs.416.37 crore (95 per cent) was more than five years old and Rs.0.06 crore had been stayed by courts. The huge arrears in collection indicated poor tax compliance.

1.9.4 Ways and Means Advances(WMA) and Overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs.2.63 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking Ways and Means Advances from the Reserve Bank carrying interest or by selling Treasury Bills.

A revised scheme namely ‘WMA Scheme 2001’ effective from February 2001 has been formulated by RBI, the salient features of which are as below.

(i) The normal WMA limit is worked out by taking 2.4 per cent of the total of the average revenue receipts and capital expenditure for fiscal years 1997-98, 1998-99 and 1999-2000 and applying it for non-special category States.

(ii) The special WMA continues to be linked to investments made by State Government in Government of India securities.

The revised overdraft regulation scheme effective from February 2001 is as under;

(a) RBI will allow a State to run overdraft for 12 consecutive working days and beyond the 12 consecutive working days, the RBI and its agencies shall stop payments on behalf of the State Governments.

(b) The overdraft shall not exceed 100 per cent of the normal WMA limit. During the financial year, if the amount of overdraft exceeds 100 per cent of WMA limit on a second or any subsequent occasion, the State shall be given five working days notice to bring down the overdraft amount within the 100 per cent limit of normal WMA.

During the year 2000-2001, the Government did not avail any ways and means advances/overdraft from the Reserve Bank of India.

As already discussed in para 1.7 on capital expenditure, the State Government retained the investments made in certain companies, corporations, amounting to Rs.470.44 crore in Public Account instead of releasing these to the concerned implementing agencies. This helped the State Government in its ways and means position.

State Government stated that the Public Account is a legitimate method of financing the deficit and a direct correlation can not be drawn between the amounts retained in the Public Account and the Ways and Means position. The contention of the State Government is not acceptable as the Ways and Means position of the Government is directly related to the daily cash balance position of the Government's deposit account with Reserve Bank of India and any cash outflow affecting the daily minimum cash balance to be maintained in the accounts as per the agreement with RBI, would obviously affect the Ways and Means position of the State.

1.9.5 Deficit

1.9.5.1 Deficits in Government account represent gaps between receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers to the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.5.2 Revenue Deficit is the excess of revenue expenditure over revenue receipts. Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficits in Government account.

(Rupees in crore)

CONSOLIDATED FUND					
Receipt	**Amount**			**Disbursement**	**Amount**
Revenue	14822.72	**Revenue deficit: 1862.23**		Revenue	16684.95
Misc. capital receipts	Nil			Capital	1946.90
Recovery of loans & advances	101.23			Loans & advances disbursement	511.30
Sub Total	14923.95	**Gross fiscal deficit: 4219.20**		Sub Total	19143.15
Public debt	3371.23			Public debt repayment	520.55
Total	18295.18	**A: Deficit in CF: 1368.52**			19663.70
CONTINGENCY FUND					
Recoupment	14.75			Advances	53.49
		Net effect in Contingency Fund 38.74			
PUBLIC ACCOUNT					
Small savings, PF etc.	1209.21			Small savings, PF etc.	626.33
Deposits & advances	11979.06			Deposits & advances	11304.22
Reserve funds	214.83			Reserve funds	28.70
Suspense & Miscellaneous	9319.50			Suspense & Miscellaneous	9265.32
Remittances	2074.46			Remittances	2035.18
Total Public Account	24797.06	**B: Deficit in Consolidated Fund (1368.52) financed out of Surplus in Public Account (1537.31) and net effect of Contingency Fund (38.74) with increase in cash balance (130.05).**			23259.75

The table shows that the Revenue Deficit of Rs.1862.23 crore was met by borrowings. The Fiscal Deficit of Rs.4219.20 crore was financed by net proceeds of the public debt (Rs.2850.68 crore) and partly by the surplus from Public Account. Revenue deficit during the year decreased by 20 per cent compared to the previous year.

The budget estimate envisaged a revenue deficit of Rs.1942 crore which was revised to Rs.2175 crore based on the revised estimate consequent on revision of revenue receipts to Rs.14912 crore from Rs.15213 crore and revenue expenditure to Rs.17087 crore from Rs.17155 crore. While the actual receipts (Rs.14823 crore) were close to the RE, the actual expenditure was less by Rs.402 crore and hence reduction in revenue deficit. The expenditure was on lower side under General Services by Rs.154 crore (mainly under public works - Rs.78 crore, Interest Payments - Rs.30 crore, Miscellaneous General Services - Rs.24 crore and Treasury and Accounts Administration - Rs.11 crore) and under Social Services by Rs.257 crore (mainly under Family Welfare - Rs.67 crore Housing - Rs.65 crore, Welfare of Scheduled Castes/Scheduled Tribes and Other Backward Classes - Rs.44 crore, General Education - Rs.41 crore, Social Security and Welfare - Rs.29 crore) compared to RE. However, when compared to the actual revenue deficit (Rs.1862 crore) against the estimated deficit in original budget estimates (Rs.1942 crore) the variation was Rs.80 crore.

1.9.5.3 Application of the borrowed funds (Fiscal Deficit)

The fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for meeting Capital Expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of Karnataka for the last five years.

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-01
RD/FD	0.30	0.17	0.39	0.54	0.44
CE/FD	0.59	0.75	0.56	0.42	0.46
Net loans/FD	0.11	0.08	0.05	0.04	0.10
Total	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

The utilisation of borrowed funds to meet the revenue expenditure had risen from 30 per cent in 1996-97 to 54 per cent in 1999-2000. However, when compared to the position in 2000-2001, the application of borrowed funds to revenue expenditure was 44 per cent. There was a significant decline in use of borrowed funds for capital expenditure from 59 per cent in 1996-97 to 46 per cent in 2000-2001. Though there was reduction in revenue deficit during 2000-2001 by Rs.463 crore compared to 1999-2000 the reduction in fiscal deficit was only Rs.57 crore. Capital Outlay increased by Rs.168 crore (Rs.1779 crore – Rs.1947 crore) and loans disbursed by Rs.194 crore (Rs.511 crore – Rs.317 crore). Again the capital outlay included unspent amount of Rs.470.44 crore (Para 1.7) which was used to shore up the Government's ways and means position. Thus decline in revenue deficit did not bring out any real improvement in Government's financial position.

1.9.6 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, Government companies and cooperative institutions etc., and for payment of interest and dividend by them. They constitute contingent liability of the State. An Act under Article 293 of the Constitution had been passed by the State Legislature (Act 11 of 1999) laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. As per the Act, the total outstanding Government guarantees as on first April of any year shall not exceed 80 per cent of the State's Revenue Receipts of the second preceding year as in the books of the Accountant General, Karnataka. This ceiling is however not applicable to additional borrowings for implementation of Upper Krishna Project for the purpose of utilising resources as per Bachawat Award. The maximum amount of guarantees given by the Government was Rs. 16425 crore and the amount outstanding at the end of 2000-2001 was Rs.13004 crore. This includes the guarantee of Rs 2990.41 crore given to Krishna Bhagya Jala Nigam Limited which is a committed liability of Government as budgetary support was provided for discharge of loan and interest. The amount of outstanding guarantees increased by 166 per cent during 1996-2001. During 2000-2001 an amount of Rs.9.05 crore had been discharged by the Government towards the liability of three concerns• by invoking guarantee.

During 1999-2000, the State Government established a 'Guarantee Reserve Fund' with the intention of providing for any contingency on guarantee being invoked in case of default by any borrowers. The initial corpus of the fund was Rs.100 lakh. During 2000-2001, though an amount of Rs.100 lakh was provided towards contribution to Guarantee Reserve Fund, no amount was transferred to the fund account. The fund account was not operated for discharge of liabilities during 2000-2001.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five- year period, the total liabilities of the Government had grown by 129 per cent. This was on account of 290 per cent growth in internal debt, 70 per cent growth in loans and advances from Government of India and 139 per cent growth in other liabilities. During 2000-2001, Government borrowed Rs.825.61 crore in the open market at interest rates of 10.52 per cent (Rs.428.64 crore), 10.82 per cent (Rs.146.97 crore) and 11.57 per cent (Rs.250 crore) per annum.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities[α]	Total liabilities	Ratio of debt to GSDP
1996-97	2304.46	6884.79	9189.25	4306.15	13495.40	0.20
1997-98	2684.89	7761.71	10446.60	5180.47	15627.07	0.22
1998-99	3449.86	9015.35	12465.21	6151.35	18616.56	0.22
1999-2000	5547.95	9599.31	15147.26	7139.85	22287.11	0.23
2000-01	7742.36	10255.57	17997.93	8573.19	26571.12	0.25

• Karnataka Agro Industries Corporation – Rs.176.74 lakh towards repayment of outstanding loans from Banks (met out of revenue account)
2. Karnataka State Silk Marketing Co-operative Federation – Rs.244.85 lakh towards repayment of loan and interest due to Canara Bank.
3. Karnataka State Finance Corporation – Rs.483.90 lakh towards payment of minimum dividend by the Corporation.

α Other liabilities include small savings, provident funds, reserve funds and deposits, etc.

1.10.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

(Rupees in crore)

	1996-97	**1997-98**	**1998-99**	**1999-2000**	**2000-01**
Internal Debt					
-Receipt	341.68	431.41	871.96	2244.92	2295.58
-Repayment (Principal +Interest)	283.93	334.18	442.93	648.08	859.35
-Net funds available (per cent)	57.75 (17)	97.23 (23)	429.03 (49)	1596.84 (69)	1436.23 (63)
Loans & advances from Government of India					
-Receipt during the year	1065.26	1133.18	1551.99	927.72	1075.65
-Repayment (Principal + Interest)	948.10	1106.77	1276.71	1498.62	1652.09
-Net funds available (per cent)	117.16 (11)	26.41 (2)	275.28 (18)	(-)570.90 -	(-) 576.44 -
Other liabilities (PF etc)					
-Receipt during the year	5926.88	6456.28	7720.45	10744.65	13265.64
-Repayments (Principal+Interest)	5428.98	5842.06	7051.89	10122.29	12228.96
-Net funds available (per cent)	497.90 (8)	614.22 (10)	668.45 (9)	622.31 (6)	1036.68 (8)

It would be seen that no amount out of the borrowings from Government of India was available for capital expenditure and instead 23 percent of the net funds available from internal debts and other liabilities were to be used for repayment of these borrowings. Considering the almost two fold increase in outstanding debts during last five years, the availability of funds through Public borrowings would be reduced further.

1.11 Indicators of financial performance

1.11.1 A Government may wish either to maintain its existing level or increase its level of activity. For maintaining its existing level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity[*], while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

[*] There are exceptions to this, notably transfer of Plan to the Non-Plan at the end of Plan period.

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards, accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility, and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Appendix. Exhibit V indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-2001. The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

Exhibit V

Financial indicators for Government of Karnataka

	1996-97	1997-98	1998-99	1999-2000	2000-01
Sustainability					
BCR (Rs in crore)	1060	1337	538	(-) 601	319
Primary Deficit (PD) (Rs in crore)	736	216	1495	2264	1831
Interest Ratio	0.06	0.08	0.09	0.10	0.12
Capital outlay/Capital receipts	0.78	0.68	0.63	0.49	0.55
Total Tax receipts/GSDP^	0.11	0.12	0.10	0.10	0.11
State Tax Receipts/GSDP^	0.09	0.09	0.08	0.08	0.08
Return on Investment ratio	0.0038	0.0034	0.0025	0.0034	0.0021
Flexibility					
BCR (Rs in crore)	1060	1337	538	(-)601	319
Capital repayments/Capital borrowings	0.17	0.20	0.17	0.15	0.15
State tax receipts/GSDP^	0.09	0.09	0.08	0.08	0.08
Debt/GSDP^	0.20	0.22	0.22	0.23	0.25
Vulnerability					
Revenue Deficit(RD) (Rs in crore)	579	277	1215	2325	1862
Fiscal Deficit(FD) (Rs in crore)	1944	1610	3112	4276	4219
Primary Deficit(PD) (Rs in crore)	736	216	1495	2264	1831
PD/FD	0.38	0.13	0.48	0.53	0.43
RD/FD	0.30	0.17	0.39	0.54	0.44
Outstanding Guarantees/revenue receipts	0.51	0.53	0.71	0.76	0.88
Assets/Liabilities	1.0	0.99	0.93	0.85	0.80

Note: 1. Fiscal deficit has been calculated as: Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Non-loan capital receipts.

2. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as Internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF etc., + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

^ As the GSDP figures were revised by the State Government, the figures of ratio for the years 1996-97 to 1999-2000 as shown in previous audit report had to undergo change.

1.11.3 The behaviour of the indices/ratios is discussed below.

(i) Balance from Current Revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had positive BCR during 1996-99 and it was negative in 1999-2000. In 2000-2001 the BCR became positive implying that the State had a small resource left for spending on plan programme after meeting the non-plan expenditure.

(ii) Interest ratio

It is defined as:

$$\frac{\text{Interest payments – Interest receipts}}{\text{Total revenue receipts – interest receipts}}$$

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts.

In Karnataka the ratio has significantly increased by 0.06 basis points from 0.06 in 1996-97 to 0.12 in 2000-2001. During last five years there was 98 per cent increase in the interest payment. The increase in interest payment over the previous year (Rs.375 crore) was 19 per cent. Due to rising interest ratio, availability of funds for programme spending decreased.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term inasmuch as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance.

In Karnataka, during 1996-2001, there was steady decline in the ratio indicating that increasingly the capital receipts were applied to cover the revenue deficit instead of capital outlay. This was contra indicator to sustainability. Even the available capital receipts were applied to investments which fetched negligible return which decreased from 0.78 (1996-97) to 0.55 (2000-2001) and projects which remained incomplete.

(iv) Tax receipts Vs Gross State Domestic Product (GSDP)

Tax receipts consist of state taxes and state's share of central taxes. The latter can also be viewed as central taxes paid by people living in the state. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility.

Time series analysis shows that in case of Karnataka the ratio was between 0.10 and 0.12. Similarly, the ratio of state tax receipts compared to GSDP had come down by 0.01 point during 2000-2001 compared to 1996-97. Though revenue deficit increased nearly six times in 2000-2001 over 1997-98, there was no appreciable change in the tax GSDP ratio indicating Government's preference for relying on borrowings to meet its deficits. However, the expanding debt and interest burden indicated the limited scope of further borrowings. Therefore there was need to improve its own source of revenue in relation to the growth in GSDP.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table presents the return on Government's investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Institutions which was virtually nil throughout the period.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Karnataka the ratio decreased during 1996-97 to 2000-2001 from 0.17 to 0.15 indicating a marginal improvement in the position.

(vii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender.

In the case of Karnataka, this ratio has moved up from 0.20 in 1996-97 to 0.25 in 2000-2001, indicating a worsening condition. During the year total debt increased by 19 per cent over the previous year as discussed in para 1.10.1. This has also increased the interest burden of the State significantly. Further, the indebtedness of the State needs to be considered taking into account off-budget borrowing as commented in para 1.12 (i).

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, the higher the ratio worse off the state because that would indicate that the debt burden is increasing without adding to the repayment capacity of the state.

During 2000-2001, 44 per cent of the borrowings were applied to meet revenue expenditure as compared to 30 per cent in 1996-97. This indicated a steep decline in the financial position of the State. Considering the low availability of the borrowed funds for capital formation, increasing use of it for revenue expenditure, indicated worsening financial condition of the State.

(ix) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments which indicates availability of borrowed funds for other applications after meeting the interest burden. In case of Government of Karnataka, this ratio has increased from 0.38 to 0.43 during 1996-2001. This also should be seen in the context of increased ratio of RD/FD as already discussed earlier {sub-para (viii)}. Together, this indicates the strain on State's financial position.

(x) Guarantees vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay *viz*., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government.

In case of Karnataka this ratio has increased from 0.51 in 1996-97 to 0.88 in 2000-2001, indicating a huge increase in the risk exposure of the State revenues to the outstanding guarantees and indicated the vulnerability of the revenues of the State to such liabilities. This increase during 2000-2001 was partly due to the guarantee provided to KBJNL vide comments in Para 1.9.6.

(xi) Assets vs Liabilities

This ratio indicates the solvency of the Government. It refers only to the financial assets/liabilities referred to in Exhibit. I. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. This ratio has come down from a position of 1.00 in 1996-97 to 0.80 during 2000-2001 indicating that the liabilities are fast overtaking the assets. This ratio may be considered in the context of the low capital outlay/capital receipts ratio which showed that more than 50 per cent of the capital receipts were not available for asset formation. The State was thus moving to a vulnerable position over the years.

1.12 Transparency

(i) Off Budget-Borrowings

The Constitution of India provides for a State Government to borrow from open market, financial institutions and Government of India, upon the security of the Consolidated Fund of the State. Apart from borrowings under the above Constitutional provision the Government of Karnataka had resorted to borrowing through few companies/corporations to access funds from the market. The borrowings made by these concerns are termed as 'Off Budget-Borrowings'. The discharge of these liabilities is covered by guarantee given by the State Government. The repayment of principal and interest thereon are required to be provided for in the budget. Information sought on such off budget borrowings was not received from the Government (December 2001). The following analysis is based on the information obtained from the organisations concerned. The projection of the plan size of the State Government included programmes proposed to be financed by these concerns through their borrowings/own resources outside the State Budget. The projected plan size (State Plan Schemes) of the State Government during the last three years was as follows.

(Rs.in crore)

Year	Total Plan Size	Budget support of State Government	Resource outside the State Budget and its percentage to the total plan size
1998-99	5353	3548	1805 (34)
1999-2000	5888	3826	2062 (35)
2000-2001	7274	4426	2848 (39)

The above table indicates that the borrowings outside the State Budget are increasing over the years. However, actual amount of borrowings against these projections were not furnished by the Government.

The details of few corporations/companies, which borrowed funds from market during 1998-99 to 2000-01 are as under.

(Rs.in crore)

Concern	1998-99	1999-2000	2000-2001
Krishna Bhagya Jala Nigam Ltd	646.61	535.71	1301.68
Karnataka Neeravari Nigam Ltd.	-	475.32	185.65
Rajiv Gandhi Rural Housing Corporation	-	62.50	73.56
Karnataka Road Development Corporation	-	-	50.00
Mahithi Bonds (KEONICS)	-	-	60.00
Karnataka State Industrial & Investment Development Corporation	-	-	37.50

As the repayment of principal and interest for the above borrowings is the responsibility of the State Government these are the committed liabilities of the Government instead of contingent liabilities as in the case of guarantees. Therefore, the indebtedness of the State should be considered taking these commitments into account.

During 1998-2001, Government extended budgetary support of Rs.1202.28 crore (out of which Rs.466.44 crore was parked in Public Account of the State Government as already discussed in para 1.7.1.) for repayment of principal (Rs.132.83 crore) and payment of interest (Rs.1069.45 crore) in respect of bonds floated in the market and loans availed from HUDCO by Krishna Bhagya Jala Nigam Ltd. Similarly, an amount of Rs.93.86 crore(out of which Rs.2.00crore was retained in Public Account -para 1.7.1.) was released to Karnataka Neeravari Nigam Ltd by State Government during 1999-2001 towards payment of interest on bonds floated by the Nigam.

Taking into account these off budget-borrowings (excluding re-payment of Rs.90 crore in respect of KBJNL) of the State, the internal debt of State would increase to Rs.11080.89 crore, Public Debt to Rs.21336.06 crore and total liabilities to Rs.29909.65 crore to end of 2000-2001 as against Rs.7742.36 crore, Rs.17997.93 crore and Rs.26571.12 crore respectively. In view of this the ratio of debt to GSDP would increase to 0.28 from 0.25 and interest ratio to 0.15 from 0.12. Thus the fiscal situation of the State Government is not truly exhibited in the accounts.

Further, State Government borrowed an amount of Rs.342 crore from market through Karnataka State Financial Corporation (Rs.230 crore in 1998-99 and Rs.112 crore in 1999-2000) to clear the backlog of industrial subsidy. An amount of Rs 50.39 crore and Rs 58.92 crore was released to the Corporation in 1999-2000 and 2000-2001 respectively towards repayment of principal and interest.

State Government opined that the position of off-budget borrowings is brought out explicitly in the overview of the budget and also in the Medium Term Fiscal Plan and these documents are placed before Legislature and hence the budget is transparent.

The comment however is on non-depiction of true picture of State Government's finances in the accounts which do not reflect the true liability of State Government on account of off-budget borrowings and not the transparency in budget documents.

(ii) Budget

There was no delay in submission of the budget and its approval.

A detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure (Chapter II) indicated defective budgeting as evidenced by persistent surrenders of significant amounts every year *vis-a-vis* the budget grant and significant variations (excess/saving) between the budget grant and actual expenditure.

Further, test check of vouchers/accounting adjustments carried out during March 2001, revealed that Rs.205.15 crore (including Rs.178.31 crore towards infrastructure cess adjusted in accounts) was transferred to Reserve Fund/Deposit Account in the Public Account while the concerned heads also showed the expenditure thus inflating the expenditure under the Consolidated Fund during the year.

As against overdue loans of Rs.423.63 crore budgeted recoveries were only Rs.164.67 crore. However the actual recovery was Rs.101.23 crore only. In respect of 8 Companies/corporations while the Finance Accounts showed overdue loans of Rs.42.21 crore no estimates of recoveries were projected.

(iii) Accounts

Timely compliance with the extant accounting system is an important element to judge the transparency of the system. The Treasury/various accounting authorities are obliged to maintain and render accounts to the Accountant General (Accounts & Entitlement) on the due dates. However, it was observed that there were large delays in the submission of accounts during the year due to which the monthly accounts did not adequately reflect the actual expenditure. The details are as below.

Accounts received from	Number of Officers	Delay in submission of accounts (No. of occasions)			
		> 15 days	> 1 month	> 2 months	>3 months
Treasuries	30	16	2	-	-
Public Works/ Forest Divisions	179	78	49	32	-
Others	14	45	20	10	5

iv) Adverse Balances

Adverse balances in the accounts arise largely due to accounting errors/ situation arising out of rationalisation of the classification of accounts/administrative re-organisation, which break up one accounting unit into many. For instance, against the accounting head of any loan or advance, the negative balance will indicate more repayment than the amount advanced. The Finance Accounts of the State Government for the year 2000-2001 indicated adverse balances of Rs.36.33 crore in 43 cases under loans/deposit/fund head etc. Out of this, Rs.4.61 crore had been analysed and additional information and results of reconciliation were awaited from Treasury and Departmental Officers for clearance of this balance.

1.13 Conclusion

The negative BCR during 1999-2000, rose to Rs.319 crore during the year. Though the revenue deficit had declined by 20 per cent during the year, 65 per cent of the borrowings were utilised to meet the deficit. Book adjustments in the accounts were made towards payment of subsidies, transfer of infrastructure cess collected etc., without cash outflow depriving the institutions of the cash benefit. The increase in interest payments alone constituted 47 per cent of increase in expenditure under General Services during 1996-2001. The increasing trend in interest ratio over the years also indicated decrease in availability of funds for programme spending. The capital receipts were not available for investments. Borrowing to finance unproductive expenditure created self propelling indebtedness and investment in sinking public enterprises contributed to deteriorating financial position of the State. Though the capital expenditure in 2000-2001 increased by 9 per cent over the previous year, its share in the total expenditure remained at the same percentage as in the previous year. The stagnant ratio of State Taxes to GSDP indicated the States preference to meet the deficits through borrowings rather than improving tax compliance. The increasing ratio of debt to GSDP indicated reduction in Governments ability to meet its debt obligations. In addition to the market loans and loans from Central Government, the State Government tried to soften its budget constraint in a non-transparent manner through special purpose vehicles (like KBJNL) which do not have repayment capacity on their own. Thus the financial position of the State is not truly reflected in the accounts.

Appendix

Part A. Government Accounts

I. Structure: The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Part I: Consolidated Fund

All receipts of the State Government from revenues, loans and recoveries of loans go into the Consolidated Fund of the State, constituted under Article 266(1) of the Constitution of India. All expenditure of the Government is incurred from this Fund from which no amount can be withdrawn without authorization from the State Legislature. This part consists of two main divisions, namely, Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital Account (Capital Receipts, Capital Expenditure, Public Debt and Loans, etc.).

Part II. Contingency Fund

The Contingency Fund created under Article 267(2) of the Constitution of India is in the nature of an imprest placed at the disposal of the Governor of the State to meet urgent unforeseen expenditure pending authorization from the State Legislature. Approval of the State Legislature is subsequently obtained for such expenditure and for transfer of equivalent amount from the Consolidated Fund to Contingency Fund. The corpus of this Fund authorized by the Legislature during the year was Rs 80 crore.

Part III. Public Account

Receipts and disbursements in respect of small savings, provident funds, deposits, reserve funds, suspense, remittances, etc., which do not form part of the Consolidated Fund, are accounted for in Public Account and are not subject to vote by the State Legislature.

II. Form of Annual Accounts

The accounts of the State Government are prepared in two volumes *viz*., the Finance Accounts and the Appropriation Accounts. The Finance Accounts present the details of all transactions pertaining to both receipts and expenditure under appropriate classification in the Government accounts. The Appropriation Accounts, present the details of expenditure by the State Government *vis-a-vis* the amounts authorized by the State Legislature in the budget grants. Any expenditure in excess of the grants requires regularization by the Legislature.

Part B. List of Indices/ratios and basis for their calculation

(Referred to in paragraph 1.11)

Indices/ratios		Basis for calculation
Sustainability		
Balance from the current revenue	B C R	Revenue Receipts minus all Plan grants (under Major Head 1601- 02,03,04 & 05) and Non-Plan revenue expenditure
	Revenue Receipts	Exhibit II
Primary Deficit		Fiscal deficit minus interest payment
Interest Ratio		$\frac{\text{Interest payments-Interest receipts}}{\text{Total revenue receipts – Interest receipts}}$
Capital Outlay Vs Capital receipts	Capital Outlay	Capital expenditure as per Statement No. 12 of the Finance Accounts
	Capital receipts	Miscellaneous Capital Receipts Internal Loans (net of ways and means advances) + Loans and advances from Government of India + Net receipts from small savings, PF etc. + Repayments received of loans advanced by the State Government – Loans advanced by the State Government
State tax receipts Vs GSDP	State tax receipts	Statement No.11 of Finance Accounts
Total tax receipts Vs GSDP	Total tax receipts	State tax receipts Plus State's share of Union Taxes
Flexibility		
-Balance from current revenue		As above
-Capital repayments Vs Capital borrowings	Capital Repayments	Disbursements under Major heads 6003 and 6004 minus repayments on account of Ways and Means Advances/Overdraft under both the major heads
	Capital Borrowings	Addition under Major Heads 6003 & 6004 minus addition on accounts of Ways & Means advances/overdraft under both the major heads
Incomplete Projects		Paragraph 1.9.2 of the Audit Report
-Total Tax Receipts Vs GSDP	Total tax receipts	As above
-Debt Vs GSDP	Debt	Borrowings and other obligations at the end of the year (Statement No 4 of the Finance Accounts)
Vulnerability		
-Revenue Deficit		Paragraph No 1.9.5.2 of the Audit Report
-Fiscal Deficit		-------do---------------
-Primary Deficit Vs Fiscal Deficit	Primary Deficit	Fiscal Deficit minus interest payments
Total outstanding guarantees including letters of comfort Vs Total revenue receipts of the Government	Outstanding guarantees	Exhibit IV
	Revenue Receipts	Exhibit II
Assets Vs Liabilities	Assets and Liabilities	Exhibit I
	Debt	As above

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