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 trends in government receipts and expenditure, 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 defined 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 assets as on 31 March 2002, compared with the corresponding position on 31 March 2001. 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 etc. The assets comprise of capital outlay, loans and advances given by the Government, advances, remittance balances and cash balances. It would be seen from Exhibit I that while the liabilities grew by 21 per cent, the assets grew by only 12 per cent during 2001-02, mainly as a result of a very high (59 per cent•) growth in the deficit on the Government account. This shows an overall deterioration in the financial condition of the Government.

• The percentage growth in the deficit on Government Account was up by 3 per cent during the year due to withdrawal of excess credit afforded in previous years in the books of accounts.

EXHIBIT-I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF KARNATAKA AS ON 31 MARCH 2002

(Rupees in Crore)

As on 31.3.2001		Liabilities		As on 31.3.2002
7742.36		**Internal Debt**		**10,480.64**
	4490.64	Market Loans bearing interest	5538.12	
	1.24	Market Loans not bearing interest	2.67	
	552.74	Loans from Life Insurance Corporation of India	690.01	
	703.39	Loans from other Institutions	791.38	
	1994.35	Loans from RBI – Spl. Securities issued to National Small Savings fund of the Central Government.	3458.46	
10255.57		**Loans and Advances from Central Government -**		**11,951.88**
	199.50	Pre 1984-85 Loans	161.83	
	4464.54	Non-Plan Loans	4335.78	
	5404.89	Loans for State Plan Schemes	7256.50	
	57.90	Loans for Central Plan Schemes	55.55	
	128.74	Loans for Centrally Sponsored Plan Schemes	142.22	
26.51		**Contingency Fund**		**72.11**
4125.81		**Small Savings, Provident Funds, etc.**		**4698.53**
3038.56		**Deposits**		**3888.09**
1431.28		**Reserve Funds**		**1568.06**
1262.34		**Suspense and miscellaneous balances**		**1110.39**
44.14		**Remittance balances**		**-**
28.30		**Shortfall with Reserve Bank Deposit**		**3.60**
4.88		**Remittances in transit***		**5.45**
27959.75		**Total**		**33778.75***

		Assets		
17393.16		**Gross Capital Outlay on Fixed Assets -**		**19,498.83**
	4213.84	Investments in shares of Companies, Corporations, etc.	4838.98	
	13179.32	Other Capital Outlay	14659.85	
4076.69		**Loans and Advances -**		**4,556.46**
	1332.79	Loans for Power Projects	1335.73	
	2726.85	Other Development Loans	3170.90	
	17.05	Loans to Government servants and Miscellaneous Loans	49.83**	
13.66		**Other Advances**		**15.80**
		Remittance balances		**36.75**
993.06		**Cash -**		**973.75**
	2.42	Cash in treasuries	5.71	
	3.52	Departmental Cash Balance including permanent Advances	5.11	
	964.67	Cash Balance Investments	941.28	
	22.45	Investment from earmarked funds	21.65	
5483.18		**Deficit on Government Accounts**		**8,697.16**
	3620.95	Accumulated Deficit up to March 2001	5483.18	
	1862.23	Add Revenue Deficit of the current year	3284.45^	
	-	Deduct Other adjustments	70.47	
27959.75		**Total**		**33,778.75**

* - 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)

** - Major Head 7610 – Loans to Government Servants etc., showed adverse balance (Rs.1.46 crore) in the books of accounts during the year 2001-02.

^ - Revenue deficit during the current year stands inflated at least to the extent of Rs.138.37 crore on account of withdrawal of excess credit afforded in previous years.

* This reflects an adjusting entry on account of remittances between Treasuries and Currency chest remaining unadjusted as on 31 March 2002.

EXHIBIT-II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-2002

(Rupees in Crore)

	Receipts			Disbursements				
2000-2001		**2001-2002**	**2000-2001**					**2001-2002**
	Section-A: Revenue				Non-plan	Plan	Total	
14822.72	**I. Revenue receipts**	**15321.25***	**16684.95**	**I. Revenue expenditure-**				**18605.70**
9042.68	**(i)** -Tax revenue 9853.27		**5633.62**	**General services**	**6209.13**	**6.18**	**6215.31**	
				Social Services-				
1659.97	**(ii)** -Non-tax revenue 1093.42		3482.61	-Education, Sports, Art and Culture	2751.85	749.56	3501.41	
			903.56	-Health and Family Welfare	612.61	373.71	986.32	
2573.83	**(iii)** -State's share of Union Taxes & Duties 2623.38		642.10	-Water Supply, Sanitation, Housing and Urban Development	31.40	682.01	713.41	
			20.24	-Information and Broadcasting	15.30	3.77	19.07	
246.04	**(iv)** -Non-Plan grants 212.74		473.96	-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	144.41	401.54	545.95	
			67.84	-Labour and Labour Welfare	33.90	36.19	70.09	
621.71	**(v)** -Grants for State Plan Schemes 733.43		513.77	-Social Welfare and Nutrition	381.62	181.70	563.32	
			27.83	-Others	28.81	0.43	29.24	
678.49	**(vi)** -Grants for Central and Centrally sponsored Plan Schemes 805.01		**6131.91**	**TOTAL**	**3999.90**	**2428.91**	**6428.81**	
				Economic Services-				
			1169.72	-Agriculture and Allied Activities	711.97	376.14	1088.11	
			456.62	-Rural Development	74.00	404.71	478.71	
			15.78	-Special Areas Programmes	73.62	15.13	88.75	
			764.71	-Irrigation and Flood Control	133.63	57.13	190.76	
			939.29	-Energy	2304.61	32.08	2336.69	
			340.32	-Industry and Minerals	128.57	217.31	345.88	
			404.38	-Transport	395.91	117.71	513.62	
			3.21	-Science, Technology and Environment	0.01	3.06	3.07	
			293.96	-General Economic Services	67.14	285.05	352.19	
			4387.99	**Total**	**3889.46**	**1508.32**	**5397.78**	
			531.43	-Grants-in-aid and Contributions	**563.80**	**-**	**563.80**	
1862.23	**II. Revenue deficit carried over to Section B**	**3284.45****	-					
16684.95	**Total**	**18605.70**	**16684.95**	**TOTAL**	**14662.29**	**3943.41**		**18605.70**
	Section-B – Others							
829.83	**III** Opening Cash balance including Permanent Advances and Cash Balance Investments & investments from earmarked funds.	959.88	-					
Nil	**IV** Miscellaneous Capital receipts	Nil	**1946.90**	**II Capital Outlay-**				**2105.67**
			47.65	**General Services-**	**-**	**51.54**	**51.54**	
				Social Services-				
			6.14	-Education, Sports, Art and Culture	1.00	3.47	4.47	
			101.76	-Health and Family Welfare	-	99.52	99.52	
			140.19	-Water Supply, Sanitation, Housing and Urban Development	-	55.93	55.93	
			0.15	-Information and Broadcasting	-	0.03	0.03	

		Receipts					Disbursements				
2000-2001				**2001-2002**	**2000-2001**						**2001-2002**
					47.49		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	-	48.38	48.38	
					1.11		-Social Welfare and Nutrition	-	2.65	2.65	
					1.86		-Other Social Services	-	1.32	1.32	
					298.70		**Total**	**1.00**	**211.30**	**212.30**	
							Economic Services-				
					31.99		-Agriculture and Allied Activities	-	27.64	27.64	
					1.57		-Rural Development	0.02	-	0.02	
					1221.39		-Irrigation and Flood Control	205.93	1318.93	1524.86	
					49.84		-Industry and Minerals	-	16.88	16.88	
					290.19		-Transport	-	264.66	264.66	
					5.57		-General Economic Services	0.08	7.69	7.77	
					1600.55		**TOTAL**	**206.03**	**1635.80**	**1841.83**	
101.23	**V.**	**Recoveries of Loans and Advances-**		**34.70**	**511.30**	**III**	**Loans and Advances disbursed-**				**514.47**
73.31		-From Power Projects	-		40.75		-For Power Projects			2.94	
10.18		-From Government Servants	9.95		8.00		-To Government Servants			6.32	
17.74		-From others	24.75		462.55		-To Others			505.21	
					1862.23	**IV**	**Revenue deficit brought down**				**3284.45**
3371.23	**VI**	**Public debt receipts-**		**5146.36^**	**520.55**	**V**	**Repayment of Public Debt-**				**711.77**
2295.58		-Internal debt other than Ways and Means Advances and Overdraft	2969.48		101.16		-Internal debt other than Ways and Means Advances & Overdraft			231.20	
1075.65		-Loans and Advances from the Central Government	2176.88		419.39		-Repayment of Loans and Advances to Central Government			480.57	
14.75	**VII**	**Contingency Fund (recoupement)**		**53.49**	**53.49**	**VI**	**Expenditure from Contingency Fund**				**7.89**
24797.06	**VIII**	**Public Account Receipts-**		**28501.77**	**23259.75**	**VII**	**Public Account Disbursements-**				**27107.24**
1209.21		-Small Savings and Provident funds etc.	1286.33		626.33		-Small Savings and Provident Funds etc.			713.61	
214.83		-Reserve funds	232.55		28.70		-Reserve Funds			95.77	
9319.50		-Suspense and Miscellaneous	10754.95		9265.32		-Suspense and Miscellaneous			10836.44	
2074.46		-Remittances	2077.58		2035.18		-Remittances			2158.47	
11979.06		-Deposits and Advances	14150.36		11304.22		-Deposits and Advances			13302.95	
					959.88	**VIII**	**Cash Balance at end-**				**964.71**
					(-) 2.46		-Cash in Treasuries and Local Remittances			0.27	
					(-) 28.30		-Deposits with Reserve Bank			(-) 3.60	
					3.52		-Departmental Cash Balance including Permanent Advances			5.11	
					964.67		-Cash Balance Investment			941.28	
					22.45		Investment from earmarked funds			21.65	
29114.10		**Total**		**34696.20**	**29114.10**		**Total**				**34696.20**

* The revenue receipts stands understated at least to the extent of Rs.138.37 crore on account of withdrawal of excess credit afforded in previous years.

** - Please refer to footnote below Exhibit. I

^ - During the year, the State Government availed Rs.735.88 crore of ways and means advances from Reserve Bank of India and the entire amount was repaid during the year.

EXHIBIT III
SOURCES AND APPLICATIONS OF FUNDS

(Rupees in crore)

		Sources		
2000-2001				**2001-2002**
14822.72		**1. Revenue receipts**		**15321.25***
101.23		**2. Recoveries of Loans and Advances**		**34.70**
2850.68		**3. Increase in Public debt**		**4434.59**
1537.31		**4. Net receipts from Public account**		**1394.53**
	582.88	Increase in Small Savings, PF etc	572.72	
	674.84	Increase in Deposits and Advances	847.41	
	186.13	Increase in Reserve funds	136.78	
	54.18	Net effect of Suspense and Miscellaneous transactions	(-) 81.49	
	39.28	Net effect of remittance transaction	(-) 80.89	
		5. Net effect of contingency fund transaction	**-**	**45.60**
19311.94		**Total**		**21230.67**

		Applications		
16684.95		**1. Revenue expenditure**		**18605.70**
511.30		**2. Lending for development and other purposes**		**514.47**
1946.90		**3. Capital expenditure (Net)**		**2105.67**
38.74		**4. Net effect of contingency fund transaction**		**-**
130.05		**5. Increase in closing cash balance**		**4.83**
19311.94		**Total**		**21230.67**

*** - Please refer to footnote below Exhibit. II**

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.275.94 lakh (debit) between the figures reflected in the accounts and that intimated by the RBI under "Deposits with Reserve Bank". A net difference of Rs.433.26 lakh (debit) had since been reconciled and adjusted. The remaining difference of Rs.157.32 lakh (credit) is under reconciliation.

EXHIBIT IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002(%)[⊕]
Part.A – Receipts **1. Revenue Receipts**	**10613**	**11230**	**12906**	**14823**	**15321 (3)Φ**
(i) Tax Revenue	**6412**	**6943**	**7744**	**9043**	**9853(9)**
Taxes on Agricultural Income	30	49	35	24	3(-87)
Taxes on Sales, Trade etc.	3829	4265	4683	5386	5269(-2)
State Excise	864	1005	1215	1523	1977(30)
Taxes on vehicles	444	387	449	502	712(42)
Stamps and Registration fees	609	548	566	638	855(34)
Land Revenue	45	38	39	43	50(16)
Other Taxes	591	651	757	927	987(6)
(ii) Non Tax Revenue	**1264**	**1470**	**1611**	**1660**	**1094(-34)**
(iii) State's share of Union taxes and duties	**2176**	**1924**	**2133**	**2574**	**2623(2)**
(iv) Grants-in-aid from Government of India	**761**	**893**	**1418**	**1546**	**1751(13)**
II. Capital Receipts					
2. Miscellaneous Capital Receipts (non debt)	Nil	Nil	Nil	Nil	Nil
3. Total revenue & Non debt capital receipts (1+2)	10613	11230	12906	14823	15321(3)
4. Recoveries of Loans and Advances	70	138	145	101	35(-65)
5. Public Debt Receipts	1564	2424	3173	3371	5146(53)
Internal Debt (excluding Ways & Means Advances and Overdrafts)	431	872	2245	2295	2969(29)
Loans & Advances from Government of India	1133	1552	928	1076	2177(102)
6. Total receipts in the Consolidated Fund (3+4+5)	12247	13792	16224	18295	20502(12)
7. Contingency Fund Receipts	9	15	27	15	54(260)
8. Public Account Receipts	14097	16679	21662	24797	28502(15)
9. Total receipts of the State (6+7+8)	26353	30486	37913	43107	49058(14)
PART B. EXPENDITURE/DISBURSEMENT					
10. Revenue expenditure	10890	12446	15231	16685	18605(12)
Plan	2297	2541	2992	3481	3943(13)
Non Plan	8593	9905	12239	13204	14662(11)
General Services (incl. Interest Payments)	3581	4126	5333	5634	6215(10)
Social Services	4138	4657	5479	6132	6429(5)
Economic Services	2896	3331	4004	4388	5397(23)
Grants-in-aid and Contributions	275	332	415	531	564(6)
11. Capital Expenditure	1210	1744	1779	1947	2106(8)
Plan	914	1451	1517	1705	1899(11)
Non Plan	296	293	262	242	207(-14)
General Services	35	35	50	48	52(8)
Social Services	138	455	377	299	212(-29)
Economic Services	1037	1254	1352	1600	1842(15)
12. Disbursement of Loans and Advances	193	290	317	511	514(1)
13. Total (10+11+12)	12293	14480	17327	19143	21225(11)
14. Repayments of Public Debt	307	405	491	521	712(37)
Internal Debt (excluding Ways & Means Advances and Overdrafts)	51	107	147	101	231(129)
Net transactions under Ways & Means Advances and Overdraft	-	-	-	-	-
Loans and Advances from Government of India[♦]	256	298	344	420	481(15)
15. Appropriation to Contingency Fund	-	-	-	-	-

16. Total disbursement out of Consolidated Fund (13+14+15)	12600	14885	17818	19664	21937(12)
17. Contingency Fund disbursements	15	27	15	53	8(-85)
18. Public Account disbursements	13148	15553	20044	23260	27107(17)
19. Total disbursement by the State (16+17+18)	25763	30465	37877	42977	49052(14)
PART C. DEFICITS					
20. Revenue Deficit (1-10)	277	1216	2325	1862	3284@ (76)
21. Fiscal Deficit (3+4-13)	1610	3112	4276	4219	5869(39)
22. Primary Deficit (21-23)	216	1495	2264	1831	3186(74)
PART D. OTHER DATA					
23. Interest Payments (included in revenue expenditure)	1394	1617	2012	2388	2683(12)
24. Arrears of Revenue (Percentage of Tax & Non-Tax Revenue Receipts)	1170 (15)	1122 (13)	1826 (20)	1894 (18)	2634(39) (24)
25. Financial Assistance to local bodies etc.	4318	4884	5847	6451	7429(15)
26. Ways and Means Advances/Overdraft availed (days)	46	-	4	-	40
27. Interest on WMA/Overdraft	1.20	-	0.02	-	0.91
28. Gross State Domestic Product (GSDP)♠	71703	87956	96179☆	105398✚	117908✷ (12)
29. Outstanding Debt (year end)	15627	18617	22287	26571	32566(23)
30. Outstanding Guarantees (year end)	5594	8023	9829	13004	12279(-6)
31. Maximum amount Guaranteed (year end)	9719	13368	13334	16425	20823(27)
32. Number of incomplete projects (as per material in Finance Accounts)	138	77	112	97	103(6)
33. Capital blocked in incomplete projects	459	2811	3894	3295	4814●(46)

⊕ Figures in brackets indicates percent of increase/decrease compared to previous year.
Φ Please refer footnote below Exhibit II.
♦ Includes Ways and Means Advances from Government of India.
@ Please refer footnote below Exhibit I.
♠ Differs from the figures shown in earlier Audit Reports due to revision of GSDP by the State Government for those years.
☆ - Partially revised estimates .
✚ - Quick estimates
✷ - GSDP figures for 2001-2002 have been adopted as in the overview of budget.
● - This includes Rs.4187 crore invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Ltd, a Government Undertaking.

1.3 Sources and applications of funds

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. Revenue receipts constitute the most significant source of fund for the State Government. Their relative share in total receipts went down from 77 per cent in 2000-01 to 72 in 2001-02. The net receipts from Public Debt went up steeply from 15 per cent in 2000-01 to 21 per cent during 2001-02. This was mainly on account of marked jump in the net additions under Government of India borrowings (loans for State Plan Schemes) (131 per cent) and open market borrowings (Internal Debt of the State Government) (27 per cent) and additions under special securities issued to National Small Savings Fund of the Central Government (40 per cent). The share of recoveries under loans and advances given by the State Government was practically nil during the year (less than one per cent). The net receipts from the Public Account, however, slipped marginally from 8 per cent in 2000-01 to 7 per cent in 2001-02.

1.3.2 The funds were mainly applied for revenue expenditure, the share of which went up marginally from 87 per cent in 2000-01 to 88 per cent in 2001-02 and remained significantly higher than the share of revenue receipts (72 per cent). Thus, there was a quantum jump (76 per cent) in the Revenue Deficit during the current year, which stood at Rs.3284.45 crore up from Rs.1862.23 crore in 2000-01. The reasons for this are discussed in Para 1.9.5.2. The share of capital expenditure including loans advanced remained static.

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.18605.70 crore) during the year exceeded the revenue receipts (Rs.15321.25 crore) by Rs.3284.45 crore. The revenue receipts comprised Tax Revenue (Rs.9853.27 crore), Non-tax Revenue (Rs.1093.42 crore), State's Share of Union Taxes and Duties (Rs.2623.38 crore) and Grants-in-aid and Contributions from the Central Government (Rs.1751.18 crore). The main sources of tax revenue were 'Taxes on Sales, Trade etc' (53 per cent), 'State Excise' (20 per cent), 'Stamps and Registration Fees' (9 per cent) and 'Taxes on Vehicles' (7 per cent). Non-tax revenue came mainly from Economic Services (58 per cent), General Services (15 per cent) and Interest Receipts, Dividends and Profits (13 per cent).

1.4.2 The capital receipts comprised Rs.34.70 crore from recoveries of loans and advances and Rs.5146.36 crore from public debt, against which the expenditure was Rs.2105.67 crore on capital outlay, Rs.514.47 crore on disbursement of loans and advances and Rs.711.77 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.28501.77 crore, against which the disbursements were Rs.27107.24 crore. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance (Rs.4.83 crore) to Rs.964.71 crore at the end of the year.

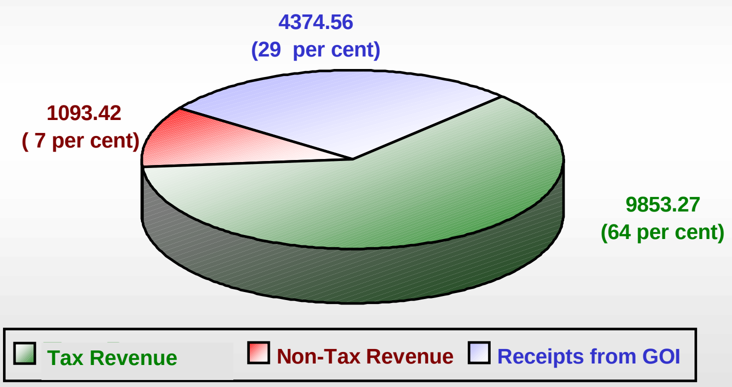
1.4.3 The financial operations of the State Government pertaining to its receipts and disbursements are discussed in the following paragraphs, with reference to the information contained in Exhibit II and the data for the five year period from 1997-98 to 2001-02, presented in Exhibit IV.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue raised by State Government 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 Schemes. Their relative shares are shown in Figure 1. The revenue receipts grew at an average annual rate of 9.85 per cent during 1997-02, the increase during 2001-02 over 2000-01 being 3.36 per cent.

Figure 1
Revenue Receipts 2001-2002
(Rupees in crore)



1.5.2 Tax revenue

This constitutes the major share (64 per cent) of the revenue receipts. The rate of growth of tax revenue during 1997-02 was not uniform. The growth rate, which was 11.16 per cent in 1997-98 declined to 8.28 per cent in 1998-99, went up to 16.77 per cent in 2000-01 and it was 8.96 per cent during 2001-02. This was mainly due to uneven growth in 'Taxes on Sales, Trade etc', the share of which in the total receipts dipped from 61 per cent in 1998-99 to 53 in 2001-02. In respect of Stamps and Registration Fee though there was increase in receipts, its percentage to the total tax revenue remained between 7 and 9 per cent. The share of Excise Duty varied between 13 and 20 per cent during the period.

The growth of Tax Revenue during 2001-02, was mainly on account of more receipts under 'State Excise' (20 per cent), 'Stamps and Registration Fees' (9 per cent), and 'Taxes on Vehicles' (7 per cent). The share of taxes on sales, trade etc., in the total tax revenue declined to a low of 53 per cent and also registered a negative growth compared to the previous year. The ratio of tax revenue to GSDP fell from 0.09 in 1997-98 to 0.08 in 2001-02.

The increase in revenue under state excise (Rs.454 crore) was mainly due to channelising of all imports of foreign liquors into the State through MSIL, increasing the license fee, additional excise duty on Fenny, rationalising the license fee levied on clubs, hotels run by ITDC and KSTDC, increase of label approval fees, excise duty levied on liquors supplied to defence and fee levied on rectified spirits. Under Stamps and Registration Fees it was on account of levy of duty on land promoters and developers (5 per cent), levy of stamp duty in respect of immovable properties whose lease period is beyond 30 years on par with conveyances and levy of duty on market value of properties of house building co-operative societies. The increase in revenue under Taxes on Vehicles was on account of levy of ad valorem tax of 7 per cent on vehicles, rationalising the tax structure in respect of tourist vehicles, etc.

1.5.3 Non-tax revenue

Non-tax revenue constituted 7 per cent of the revenue receipts and its share varied between 13 and 7 per cent during 1997-02. There was a drastic fall in realisation, which declined to Rs.1093.42 crore in 2001-02 from Rs.1659.97 crore in 2000-01. There was a decline in receipts under 'interest receipts, dividends and profits' by 80 per cent, the shortfall was being on account of non-adjustment of interest on irrigation works as the same was not provided in the budget estimates. The receipts under 'General Services' declined by 12 per cent and it increased by 18 per cent under 'Social Services' and by 2 per cent under 'Economic Services'. The ratio of non-tax revenue to GSDP had been negligible, mainly on account of low and declining cost recoveries, poor performance of public enterprises, implicit subsidies due to un-economic pricing of irrigation, drinking water supply, higher and technical education and urban health services.

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 (Union excise duties, Taxes on income other than corporation tax, Corporation Tax, Customs, Service Tax, Taxes on income and expenditure, Other Taxes and Duties on Commodities and Services and Taxes on Wealth) increased by 2 per cent during the year, while the grants-in-aid and contributions from the Central Government increased by 13[⊕] per cent. However, as a percentage of revenue receipts these (both taken together) increased by 1 percent over 2000-01 viz., to 29 per cent during the year over the previous year's 28 per cent.

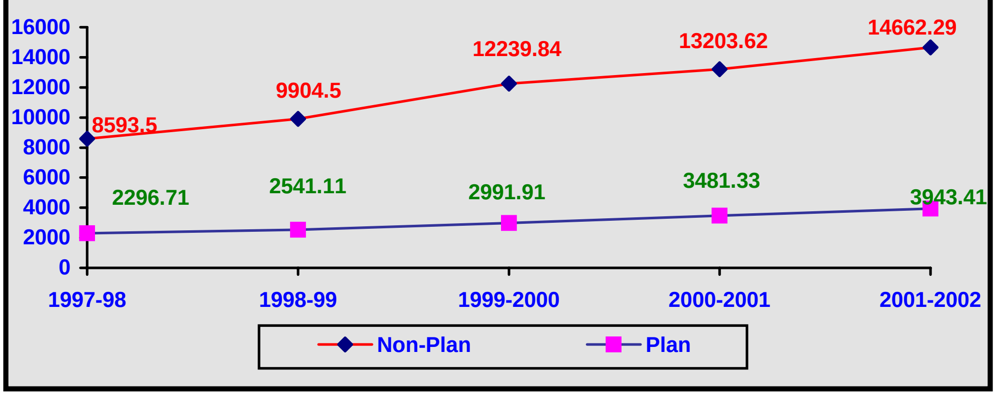
Consequent on the implementation of the recommendations of the Eleventh Finance Commission, all Union Taxes and Duties are shareable with the States. As a result of this, more receipts were noticed under 'Corporation Tax' (Rs.36.24 crore), 'Service Tax' (Rs.20.63 crore), 'Other Taxes and Duties on Commodities and Services' (Rs.1.84 crore) and 'Taxes on Income other than Corporation Tax' (Rs.62.22 crore) during the year compared with the previous year. However, receipts under 'Customs' and 'Union Excise Duties' decreased by Rs.66.74 crore and Rs.3.07 crore respectively. Under Grants-in-aid, there were more receipts under grants for State/Union Territory plan schemes (Rs.111.72[⊕] crore), grants for Centrally Sponsored Plan Schemes (Rs.129.03 crore) and their percentage increase was 18 and 25 respectively compared to previous year. There was a substantial decrease (Rs.33.30 crore – 14 per cent) under non-plan grants compared to 2000-01.

[⊕] Please see footnote below Exhibit II

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 12 per cent during 2001-02 over 2000-01, the increase being higher on the Plan side (13 per cent). The rate of growth of Non-Plan component of revenue expenditure was 71 per cent and that of Plan component was 72 per cent during 1997-98 to 2001-02 (Figure 2). The major constituents of revenue expenditure were salaries which amounted to approximately Rs.4971.30 crore (27 per cent), subsidies under certain major heads amounted to Rs.2861.39 crore (15 per cent) interest payment amounted to Rs.2682.89 crore (14 per cent) and pensions and other retirement benefits amounted Rs.1641.21 crore (9 per cent). The share of revenue expenditure varied between 88 and 90 per cent of the total expenditure during 1997-02.

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 varied between 33 and 35 per cent in 1997-02, Social Services between 35 and 38 per cent and that of Economic Services between 26 and 29 per cent. In absolute terms, the expenditure on General Services increased by 74 per cent, from Rs.3581.00 crore in 1997-98 to Rs.6215.00 crore in 2001-02. The increase in interest payments alone constituted 92 per cent of increase in expenditure under this sector. The corresponding increases in Social Services and Economic Services were 55 and 86 per cent respectively.

General Services

The expenditure under General Services increased by Rs.581 crore (10 per cent) during the year. The increase was mainly under 'interest payments' which was Rs.295.35 crore of which interest on internal debt showed an increase of Rs.204.07 crore and that on Government of India loans by Rs.86.13 crore. Under 'Police' the increase was Rs.123.91 crore (18 per cent) which was mainly under Modernisation of Police Force (Rs.81.32 crore), State Headquarters Police (Rs.15.98 crore), District Police (Rs.15.90 crore) and

Special Police (Rs.7.16 crore). Under 'Pension and other retirement benefits' the increase was Rs.58.41 crore (4 per cent) Under 'District Administration', and 'Treasury and Accounts Administration' the increase was Rs.17.66 crore and Rs.15.02 crore respectively.

Economic Services

Under Economic Services, the expenditure was more by Rs.1009 crore (23 per cent), the increase being mainly under 'Power' (Rs.1400.95 crore). Increase of Rs.1446.51 crore related to assistance to Electricity Board while other expenditure decreased by Rs.45.56 crore. The other components with higher expenditure were 'Road Transport' (Rs.96.55 crore), 'Other Special Areas Programmes' (Rs.73.62 crore), 'Other General Economic Services' (Rs.47.16 crore), 'Village and Small Industries' (Rs.46.49 crore), 'Agricultural Research and Education' (Rs.21.42 crore), 'Secretariat – Economic Services' (Rs.15.47 crore), 'Roads and Bridges' (Rs.13 crore), 'Forestry and Wildlife' (Rs.11.84 crore) and 'Other Rural Development Programme' (Rs.10.88 crore). The above increase was partly offset by decrease mainly under 'Major and Medium Irrigation' (Rs.582.01 crore), 'Food Storage and Warehousing' (Rs.88.46 crore), 'Industries' (Rs.37.49 crore) and 'Crop Husbandry' (Rs.12.97 crore).

Social Services

Under Social Services the increase was Rs.297 crore (5 per cent). The increase was noticed mainly under 'Welfare of Scheduled Castes/Scheduled Tribes and Other Backward Classes' (Rs.71.99 crore), 'Family Welfare' (Rs.63.30 crore), 'Relief on account of Natural Calamities' (Rs.35.08 crore), 'Housing' (Rs.31.92 crore), 'Water Supply and Sanitation' (Rs.30.62 crore), 'Social Security and Welfare' (Rs.30.34 crore), 'Medical and Public Health' (Rs.19.45 crore) and 'Technical Education' (Rs.11.47 crore).

Grants-in-aid and Contributions

The increase in expenditure of Rs.33 crore during the year (6 per cent) was mainly under 'Compensation and Assignments to Local bodies and Panchayat Raj Institutions', on the recommendations of the State Finance Commission.

1.6.3 Interest payments

Interest payments increased by 92 per cent from Rs.1393.81 crore in 1997-98 to Rs.2682.89 crore[1] in 2001-02. While payment of interest in respect of internal debt increased by 240 per cent, that under Government of India loans increased by 55 per cent and under public account by 54 per cent. Interest payment as a percentage of GSDP moved up from 1.94 per cent in 1997-98 to 2.28 per cent in 2001-02. Including the interest support on off-budget borrowings (Rs.800 crore) the percentage goes up to 2.95 per cent. This is discussed in the section on financial indicators in Para 1.11.3 (ii).

1 The figures do not include the Government support towards interest payments in respect of off-budget borrowings.

1.6.4 Financial assistance to local bodies and others

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

(In crore of rupees)

Description	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Panchayat Samitis and Zilla Panchayats/Municipalities	3371.33	3813.18	4591.43	4867.29	4461.63
Educational Institutions (including Universities)	301.00	348.37	411.08	586.31	499.85
Co-operative Societies and Co-operative Institutions	5.78	7.21	10.81	5.25	3.34
Other Institutions and bodies	640.08	714.82	833.27	992.24	2464.01
Total	**4318.19**	**4883.58**	**5846.59**	**6451.09**	**7428.83**
Percentage growth over previous year	9	13	20	10	15
Revenue receipts	10613.39	11230.44	12906.45	14822.72	15321.25
Percentage of assistance to revenue receipts	41	43	45	44	48
Revenue expenditure	10890.21	12445.61	15231.75	16684.95	18605.70
Percentage of assistance to revenue expenditure	40	39	38	39	40
Percentage of assistance to Panchayat Raj Institutions/ Municipalities etc. to total assistance.	78	78	79	75	60

A notable feature of the revenue expenditure of the State was that 38 to 40 per cent of it comprised assistance to local bodies etc., during 1997-02. The assistance rose from Rs.4318.19 crore in 1997-98 to Rs.7428.83 crore in 2001-02 and the rate of growth varied between 9 and 20 per cent . The increase was Rs.977.74 crore during 2001-02 over 2000-01 (15 per cent). Assistance to Panchayat Raj Institutions/ Municipalities accounted for 60 to 79 per cent of the total assistance during 1997-02 and it was 60 per cent of the total assistance during 2001-02. The salary component constituting major portion of the assistance rose from Rs.1795.48 crore in 1997-98 to Rs.2663.24 crore during 2001-02. The assistance to other institutions and bodies includes ‘Assistance to Electricity Board’ which is in the nature of subsidy is discussed in 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 42 per cent during 1997-02, repayments remained insignificant which ranged between 0.76 and 4 per cent of the loan outstanding at the end of the year. While the percentage of recovery of loans was 4 per cent in 1999-2000, it came down to 2 per cent in 2000-01 and to a further low of 0.76 per cent in 2001-02. Such low recoveries of loans was one of the contributory factors of unsatisfactory financial condition of the State.

(Rupees in Crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Opening balance	3218.97	3342.04	3494.74	3666.62	4076.69
Amount advanced during the year	193.08	290.40	316.59	511.30	514.47
Repayments realised during the year	70.01	137.70	144.71	101.23	34.70
Closing Balance	3342.04	3494.74	3666.62	4076.69	4556.46
Net addition	123.07	152.70	171.88	410.07	479.77
Interest received and credited to revenue	161.70	219.33	271.07	129.42	112.11

An analysis of the loans advanced during 2001-02 revealed that while the loans advanced grew by less than 1 per cent over the previous year, about 4 per cent (Rs.18.42 crore) of the loans were made to Government companies/Corporations etc., Mysore Electrical Industries (Rs.5.00 crore), Mysore Minerals Ltd (Rs.2.79 crore), Mysore Lamp Works (Rs.3.04 crore), Raibagh Sahakari Sakare Karkhane (Rs.7.54 crore), towards implementation of voluntary retirement scheme, clearance of PF dues, payment of salaries, discharge of liabilities due to invocation of guarantee etc. Since these orgainisations could not make repayment of loans/pay interest thereon, the possibility of recovery of fresh loans advanced appears to be bleak.

1.6.6 Loans overdue

Of the Rs.4556 crore loans advanced to various bodies, recovery of Rs.1384.29 crore (Principal Rs.569.89 crore and interest Rs.814.40 crore) was in arrears as on 31 March 2002. Few cases in which large amounts were overdue are as follows.

Sl. No.	Name of the Institution	Amount outstanding (Rupees in crore)			
		Principal	Interest	Total	Repayments during the year
01	Karnataka Agro Industries Corporation (Government Company)	11.57	29.94	41.51	-
02	Karnataka Urban Water Supply and Drainage Board (Autonomous Body)	133.49	220.88	354.37	0.05
03	Local Bodies and Municipalities (Autonomous Bodies)	13.73	29.12	42.85	-
04	Karnataka Housing Board (Autonomous Body)	17.69	46.81	64.50	0.69
05	Mangalore Chemicals and Fertilizers (Joint Stock Company)	10.49	22.86	33.35	-
06	Karnataka Co-operative Milk Producers Federation (Co-operative Body)	19.21	-	19.21	-
07	Bangalore Water Supply and Sewerage Board (Autonomous Body)	51.05	120.20	171.25	-
08	Karnataka Power Transmission Corporation Ltd (formerly Karnataka Electricity Board)	0.63	123.34	123.97	-
09	New Government Electric Factory (Government company)	34.30	38.92	73.22	-

The budget for the year 2001-02 estimated recovery of Rs.202.37 crore only under loans and advances to be made by State Government against which the realisation was Rs.34.70 crore (17 per cent). As per the information available in the Finance Accounts, the loans are over due in respect of Karnataka Antibiotics and Pharmaceuticals Ltd (Rs.113.89 lakh), Karnataka Forest Plantation Corporation (Rs.116.05 lakh), Mangalore Chemicals and Fertilizers (Rs.1049 lakh), Karnataka Telecom, KEONICS, REMCO etc (Rs.821 lakh), Karnataka Shipping Corporation (Rs.252 lakh). Karnataka State Road Transport Corporation and Karnataka Truck Terminals Ltd (Rs.525 lakh) and Mysore Sales International Ltd and Mysugar Company (Rs.800 lakh), were not reflected in the budget estimates of the State. The State Government, however, stated that it was not sure of recovery of these dues from the concerned institutions during the year as the Government was aware of the financial position of these institutions. It is also stated that the inclusion of such estimates would result in unrealistic deficit indicators in the budget which have to be suitably explained when budget indicators are compared with the accounts.

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 2002 to the Accountant General (Accounts & Entitlement).

An analysis of loan management by Urban Development Department including Water Supply and Sanitation and Energy Departments during the period 1997-02 by test check of records revealed following position.

The recovery of loans against the estimates in respect of Urban Development, Water Supply Schemes and Energy Department was as indicated below.

(Rupees in lakh)

Years	Urban Development		Water Supply		Energy Department	
	BE/RE	Actuals (per cent)	BE/RE	Actuals (per cent)	BE/RE	Actuals
1997-98	161.00/ 161.00	70.40(44)	110.00/ 110.00	4.94(4)	1023.00/ 4532.00	3748.94
1998-99	161.00/ 161.00	29.50(18)	121.00/ 121.00	54.95(45)	6968.00/ 9750.56	9758.46
1999-2000	353.02/ 353.02	381.78(108)	244.84/ 244.84	4.94(2)	8781.00/ 8717.00	11085.10
2000-01	353.02/ 353.02	77.20(22)	244.84/ 244.84	104.94(43)	9531.00/ 9374.00	7330.94
2001-02	388.32/ 388.32	96.01(25)	269.32/ 269.32	5.36(2)	11109.00/ 11109.00	-

The shortfall in recovery of loans with reference to the estimated recovery ranged between 56 and 82 per cent in respect of Urban Development Schemes (except during the year 1999-2000 in which the actual recovery was more by 8 per cent), and between 55 and 98 per cent in respect of water supply scheme during 1997-02 The Departments concerned had not taken effective steps to recover the dues/over dues from the loanee institutions.

Urban Development Department

(i) Loans to Bangalore Water Supply and Sewerage Board (BWSSB)

Government released Rs.762.56 crore as loan upto March 2002 with a repayment schedule of 25 years and 15 years. So far Rs.5.32 crore have been recovered.

Out of Rs.17.04 crore released upto March 1977 with repayment schedule of 25 years, only Rs.3.78 crore (22 per cent) had been recovered. Similarly out of Rs.3.00 crore released in 1986-87 with 15 years repayment schedule no money had been recovered.

(ii) Loans to Karnataka Urban Water Supply and Drainage Board (KUWS&DB)

Government had released loan of Rs.310.15 crore to Karnataka Urban Water Supply and Drainage Board for implementation of various water supply and drainage schemes on behalf of Municipalities and Corporations. As the recovery position was very poor, Urban Development Department sent a proposal (May 1996) for writing off the loans given to Municipalities and Corporations in respect of completed projects and also to treat the loans to the extent of Rs.90.94 crore in respect of ongoing schemes as subordinate loans. Government after considering the proposal agreed (November 1996) to treat Rs.90.94 crore as subordinate loans, without indicating any terms or condition for repayment, mode of its accounting etc. The liability of Rs.90.94 crore was not being exhibited in the accounts of the Board. Board stated that responsibility for repayment of loans lies with Corporations and Municipalities and the question of creation of Sinking Fund does not arise. The Demand, Collection and Balance register had also not been maintained.

(iii) Loans to Urban Local Bodies (ULBs) under Integrated Development of Small and Medium Towns Scheme.

As per the guidelines issued by Government of India (December 1979), the funds released for implementation of the scheme ‘Integrated Development of Small and Medium Towns (IDSMT)’ were treated as loan up to 1995. As per the revised guidelines issued in August 1995, the Central Government assistance to the scheme was to be treated as grant, but State Government continued to treat the assistance as loan. Thus assistance to the tune of Rs.16.64 crore has been accounted under the loan head resulting in over statement of loans advanced to that extent.

(iv) Loans to Bangalore Mass Rapid Transit Limited (BMRTL)

Government released Rs.142.84 crore to BMRTL as loan for investing in various companies/corporations, out of which Rs.32.47 crore was paid to KHB for exchange of flats in lieu of defence lands acquired by BMRTL. However, the terms and conditions of repayment, rate of interest etc., were not formulated.

Thus, the loan management by the Government was not effective. The demand-collection-balance statements were not prepared. Loans were released without any terms and conditions and the utilisation of loans for the purpose for which they were provided was not ensured.

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 like Public Sector Undertakings (PSUs), Corporations, etc., and loans and advances made by the Government. The growth in capital expenditure was 74 per cent during 1997-02. During 2001-02, 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.2106 crore made during 2001-02, Rs.317.27 crore pertaining to investments made by Government in KBJNL (Rs.290.77 crore) and KNNL (Rs.26.50 crore) remained unspent 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 gone up by Rs.3.89 crore (8 per cent) during the year over previous year, mainly under Police (Rs.4.66 crore), while expenditure under Public Works came down by Rs.0.77 crore.

Social Services

Under Social Services, there was a decrease in expenditure by Rs.86.40 crore (29 per cent), mainly under ‘Water Supply and Sanitation’ (Rs.61.73 crore), ‘Family Welfare’ (Rs.9.66 crore) and ‘Housing’ (Rs.22.44 crore). There was an increase of Rs.7.42 crore under ‘Medical and Public Health’.

Economic Services

Under Economic Services, there was an increase of Rs.241.28 crore (15 per cent) during the year. The increase was mainly under Major and Medium Irrigation’ (Rs.327.02 crore). There was a decrease in expenditure under ‘Capital outlay on Roads and Bridges’ (Rs.16.86 crore) ‘ Capital outlay on Forestry and Wild Life’ (Rs.4.42 crore), ‘Capital outlay on Minor Irrigation’ (Rs.20.78 crore) and ‘Capital outlay on Industry and Minerals’ (Rs.12.62 crore).

Out of investment/releases of Rs.1079.19 crore from Consolidated Fund towards Accelerated Irrigation Benefit Projects, made in Krishna Bhagya Jala Nigam (Rs.879.21 crore) and Karnataka Neeravari Nigam (Rs.199.98 crore) an amount of Rs.317.27 crore (KBJNL - Rs.290.77 crore and KNNL - Rs.26.50 crore) had remained in the Public Account without being released to the concerned institutions. Thus capital expenditure during the year was overstated.

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 account. While the Plan and Capital expenditure are normally linked to 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 be considered as negative. 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:

	1997-98	1998-99	1999-2000	2000-01	2001-02
1. Plan expenditure as a percentage of:					
- Revenue expenditure.	21	20	20	21	21
- Capital expenditure	76	83	85	88	90
2. Non-Plan expenditure as a percentage of					
- Revenue expenditure	79	80	80	79	79
- Capital expenditure	24	17	15	12	10
3. Capital expenditure (per cent)	10	12	10	10	10
4. Expenditure on General services (per cent)					
-Revenue	33	33	35	34	33
-Capital	3	2	3	2	2
5. Non-remunerative expenditure (Rs.in crore) on incomplete works (at end of the year)[1]	458.56	370.97	3894.26	3294.80	4814•
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)	147.71	85.33	37.54	205.15	578.16

While the share of Plan expenditure on revenue account stagnated at around 20-21 per cent, it increased from 76 to 90 per cent on capital account during 1997-02. The capital expenditure in 2001-02 though increased by 2 per cent over the previous year, its share in the total expenditure remained at the same level as in the previous year. The expenditure was however, inflated to the extent of Rs.317.27 crore as discussed in para 1.7.1.

1.8.4 Subsidies

Expenditure on subsidies accounted under Social and Economic Services Sector under the Revenue Section are as follows.

(Rupees in crore)

Major Head	Total Expenditure	Expenditure on subsidies
2216 – Housing	295.31	155.06
2225 – Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	545.95	7.09
2405 – Fisheries	22.59	0.72
2408 – Food, Storage and Ware Housing	219.94	205.81

[1] Information as furnished by the Public Works/Irrigation Divisions

• This includes Rs.4187 crore invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Limited a Government undertaking.

Major Head	Total Expenditure	Expenditure on subsidies
2425 – Co-operation	41.21	1.75
2801 – Power	2321.15	2304.52
2851 – Village and Small Industries	270.89	24.71
2852 – Industries	62.03	17.13
3055 – Road Transport	144.64	144.59
3456 – Civil. Supplies	3.32	0.01
Total	**3927.03**	**2861.39**

The expenditure on subsidies constituted 15 percent of revenue expenditure (Rs.18605.70 crore) and 87 per cent of Revenue deficit (Rs.3284.45 crore)[•]. The net increase in subsidy during the year was Rs.1347.19 crore (89 per cent) over 2000-01. The increase under Social Services was Rs.15.36 crore (‘Housing’ Rs.13.97 crore and ‘Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes’ – Rs.1.39 crore); under Economic Services Rs.1331.83 crore (‘Power’ – Rs.1427.42 crore – which included the contributions of the State towards the payment of pension liabilities of the employees of the KPTCL – Rs.168 crore, pension fund contribution Rs.35 crore, supply of free electricity to Sri.Sathya Sai Super Speciality Hospital classified under Rural Electrification Subsidy Rs.1.77 crore and ‘Road Transport’ (Rs.96.70 crore). However, there was decrease in subsidy under ‘Food, Storage and Warehousing’ by Rs.89.23 crore, ‘Industries’ – Rs.51.96 crore, ‘Village and Small Industries’ – Rs.49.28 crore, ‘Fisheries’ – Rs.0.93 crore, Civil Supplies’ – Rs.0.13 crore) and Co-operation by Rs.0.76 crore.

1.8.5 Plan Expenditure

Out of Rs.8588.28 crore of estimated plan expenditure, Rs.3044 crore related to various state plan programmes financed by state undertakings and other bodies out of their own resources and the balance Rs.5544.28 crore was provided in the state budget. The estimated receipts under CSS and CPS were Rs.586.71 crore and Rs.430.47 crore respectively. Thus the estimated plan expenditure was Rs.6561.46 crore. Against this the expenditure was Rs.6244 crore indicating a shortfall of Rs.317.46 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 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.

[•] See also foot note below Exhibit. I

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 data were as follows:

(Rupees in crore)

Sl. No.	Sector	Number of concerns	Amount invested	
			As on 31.3.2002	During 2001-2002
1.	Statutory Corporations	27	906.74	2.48
2.	Government Companies	80	3612.27	609.71
3.	Joint Stock Companies	43	5.19	1.30
4.	Co-operative Institutions	(A)	316.14	11.58
	Total		**4840.34**	**625.07**

(A) – Information is awaited from Department

The details of investments and the returns realised were as follows:

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (%)
1997-98	2727.74	9.00	0.34	12.30 & 13.05
1998-99	3107.19	8.00	0.25	12.15 & 12.50
1999-2000	3565.73	12.00	0.34	11.08, 11.85 & 12.25
2000-2001	4215.27	9.00	0.21	10.52, 10.82 & 11.57
2001-2002	4840.34	11.00	0.22	7.8, 8, 8.3, 9.1 & 10.35

Thus, while the Government was raising high cost borrowings from the market for its investments, these investments fetched insignificant returns. As of 31 March 2002, 39 of the Government Companies/ Corporations in which Government had invested Rs.872.55 crore, were running under loss and the accumulated loss was Rs.1627.43 crore.

1.9.2 Incomplete Projects

As of 31 March 2002, according to the information made available by the Government, there were 103 incomplete works in which Rs.4814 crore were blocked. This included Rs.4187 crore (87 per cent) invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Ltd, a Government undertaking. The original cost in respect of 101 works was Rs.365.60 crore and the expenditure incurred on these works was Rs.627.69 crore and in respect of 32 works it was revised upwards and the revised cost in respect of 4 works was not available.

1.9.3 Arrears of revenue

The arrears of revenue pending collection increased by 39 per cent during the year. Their percentage varied between 13 and 24 per cent of the tax and non-tax revenue raised during the period (1997-2002). In absolute terms, arrears increased from Rs.1170 crore in 1997-98 to Rs.2634 crore in 2001-02. Of the arrears of Rs.2634 crore as of March 2002, Rs.2010 crore (76 per cent) related to Commercial Taxes, out of which recovery of Rs.380.53 crore (19 per cent) 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 Bank carrying interest or by selling Treasury Bills.

In 2001-02, the Government availed Rs.735.88 crore of ways and means advance from the Reserve Bank of India and the entire amount was repaid during the year. The interest paid on advance was Rs.0.91 crore.

As already discussed in para 1.7 on capital expenditure, the State Government retained the investments amounting to Rs.317.27 crore made in certain companies/corporations, in public account instead of releasing the amount to the concerned implementing agencies. This helped the State Government in its ways and means position.

1.9.5 Deficit

1.9.5.1 Deficits in Government account represent gaps between receipts and disbursements. 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 (RD), Fiscal Deficit (FD) and Primary Deficit (PD).

1.9.5.2 Revenue Deficit is the excess of revenue expenditure over revenue receipts. Fiscal Deficit is 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	15321.25	**Revenue deficit: 3284.45***		Revenue	18605.70
Misc. capital receipts	Nil			Capital	2105.67
Recovery of loans & advances	34.70			Loans & advances	514.47
Sub Total	15355.95	**Gross fiscal deficit: 5869.89**		Sub Total	21225.84
Public debt	5146.36			Public debt	711.77
Total	20502.31	**A: Deficit in CF: 1435.30**		Total	21937.61
CONTINGENCY FUND					
Recoupment	53.49			Advances	7.89
		Net effect in Contingency Fund 45.60			
PUBLIC ACCOUNT					
Small savings, PF etc.	1286.33			Small savings, PF etc.	713.61
Deposits & advances	14150.36			Deposits & advances	13302.95
Reserve funds	232.55			Reserve funds	95.77
Suspense & misc.	10754.95			Suspense & misc.	10836.44
Remittances	2077.58			Remittances	2158.47
Total Public Account	28501.77	**B: Deficit in Consolidated Fund (1435.30) financed out of Surplus in Public Account (1394.53) and net effect of Contingency Fund (45.60) with increase in cash balance : 4.83**			27107.24

* - Please refer footnote below Exhibit.I

The table shows that the Revenue Deficit of Rs.3284.45 crore was met by borrowings. The Fiscal Deficit of Rs.5869.89 crore was financed by net proceeds of the public debt (Rs.4434.59 crore) and by the surplus from Public Account (Rs.1394.53 crore). Revenue deficit during the year increased by 76 per cent compared to the previous year.

The budget estimate envisaged a revenue deficit of Rs.2624.09 crore which was revised to Rs.3006.17 crore in the revised estimate consequent on revision of revenue receipts to Rs.15926.29 crore from Rs.17328.10 crore and revenue expenditure to Rs.18932.46 crore from Rs.19952.19 crore. While the actual receipts (Rs.15321.25 crore) was less than the revised estimates by Rs.605.04 crore (4 per cent shortfall), the expenditure (Rs.18605.70 crore) fell short by Rs.326.76 crore (2 per cent shortfall) which resulted in higher revenue deficit (Rs.3284.45 crore) at 9 per cent more than the revised estimates. The adjustment in revenue receipts relating to earlier years made during the year also contributed to the increase in revenue deficit to the extent of Rs.138.37 crore.

1.9.5.3 Application of the borrowed funds (Fiscal Deficit)

Fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit, Capital Expenditure 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 of the Government for the last five years.

Ratio	1997-98	1998-99	1999-2000	2000-01	2001-2002
RD/FD	0.17	0.39	0.54	0.44	0.56
CE/FD	0.75	0.56	0.42	0.46	0.36
Net loans/FD	0.08	0.05	0.04	0.10	0.08
Total	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

The utilisation of borrowed funds to meet the revenue expenditure rose from 17 per cent in 1997-98 to 56 per cent in 2001-02. There was a drastic fall in the utilisation of borrowed funds for capital expenditure which from a peak of 75 per cent in 1997-98, to 36 per cent in 2001-02 indicating diversion of borrowed money for meeting non productive revenue expenditure. Compared to 2000-01, there was a 12 percentage point increase in the utilisation of borrowed funds for revenue expenditure while there was 10 percentage point fall in its application for asset creation. The increase of Rs.159 crore during the year on capital outlay had no positive effect on asset creation since expenditure was inflated to the extent of Rs.317.27 crore as discussed in Para 1.7.1.

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 statutory corporations, Government companies and co-operative 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 as per Bachawat Award. The maximum amount of guarantees given by the Government was Rs.20823 crore and the amount outstanding at the end of 2001-02 was Rs.12279 crore. (This includes the guarantee of Rs.5171.96 crore given to Krishna Bhagya Jala Nigam Ltd which is a committed liability of the Government as budgetary support was provided for discharge of loan and interest). The amount of outstanding guarantees increased by 119 per cent during 1997-2002. During 2001-02 an amount of Rs.808.55 lakh was discharged by the Government towards the liability of three Co-operative Sugar Mills of Raibagh, Bidar and Pandavapura (Rs.800 lakh) and Uttara Kannada District Co-operative Fish Marketing Federation (Rs.8.55 lakh), on account of invocation of guarantee by lending institutions. The discharge of liability of Rs.8.55 lakh relating to fish marketing federation was treated as assistance to the institution.

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. However, 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 each year during the last five years are given in the following table.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities $^{\alpha}$	Total liabilities	Ratio of debt to GSDP
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	0.21
1999-2000	5547.95	9599.31	15147.26	7139.85	22287.11	0.23
2000-2001	7742.36	10255.57	17997.93	8573.19	26571.12	0.25
2001-2002	10480.64	11951.88	22432.52	10133.03	32565.55	0.28

During the above period, the total liabilities of the Government had grown by 141.31 per cent. This was on account of phenomenal growth in internal debt (354.80 per cent), loans and advances from Government of India (73.60 per cent) and other liabilities (135.32 per cent). During 2001-02, Government

$^{\alpha}$ Other liabilities include small savings, provident funds, reserve funds and deposits, etc.

borrowed Rs.1134.67 crore in the open market at interest rates of 10.35 per cent (Rs.400.05 crore), 9.10 per cent (Rs.315 crore), 8.30 per cent (Rs.259.41 crore), 7.80 per cent (Rs.80 crore) and 8 per cent (Rs.80.21 crore) per annum.

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)

	1997-98	1998-99	1999-2000	2000-01	2001-02
Internal Debt					
-Receipt	431.41	871.96	2244.92	2295.58	2969.48
-Repayment (Principal +Interest)	334.18	442.93	648.08	859.35	1193.45
-Net funds available (per cent)	97.23 (23)	429.03 (49)	1596.84 (69)	1436.23 (63)	1776.03 (60)
Loans & advances from Government of India					
-Receipt during the year	1133.18	1551.99	927.72	1075.65	2176.88
-Repayment (Principal + Interest)	1106.77	1276.71	1498.62	1652.09	1799.41
-Net funds available (per cent)	26.41 (2)	275.28 (18)	(-)570.90 -	(-) 576.44 -	377.47 (17)
Other liabilities (PF etc)					
-Receipt during the year	6456.28	7720.45	10744.65	13265.64	15531.58
-Repayments (Principal+Interest)	5842.06	7051.89	10122.29	12228.96	14373.53
-Net funds available (per cent)	614.22 (10)	668.45 (9)	622.31 (6)	1036.68 (8)	1158.05 (7)

The table indicates that the borrowings under internal debt had been steadily rising over the period 1999-02 with about 60 per cent of the amount being available for other expenditure after repayment of past borrowings together with interest thereon. Under loans and advances from Government of India, there was more than 100 per cent increase in the borrowings during the year compared to 2000-01. After repayment of the past borrowings together with interest thereon, only 17 per cent of the amount was available with the State Government. Under Public Account, only 7 per cent of the funds were available. Considering almost 144 per cent increase in outstanding debts during last five years, the availability of funds through Public borrowings for capital formation would be reduced further as the interest liability would itself consume major portion of the borrowings.

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:

(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. The list of such indices/ratios is given in the Appendix. Exhibit V indicates the behaviour of these indices/ratios over the period from 1997-98 to 2001-02. The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

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

Exhibit V

Financial indicators for Government of Karnataka

	1997-98	1998-99	1999-2000	2000-01	2001-02
Sustainability					
BCR (Rs in crore)	1482	705	(-) 601	319	(-) 879
Primary Deficit (PD) (Rupees in crore)	216	1495	2264	1831	3186
Interest Ratio	0.08	0.09	0.10	0.12	0.17
Capital outlay/Capital receipts	0.68	0.63	0.49	0.55	0.40
Total Tax receipts/GSDP^	0.12	0.10	0.10	0.11	0.10
State Tax Receipts/GSDP^	0.09	0.08	0.08	0.08	0.08
Return on Investment ratio	0.0034	0.0025	0.0034	0.0021	0.0022
Flexibility					
BCR (Rupees in crore)	1482	705	(-)601	319	(-) 879
Capital repayments/Capital borrowings	0.20	0.17	0.15	0.15	0.14
State tax receipts/GSDP^	0.09	0.08	0.08	0.08	0.08
Debt/GSDP^	0.22	0.21	0.23	0.25	0.28
Vulnerability					
Revenue Deficit(RD) (Rs in crore)	277	1215	2325	1862	3284
Fiscal Deficit(FD) (Rs in crore)	1610	3112	4276	4219	5869
Primary Deficit(PD) (Rs in crore)	216	1495	2264	1831	3186
RD/FD	0.17	0.39	0.54	0.44	0.56
PD/FD	0.13	0.48	0.53	0.43	0.54
Outstanding Guarantees/revenue receipts	0.53	0.71	0.76	0.88	0.80
Assets/Liabilities	0.99	0.93	0.85	0.80	0.74

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 1997-98 to 2000-01 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 excluding expenditure accounted below Major Head 2048-Appropriation for reduction or avoidance of debt. A positive BCR shows that the Government has surplus from its revenues for meeting plan expenditure. The table shows that the BCR which was positive during 2000-2001 became negative during the year implying non-availability of funds from current revenues for meeting plan expenditure. Entire plan expenditure had therefore to be met out of assistance from Government of India/Market Borrowings.

(ii) Interest ratio

Interest ratio is defined as:

$$\frac{\text{Interest payments} - \text{Interest receipts}}{\text{Total revenue receipts} - \text{Interest receipts}}$$

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

In Karnataka the ratio had gone up by 0.05 during 2001-02 indicating the increased indebtness of the Government and reduced availability of revenue receipts for revenue expenditure as also poor returns on past borrowings since revenue receipts include earnings from investments made out of borrowings.

(iii) Capital outlay/Capital receipts

This ratio would indicate the extent to which 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 Karnataka, during 1997-2002, the ratio had been less than 1 through out. During the year it had fallen by 0.15 indicating that about only 40 per cent of the capital receipts were available for capital formation and the remaining had to be diverted to meet revenue expenditure. Even the capital outlay was inflated to the extent of Rs.317.27 crore as discussed in Para 1.7.1.

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

Tax receipts consist of state taxes and state's share of central taxes. 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 varying between 0.10 and 0.12. During 2001-02, the ratio had come down by 0.01 which indicated Government's preference for relying on borrowings to meet its deficits. However, expanding debt and interest burden indicated the limited scope for reliance on borrowed funds for meeting its revenue expenditure. Thus, there was a need to improve its own 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 was on decline and it came down from 0.20 (1997-98) to 0.14 (2001-02).

(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 the debt. An increasing ratio of Debt/GSDP would signify a reduction in Government's ability to meet its debt obligations and therefore increasing the risk for the lender.

In Karnataka, this ratio moved up in the last three years from 0.23 in 1999-2000 to 0.28 in 2001-02 indicating worsening situation. During the year the total debt had increased by 22.56 per cent from Rs.26571.12 crore in 2000-01 to Rs.32565.55 crore in 2001-02 as discussed in Para 1.10.1.

(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 higher the ratio the worse off the state because it would indicate that the debt burden is increasing without adding to its repayment capacity.

During 2001-02, 56 per cent of the borrowings were applied to meet revenue expenditure as compared to 17 per cent in 1997-98. This indicated a steep decline in the financial position of the State. Considering the low availability of the borrowed funds for capital formation, its increasing use in 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 had been rather small and below 0.6. The ratio increased significantly during 2001-02 due to heavy borrowings (25 per cent increase over the previous year) increasing thereby interest burden in coming years. This should also be seen in the context of increased ratio of RD/FD, which points to a grim picture of the 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 Government and should therefore be compared with the ability of the Government to pay *viz.*, its revenue receipts. The ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the Government.

In Karnataka this ratio had increased from 0.53 in 1997-98 to 0.80 in 2001-02, 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 Government to such liabilities. During 2001-02 an amount of Rs.808.55 lakh representing the liability was discharged by Government on account of invocation of guarantees by the lending institutions.

(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 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 0.99 in 1997-98 to 0.74 during 2001-02 indicating that liabilities are fast overtaking the assets. This ratio may be considered in the context of low capital outlay/capital receipts ratio which showed more than 60 per cent of the capital receipts were not available for asset formation. The state was inexorably moving to a vulnerable position over the years.

1.12 Transparency

(i) Off –Budget Borrowings

The Constitution of India provides for State Government to borrow from Open Market, Financial Institutions and Government of India, upon the security of the Consolidated Fund, within such limits, if any, as may from time to time be fixed by an Act of Legislature of the State. Apart from the borrowings under the constitutional provision, Government of Karnataka had borrowed funds through few companies/corporations from the market and certain financial institutions. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State Plan Programmes projected outside the state budget. The discharge of these liabilities was covered by guarantee given by the State Government. Although, the estimates of the plan programmes of the State Government projected that funds for these programmes would be met out of the own resources of the corporations/companies concerned outside the state budget, in reality the borrowings of most of these concerns were ultimately the committed liabilities of the State Government (termed off-budget borrowings) as they had no resources of their own.

During 2001-02, the projected size of the State Plan Schemes was Rs.8588 crore, of which Rs.5544 crore were supported by resources from the state budget and the balance of Rs.3044 crore was to be met from the resources of certain companies/corporations.

The projected plan programmes to be met out of the resources of these concerns during last five years showed an increasing trend. While it was Rs.1481 crore in 1997-98, it was projected at Rs.3044 crore in 2001-02. In other words, the borrowing of the State Government outside the budget had been increasing year after year.

The details of off-budget borrowings of the companies/corporations and the estimated debt servicing by the State Government for the year 2001-02 are indicated below.

(Rupees in crore)

Company/Corporation	Borrowings upto 2000-01	Borrowings during 2001-02	Estimated debt servicing by State Government (2001-02)		
			Principal	Interest	Total
Krishna Bhagya Jala Nigam	3875.00	808.00	41.00	530.00	571.00
Karnataka Neeravari Nigam	661.00	275.00	-	104.00	104.00
Karnataka Road Development Corporation	56.00	115.00	11.00	37.00	48.00
Karnataka State Industrial and Investment Development Corporation	37.00	--	-	-	-
Slum Clearance Board	7.00	40.00	15.00	2.00	17.00
Rajiv Gandhi Rural Housing Corporation	106.00	145.00	-	-	-
KEONICS (Mahithi Bonds)	60.00	-	-	8.00	8.00
Karnataka Residential Education Institution Society	-	40.00	1.00	8.00	9.00
Karnataka Police Housing Corporation	--	40.00	10.00	10.00	20.00
Karnataka Land Army Corporation	-	50.00	-	-	-
Total	**4802.00**	**1513.00**	**78.00**	**699.00**	**777.00**

Government of Karnataka released an amount of Rs.2558 crore to KBJNL during the period 1995-96 to 2001-02 towards repayment of principal and payment of interest on borrowings out of which Rs.757.00 crore were retained in the public account with out being actually credited to current account of KBJNL. During 2001-02, out of Rs.879 crore released to KBJNL, Rs.291 crore were retained in the public account which had not only inflated the capital and plan expenditure of the Government but also helped the State Government's ways and means position.

Similarly, Rs.3.00 crore released to Rajiv Gandhi Rural Housing Corporation, had been retained in the public account and Rs.28 crore released to Karnataka Neeravari Nigam, were parked in public account.

In view of retention of funds in public account without being transferred to the accounts of the concerns, KBJNL and KNNL had to discharge their liabilities (principal and interest) to the extent of Rs.1065 crore out of fresh borrowings.

In respect of Rs.100 crore borrowed by Karnataka Road Development Corporation from HUDCO Rs.96.82 crore were spent on maintenance of State Highways, which indicates that borrowed funds were being utilised for maintenance expenditure rather than for creation of assets. As the borrowings discussed above were actually the liabilities of the State, the indebtedness of the State Government depicted in the Finance accounts is understated to that extent and had bearing on the financial indicators such as debt/GSDP and interest ratio.

Taking into account these off-budget borrowings of the State, the internal debt of State would increase to Rs.16852 crore, Public Debt to Rs.28804 crore, and total liabilities to Rs.38937 crore as against Rs.10481 crore, Rs.22433 crore and Rs.32566 crore respectively. In view of this the ratio of debt to GSDP would increase to 0.33 from 0.28. Thus the fiscal situation of the State Government is not truly exhibited in the accounts.

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-à-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 2002, revealed that Rs.260.89 crore (including Rs.192.19 crore towards infrastructure cess adjusted in account) were 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, budget provided for recoveries of only Rs.202.37 crore against which the actual recovery was Rs.34.70 crore. In respect of 11 Companies/Corporations, while the Finance Accounts showed overdue loans of Rs.110.69 crore, no estimates of recoveries were projected.

(ii) Accounts

Timely compliance with the extant accounting system is an important element to judge the transparency of the system. The Treasury and other accounting authorities are obliged to maintain and render accounts to the Accountant General (Accounts & Entitlement) on due dates. However, it was observed that there were large delays as detailed in the table below. In respect of Bangalore Urban Treasury, due to delay in submission of October 2001 accounts, the figures of revenue/expenditure had to be omitted while preparing the civil accounts for that month.

Accounts received from	Number of Officers	Delay in rendition of accounts (No. of occasions)			
		> 15 days	> 1 month	> 2 months	>3 months
Treasuries	30	35	3	-	-
Public Works/ Forest Divisions	170	204	26	29	6
Others	14	42	12	7	9

(iii) 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. It was observed that under loans and advances there were certain detailed/object heads under 18 major head of accounts where adverse balances were reflected and the amount in these cases (35 items) which was Rs.30.68 crore at the beginning of the year, increased to Rs.35.23 crore at the end of 2001-02. The adverse balance rose in respect of certain heads below 7 major heads while that under the major head – loans to Government Servants etc., became adverse during the year.

1.13 Conclusion

The BCR, which was positive at Rs.319 crore during 2000-01 declined to a negative figure of Rs.879 crore during 2001-02. The revenue deficit increased by Rs.1422 crore (76 per cent) (including the adjustment of Rs.138 crore of revenue receipts relating to earlier years) and the deficit was met out of 56 per cent of the borrowings. Book adjustments in the accounts were made towards payment of RE subsidies and transfer of infrastructure cess collected without actual cash outflow. The capital expenditure was overstated to the extent it was retained in public account without actual investment in the beneficiary concerns such as KBJNL, KNNL. The liabilities of the State Government were mounting year after year, where as the recovery of loans was insignificant. The interest payments increased by Rs.295 crore constituting 15 per cent of the increase in revenue expenditure over previous year and the return on investment was virtually nil for the past several years. The fast growing trend in interest ratio over the years had been restricting the availability of funds for programme spending. Sixty per cent of the capital receipts were utilised for unproductive obligations and only 40 per cent was available for asset formation without being actually spent for the purpose for which it was meant and the funds were retained in public account, to help maintain ways and means position. The almost constant ratio of tax receipts to GSDP established the State's inclination to meet the deficits by borrowing instead of improving tax compliance and coverage. The State Government had tried to soften its budget constraints with borrowings through special purpose vehicles like KBJNL, KNNL. The financial assets of the State Government were being rapidly overtaken by its liabilities indicating unsatisfactory financial condition of the State Government.

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 authorisation 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 authorisation 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 excluding expenditure accounted below Major Head 2048- Appropriation for reduction or avoidance of debt.
	Revenue Receipts	Exhibit II
Primary Deficit		Fiscal deficit minus interest payment
Interest Ratio		Interest payments-Interest receipts 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