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GOVERNMENT OF KARNATAKA



AN ECONOMIC-CUM-FUNCTIONAL CLASSIFICATION  
OF THE  
KARNATAKA GOVERNMENT BUDGET  
1984-85



Issued by  
THE STATE INCOME DIVISION  
DIRECTORATE OF ECONOMICS AND STATISTICS  
BANGALORE

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## PREFACE

The budget of the State Government is presented to the Legislature every year in a conventional pattern. It gives detailed information about its receipts and expenditure and other financial transactions for a given financial year and the preceding two years. This form of presentation may secure accountability for any act of spending and may also meet the needs of administrative convenience and ensure control by the Legislature. But, it does not bring out the economic significance of the Government's budgetary transactions.

In order to assess the economic significance of the budgetary transactions, a reclassification of the budget accounts which would throw light on the extent of capital formation out of the budgetary resources, savings of the Government and contribution of the Government to the income generation, etc., is essential. This is an attempt to reclassify, regroup and reduce the data scattered over in the budget documents to a set of six accounts in the above direction. The economic classification presented here relates to 1982-83 (Accounts), 1983-84 (Revised Estimates) and 1984-85 (Budget Estimates) along with a summary table on Economic Classification: Percentage Distribution for three years and another summary table on Sources and Use of Funds for five years.

Functional classification of the State Government Budget for the years from 1982-83 to 1984-85 has also been presented together with the integrated economic-cum-functional classification tables for the same years.

This publication was prepared in the State Income Division of the Directorate under the guidance of Sri H.Basavarajappa, Joint Director and assisted by Sri K.A.Sreekantamurthy, Assistant Director, Smt M.N.Kamamma, Smt S.Suma and Smt G.Lalithamma, Assistant Statistical Officers.

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PART I  
ECONOMIC CLASSIFICATION

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## 1. INTRODUCTION

A Government budget is an annual financial plan. It is the most important financial document of the Government. It reveals the various sources and amounts of revenue and items of expenditure. It contains the budget estimates for the forthcoming year and the revised estimates and actuals for the preceding years. This Annual Financial Statement is presented to the State Legislature every year under Article 202(1) of the Constitution of India.

The expenditure in the Government budget is generally classified by departments and is presented to the Legislature in the form of "Demand" for grants for various departments. Each demand gives gross expenditure and various recoveries from other Governments or State departments and various organisations. The recoveries are deducted from the gross expenditure to get net expenditure. Each demand specifies various items of expenditure viz., pay of officers, pay of establishment, contingencies etc., which are grouped under major and minor heads of accounts of expenditure.

The budget so presented reveals mere financial transactions and not the economic and social significance of the transactions. The Government transactions require proper interpretation in order to assess the impact of Government operations on the economy for purposes of formulation of correct monetary and fiscal policies and hence the need for economic classification of the State Government budget. This means that various items of revenue and expenditure in the budget documents require to be sorted out into meaningful economic categories, such as, the extent of capital formation out of budgetary resources, savings of the State Government, contribution of the Government to the total income generation etc. Such an attempt is made in the following pages.

## 2. THE SET OF ACCOUNTS

The budgetary transactions of Karnataka Government in the years 1982-83 (Accounts), 1983-84 (Revised Estimates) and 1984-85 (Budget Estimates) have been classified into significant economic heads under the following six accounts.

Account I: Transactions in Goods and Services and Transfers;  
Current Account of State Government Administration.

Account II: Transactions in Goods and Services and Transfers;  
Current Account of Departmental Commercial Undertakings of the State Government.

Account III: Transactions in Goods and Services and Transfers;  
Capital Account of State Government Administration and Departmental Commercial Undertakings.

Account IV: Changes in Financial Assets:  
Capital Account of State Government Administration and Departmental Commercial Undertakings.

Account V: Changes in Financial Liabilities:  
Capital Account of State Government Administration and Departmental Commercial Undertakings.

Account VI: Cash and Capital Reconciliation Account:  
State Government Administration and Departmental Commercial Undertakings.

Each of these six accounts is intended to bring out a meaningful set of totals.



Account I, on the expenditure side, is concerned with Government consumption expenditure and current transfer payments to others. On the revenue side, it indicates current tax receipts, income from property, revenue grants and contributions from the rest of the economy.

Account II, relates to the operating expenses and income of the departmental commercial undertakings such as Forest, Industries, Irrigation, Dairy Development etc.

Account III, deals with the capital account and is concerned with gross capital formation by the State Government Administration and its departmental commercial undertakings and capital transfers to others. On the receipt side, this account indicates the gross savings by the State Government emerging from the preceding two accounts.

Account IV, classifies transactions leading to changes in financial assets of the State Government administration and the departmental commercial undertakings and provides their break up into investments in shares and loans for capital formation and current consumption. The repayment of loans is also furnished.

Accounts V and VI, spell out the manner in which the Government draws upon the savings of other sectors to meet the net requirements of financial transactions as detailed in the preceding four accounts.

Accounts I and II deal with the current expenditure of the State Government, while Account III deals with the capital expenditure. These three accounts deal with goods and services and transfers. Accounts IV to VI deal with financial transactions affecting the net claims of the Government on the rest of the economy.

The analysis of these six accounts generally follows the pattern suggested by the Central Statistical Organisation, Government of India. The structure of these accounts is presented in the following pages.

Account - I

Transactions in Goods and Services and Transfers: Current Account of State Government Administration  
(Rs. in lakhs)

Sl. No.	Expenditure	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)	Sl. No.	Revenue	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	1	2	3	4	5
1.	Consumption Expenditure	46,051	56,914	69,152	5.	Tax Revenue	76,895	90,396	1,00,009
1.1	Compensation of employees	45,241	55,297	65,443	5.1	Direct Taxes	8,708	8,742	9,316
a)	Wages & Salaries	39,304	46,856	55,980	a)	State's share of Central Taxes	6,273	6,583	7,042
b)	Pensions	5,937	8,441	9,463	b)	State Taxes	2,435	2,159	2,274
1.2	Net purchase of goods and services	810	1,617	3,709	5.2	Indirect Taxes	68,187	81,654	90,693
a)	Purchase of goods and services	11,945	13,198	16,395	a)	State's share of Central Taxes	17,784	20,231	21,659
b)	Less sale of goods and services	11,135	11,581	12,686	b)	State Taxes	50,403	61,423	69,034
2.	Transfer payments	31,193	41,188	47,119	6.	Income from property and entrepreneurship	11,508	14,452	15,519
2.1	Interest	7,799	11,059	13,058	6.1	Profits transferred from departmental commercial undertakings	(-)4,428	(-)3,835	(-)4,915

## Account - I (Concl'd.)

(Rs. in lakhs)

1	2	3	4	5	1	2	3	4	5
2.2 Grants to		<del>15,791</del> 15,791	<del>18,464</del> 18,464	<del>21,035</del> 21,035	6.2 Income on investments		387	<del>299</del> 260	192
a) Local Bodies		4,352	5,379	6,764	6.3 Interest receipts from State Electricity Board		916	987	1,035
b) Educational Institutions		8,895	9,830	10,325	6.4 Other interest receipts		4,167	5,506	6,605
c) Co-operatives		101	137	151	6.5 Other income from property		10,466	11,534	12,602
d) Others		2,443	3,118	3,795					
2.3 Subsidies		1,321	3,776	4,056	7. Transfers from households		1,008	1,144	1,158
2.4 Scholarships and stipends		1,465	1,687	1,891					
2.5 Other current transfers		4,817	6,202	7,079	8. Revenue grants and contributions and recoveries from the rest of the economy		5,354	7,617	9,680
3. Savings on current account		17,521	15,507	10,095					
4. Total		94,765	1,13,609	1,26,366	9. Total		94,765	1,13,609	1,26,366

A/c=Accounts

R.E.=Revised Estimates

B.E.=Budget Estimates.

Account - II

Transactions in Goods and Services and Transfers: Current Account of  
Departmental Commercial Undertakings of the State Government

(Rs. in lakhs)

Sl. No.	Expenditure	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)	Sl. No.	Revenue	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	1	2	3	4	5
1.	Wages and Salaries	3,141	3,587	4,562	9.	Gross Sales Proceeds	6,985	8,754	9,976
2.	Goods and Services	1,725	1,752	2,039	a)	Stationery and Printing	82	93	100
3.	Repairs and Maintenance	916	859	976	b)	Dairy Development	528	576	688
4.	Interest	5,625	6,392	7,315	c)	Forest	4,451	5,201	5,502
5.	Provision for depreciation	1	1	1	d)	Industries	150	208	338
6.	Retained profits of Departmental Commercial Undertakings	7	-	-	e)	Irrigation	426	428	500
7.	Profits transferred to current account of Government Administration from Departmental Commercial Undertakings	(-)4,428	(-)3,835	(-)4,915	f)	Power Projects	1,293	2,200	2,800
					g)	Ports, Light Houses and Shipping	32	32	40
					h)	Road and Water Transport Services	23	36	8
					10.	Interest on Depreciation Reserve Fund	2	2	2
8.	Total	6,987	8,756	9,978	11.	Total	6,987	8,756	9,978

Transactions in Goods and Services and Transfers: Capital Account of State Government  
Administration and Departmental Commercial Undertakings

(Rs. in lakhs)

Sl. No.	Disbursements	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)	Sl. No.	Receipts	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	1	2	3	4	5
1.	Gross Capital Formation	33,190	39,176	47,113	4.	Gross Savings	17,529	15,508	10,096
	A. Government Administration	21,054	24,634	29,079	4.1	Savings on Current Account of Government Administration	17,521	15,507	10,095
	(1) Buildings and other constructions	17,360	20,242	24,443	4.2	Provision for depreciation of Departmental Commercial Undertakings	1	1	1
	(a) New outlay	13,007	15,713	19,027	4.3	Retained profits of Departmental Commercial Undertakings	7	-	-
	(b) Renewals and Replacements	4,353	4,529	5,416	5.	Capital Transfers	5,808	7,826	10,702
	(2) Machinery and Equipment	2,576	3,107	3,288	5.1	Estate Duty	70	77	82
	(a) New outlay	2,121	2,511	2,603	5.2	Capital grants, contributions and recoveries from Union and Other State Governments	5,738	7,749	10,620
	(b) Renewals and Replacements	455	596	685					
	(3) Net increase in stocks	1,118	1,285	1,348					
	(a) Works Stores	(-)505	-	-					
	(b) Other Stores	1,623	1,285	1,348					
	B. Departmental Commercial Undertakings	12,136	14,542	18,033					
	(1) Buildings and other constructions	11,421	13,477	16,924					

## Account - III (Concl'd.)

(Rs. in lakhs)

1	2	3	4	5	1	2	3	4	5
	(a) New Outlay	11,375	13,312	16,518	6. Balance: Deficit				
	(b) Renewals and Replacements	46	165	406	on all transac-				
					tions in goods				
					and services and				
					transfers	13,897	21,424	33,562	
(2)	Machinery and Equipment	853	1,065	1,089					
	(a) New outlay	337	552	610					
	(b) Renewals and Replacements	516	513	479					
(3)	Net increase in stocks	(- ) 138	-	20					
2.	Capital Transfers	4,044	5,582	7,248					
2.1	Capital grants to Local Bodies	489	437	450					
2.2	Capital grants to others	2,900	3,402	3,861					
2.3	Compensation to Land Owners, Jaggirdars, etc.	655	1,743	2,937					
3.	Total	37,234	44,758	54,360	7. Total	37,234	44,758	54,360	

Account - IV

Changes in Financial Assets: Capital Account of State Government Administration  
and Departmental Commercial Undertakings

(Rs. in lakhs)

Sl. No.	Outgoings	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)	Sl. No.	Incomings	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	1	2	3	4	5
1.	Investments in shares and debentures in	3,418	4,779	3,110	4.	Repayment of Loans	7,529	8,260	9,054
1.1	Departmental Commercial Undertakings	25	45	-	5.	Balance: Net increase in Financial Assets	16,755	19,645	13,189
1.2	Government Statutory Corporations	2,198	1,769	1,770					
1.3	Co-operatives	562	1,314	1,184					
1.4	Others	633	<del>21,886</del> 1,654	159					
2.	Loans and Advances	20,866	23,126	19,133					
2.1	For Capital Formation	17,832	17,958	15,262					
a)	To Co-operatives	151	652	787					
b)	To Local Bodies	539	381	270					
c)	To the State Electricity Board	816	1,309	2,330					
d)	To the Housing Board	308	644	420					
e)	To Statutory Corporations	12,244	11,074	8,344					
f)	To others	3,800	3,898	3,111					
2.2	For Current Consumption	3,034	5,168	3,871					
a)	To Co-operatives	967	1,223	2,993					
b)	To Local Bodies	-	31	220					
c)	To Cultivators	-	-	-					
d)	To others	2,067	3,914	658					
3.	Total	24,284	27,905	22,243	6.	Total	24,284	27,905	22,243

## Account - V

Changes in Financial Liabilities: Capital Account of State Government Administration  
and Departmental Commercial Undertakings (Rs. in lakhs)

Sl. No.	Outgoings	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)	Sl. No.	Incomeings	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	1	2	3	4	5
1.	Repayment of Public Debt	15,025	20,136	19,219	4.	Public Debt	21,469	27,420	32,517
1.1	Permanent Debt	2,686	2,900	5,839	4.1	Permanent Debt	2,860	3,163	7,591
1.2	Central Government Loans	11,605	16,338	12,438	4.2	Loans from Central Government	17,541	21,975	22,498
1.3	Other Loans	734	898	942	4.3	Other Loans	1,068	2,282	2,428
2.	Balance: Net increase in Financial Liabilities	18,684	23,134	24,111	4.4	Floating Debt (net)	-	-	-
					5.	Unfunded debt (net)	3,033	3,900	4,250
					6.	Inter-State Settlements (net)	-	(-100)	(-100)
					7.	Cash Balance Investment Account (net)	(-11)	-	-
					8.	Other Debt (net)	9,218	12,050	6,663
3.	Total	33,709	43,270	43,330	9.	Total	33,709	43,270	43,330



Account - VI

Cash and Capital Reconciliation Account: State Government Administration and  
Departmental Commercial Undertakings

(Rs. in lakhs)

Sl. No.	Outgoings	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)	Sl. No.	Incomings	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	1	2	3	4	5
1.	Deficit on all transactions in goods and services and transfers (Balancing item of Account - III)	13,897	21,424	33,562	5.	Net increase in Financial Liabilities (Balancing item of Account-V)	18,684	23,134	24,111
2.	Net increase in Financial Assets (Balancing item of Account-IV)	16,755	19,645	13,189	6.	Decrease in cash balance	11,968	17,935	22,640
3.	Increase in cash balance	-	-	-					
4.	Total	30,652	41,069	46,751	7.	Total	30,652	41,069	46,751

### 3. MAJOR FINDINGS

Some of the major findings, emerging out of the Economic Classification of the State Government Budget, 1984-85 into six accounts, are presented in the following tables.

- Table 1: Total expenditure of the State Government.
- Table 2: Net capital formation undertaken directly by the State Government.
- Table 3: Net capital formation through financial assistance by the State Government.
- Table 4: Net capital formation out of budgetary resources of the State Government.
- Table 5: Gross and net savings of the State Government.
- Table 6: Current receipts of the State Government.
- Table 7: Current outgoings of the State Government.
- Table 8: Income deficit of the State Government.
- Table 9: Deficit denoting total requirements of finance for the State Government.
- Table 10: Sources of finance.
- Table 11: Net profits of departmental commercial undertakings.
- Table 12: Net output of departmental commercial undertakings.
- Table 13: Total income generation by the State Government.
- Table 14: Economic classification: Percentage distribution.
- Table 15: Sources and use of funds - Karnataka Government Budget.

#### 1. Total expenditure of the State Government

The total expenditure of the Government of Karnataka (excluding operating expenses of the departmental commercial undertakings and repayment of public debt) amounted to Rs.1,31,233 lakhs during 1982-83 (A/c).

This represents aggregate flow back of funds to the rest of the economy. This is expected to increase to Rs.1,62,505 lakhs (i.e. by 23.8 per cent) during 1983-84 (R.E). But the total expenditure of Rs.1,83,820 lakhs during 1984-85 (B.E) has registered an increase of only 13.1 per cent over the previous year.

Distribution of the total expenditure by three major items is presented in the following table.

Table 1

Total expenditure of the State Government

(Excluding operating expenses of the departmental commercial undertakings) (Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Final outlays	79,241	96,090	1,16,264
a)	Government consumption expenditure (vide item 1 in Account I)	46,051	56,914	69,152
b)	Gross capital formation (vide item 1 in Account III)	33,190	39,176	47,112
2.	Transfer payments to the rest of the economy	35,237	46,770	54,367
a)	Current transfers (vide item 2 in Account I)	31,193	41,188	47,119
b)	Capital transfers (vide item 2 in Account III)	4,044	5,582	7,248
3.	Financial investments and loans to the rest of the economy (net) (vide item 5 in Account IV)	16,755	19,645	13,189
4.	Total expenditure (1+2+3)	1,31,233	1,62,505	1,83,820

Final outlays: This is the major component of the total expenditure of Rs.1,33,820 lakhs of the State Government during 1984-85 and its share is Rs.1,16,264 lakhs or 63.3 per cent of the total expenditure. The corresponding percentage shares for 1982-83 and 1983-84 are 60.4 and 59.1. Final outlay is the direct expenditure of the State Government on goods and services for current consumption as well as capital formation.

Transfer payments: This consists of current and capital transfers. Its share of Rs.54,367 lakhs forms 29.6 per cent of the total expenditure of Rs.1,83,820 lakhs of the State Government for the year 1984-85. The corresponding percentage shares for the year 1982-83 and 1983-84 are 26.9 and 28.8.

Financial investments and loans (net): The contribution of this item of expenditure during 1984-85 is Rs.13,189 lakhs or 7.2 per cent of the total expenditure. The corresponding percentages for 1982-83 and 1983-84 are 12.8 and 12.1.

Consumption expenditure: The consumption expenditure represents expenditure on wages and salaries and goods and services of current use. It forms 35.1 per cent, 35.0 per cent and 37.6 per cent of the total expenditure for 1982-83 (A/c), 1983-84 (R.E) and 1984-85 (B.E) respectively.

Gross capital formation: The Government's contribution for direct gross capital formation i.e. investments in buildings, machinery and equipment and acquisition of stocks is estimated at Rs.47,112 lakhs during 1984-85. This accounts for 25.6 per cent of the total expenditure of the State Government for that year. The corresponding percentages for 1982-83 and 1983-84 are 25.3 and 24.1.

## 2. Net capital formation

This is arrived at by the deduction of expenditure on renewals and replacements from gross capital formation. This has increased from Rs.27,820 lakhs during 1982-83 to Rs.33,373 lakhs during 1983-84 and to Rs.40,126 lakhs during 1984-85. The components of net capital formation are given in the following table.

Table 2  
Net capital formation undertaken directly by the  
State Government  
(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Construction works (vide items 1A(1)(a) and 1B(1)(a) in Account III)	24,382	29,025	35,545
2.	Machinery and equipment (vide items 1A(2)(a) and 1B(2)(a) in Account III)	2,458	3,063	3,213
3.	Net increase in stocks (vide item 1A(3) and 1B(3) in Account III)	980	1,285	1,368
4.	Net capital formation by the State Government (1+2+3)	27,820	33,373	40,126

Of the gross capital formation of Rs.47,112 lakhs (Table 1) to be undertaken directly by the State Government during the year 1984-85, net capital formation i.e. net additions to the stock of fixed assets and other stocks is estimated at Rs.40,126 lakhs which constitutes 85.2 per cent. The corresponding percentages for 1982-83 and 1983-84 are 83.8 and 85.2.

3. Financial assistance for net capital formation

In addition to net capital formation undertaken directly (as indicated in Table 2), the State Government also provides financial assistance to the rest of the economy in the form of grants, loans and investments in shares for inducing net capital formation in other sectors. The allocation of such assistance is indicated in the table given below.

Table 3

Net capital formation through financial assistance  
by the State Government

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Grants for capital formation (vide items 2.1 and 2.2 in Account III)	3,389	3,839	4,311
2.	Loans for capital formation (vide item 2.1 in Account IV)	17,832	17,958	15,262
3.	Investments in shares (vide item 1 in Account IV)	3,418	4,779	3,110
4.	Total financial assistance for net capital formation (1+2+3)	24,639	26,576	22,683

The volume of assistance by the State Government for net capital formation in other sectors of the economy has increased from Rs.24,639 lakhs during 1982-83 (A/c) to Rs.26,576 lakhs during 1983-84 (R.E) or by 7.9 per cent and it is likely to decrease to Rs.22,683 lakhs during 1984-85 (or by 14.7 per cent over the previous year). The major share of assistance is in the form of loans during all the three years under review. It constitutes 67.3 per cent during 1984-85.

4. Net capital formation out of budgetary resources of the State Government

This is the sum of net capital formation undertaken directly by the State Government and that effected through financial assistance in the form of grants, loans and investments in shares, to the rest of the economy. It is furnished in the following table.

Table 4

Net capital formation out of budgetary resources of the State Government  
(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Net capital formation by the State Government (vide Table 2)	27,820	33,373	40,126
2.	Financial assistance for net capital formation in the rest of the economy (vide Table 3)	24,639	26,576	22,683
3.	Net capital formation out of budgetary resources of the State Government (1+2) (i.e. total net capital formation)	52,459	59,949	62,809

The State Government have provided Rs.62,809 lakhs out of its budgetary resources for net capital formation during the year 1984-85 (B.E). This constitutes 34.2 per cent of the total expenditure of Rs.1,83,820 lakhs (Table 1) during the year. The total net capital formation for the years 1982-83 (A/c) and 1983-84 (R.E) is of the order of Rs.52,459 lakhs and Rs.59,949 lakhs respectively. It constitutes 40.0 per cent and 30.7 per cent each of the corresponding total expenditure of Rs.1,31,233 lakhs and Rs.1,62,505 lakhs of those years.

5. Gross and net savings of the State Government

Gross savings comprise of savings on **current** account of Government administration (i.e surplus of current receipts

over current expenditure), depreciation provision and retained profits of departmental commercial undertakings.

Net savings are arrived at by the deduction of expenditure on renewals and replacements from gross savings.

Out of the total net capital formation or net investment of Rs.62,809 lakhs during 1984-85 (vide Table 4), the net savings by the State Government and its departmental commercial undertakings are estimated at Rs.3,110 lakhs which works out to 5.0 per cent.

Gross and net savings of the State Government for all the three years under review are furnished in the table given below.

It may be noted that both are showing a decreasing trend.

Table 5

Gross and net savings of the State Government

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Gross savings (vide item 4 in Account III)	17,529	15,508	10,096
2.	Expenditure on renewals and replacements (vide items 1A(1)(b) + 1A(2)(b) + 1B(1)(b) + 1B(2)(b) in Account III)	5,370	5,803	6,986
3.	Net savings by the State Government (1-2)	12,159	9,705	3,110

6. Current receipts

In assessing the economic implication of the expenditure of the Government, it is necessary to examine it against the background of the sources from which they are financed. The current receipts of the State Government are furnished under significant economic heads in the following table.

Table 6

Current receipts of the State Government

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Tax receipts (vide item 5 in Account I)	76,895	90,396	1,00,009
2.	Income from property and entrepreneurship (vide item 6 in Account I)	11,508	14,452	15,519
3.	Transfers from households (vide item 7 in Account I)	1,008	1,144	1,158
4.	Revenue grants, contributions and recoveries (vide item 8 in Account I)	5,354	7,617	9,680
5.	Total current receipts (1+2+3+4)	94,765	1,13,609	1,26,366

Total current receipts, as well as tax receipts which is the major source of these current receipts, have been showing an upward trend during all the three years under review.

The current receipts of the State Government have increased from Rs.94,765 lakhs in 1982-83 (A/c) to Rs.1,13,609 lakhs in 1983-84 (R.E) and further to Rs.1,26,366 lakhs in 1984-85 (B.E).

Tax receipts alone contribute 79.1 per cent of the total current receipts during 1984-85. Percentage increase in tax receipts between 1982-83 and 1983-84 is 17.6 and between 1983-84 and 1984-85 it is 10.6.

7. Current outgoings

This item constitutes consumption expenditure as well as transfer payments.

It has increased from Rs.77,244 lakhs in 1982-83 (A/c) to Rs.98,102 lakhs in 1983-84 (R.E) and it is expected to increase further to Rs.1,16,271 lakhs during 1984-85 (B.E). It can be



seen from the following table that the consumption expenditure exceeds transfer payments during all the three years and constitutes 59.5 per cent of the total current outgoings during 1984-85.

Table 7

Current outgoings of the State Government

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Consumption expenditure (vide item 1 in Account I)	46,051	56,914	69,152
2.	Transfer payments (vide item 2 in Account I)	31,193	41,188	47,119
3.	Total current outgoings(1+2)	77,244	98,102	1,16,271

Increase in consumption expenditure during the period under review is mainly due to the steady rise in wages and salaries. Transfer payments consisting of interest, grants, subsidies, scholarships and other current transfers are also showing an upward trend.

8. Income deficit of State Government

Income deficit of the State Government is measured as the excess of net capital formation or net investment over the net savings of the State Government. Net capital formation has shown an upward trend, whereas, net savings by the Government has shown a decreasing trend during the period under review.

Net capital formation and net savings of the State Government are of the order of Rs.40,126 lakhs and Rs.3,110 lakhs during 1984-85 resulting an income deficit of the State Government to the tune of Rs.37,016 lakhs during the year as can be seen from the following table.

Table 8

Income deficit of the State Government

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Net capital formation undertaken directly by the Government (vide Table 2)	27,820	33,373	40,126
2.	Net savings by the Government (vide Table 5)	12,159	9,705	3,110
3.	Income deficit of the State Government (1-2)	15,661	23,668	37,016

9. Requirements of finance

The deficit on income indicated in Table 8 is the gap, which, after adjustments for capital formation, has to be filled up by Government's draft on savings within and outside the State. The other measure of deficit is provided by the sum of the balancing items of account III and IV. This deficit indicates the total requirements of finance for State Government operations and is shown in the following table.

Table 9

Deficit denoting total requirements of finance for the State Government

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Deficit on all transactions in goods and services and transfers (vide balancing item in Account III)	13,897	21,424	33,562
2.	Net increase in financial assets (vide balancing item in Account IV)	16,755	19,645	13,189
3.	Deficit denoting total requirements of finance (1+2)	30,652	41,069	46,751

10. Sources of finance for the deficit

The following table furnishes different sources of finance to meet the deficit indicated in Table 9.

Table 40  
Sources of finance (Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Net borrowings	18,684	23,134	24,111
1.1	Permanent debt (net) (vide items 1.1 and 4.1 in Account V)	174	263	1,752
1.2	Loans from Central Government (net) (vide items 1.2 and 4.2 in Account V)	5,936	5,637	10,060
1.3	Other loans (net) (vide item 1.3 and 4.3 in Account V)	334	1,384	1,486
1.4	Unfunded debt (net) (vide item 5 in Account V)	3,033	3,900	4,250
1.5	Inter-State settlements (net) (vide item 6 in Account V)	-	(-) 100	(-) 100
1.6	Cash balance investment account (net) (vide item 7 in Account V)	(-) 11	-	-
1.7	Other debt (net) (vide item 8 in Account V)	9,218	12,050	6,663
2.	Deficit financing	11,968	17,935	22,640
2.1	Floating debt (net) (vide item 4.4 in Account V)	-	-	-
2.2	Withdrawals from cash balances (vide items 3 and 6 in Account VI)	11,968	17,935	22,640
3.	Total (1+2)	30,652	41,069	46,751

11. Net profits of departmental commercial undertakings

Net profits of departmental commercial undertakings as the excess of gross receipts over operating expenses, indicate the financial results of the working of these undertakings. These are transferred to Government administration, which, in turn, enter the pool of its current receipts. The retained profits is ploughed back for further development of these

undertakings. The operating expenses of these undertakings have exceeded their gross receipts during all the three years under review as can be seen from the table below.

Table 11  
Net profits of departmental commercial undertakings  
(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Gross receipts (vide item 11 in Account II)	6,987	8,756	9,978
2.	Operating expenses (vide items 1 to 6 in Account II)	11,415	12,591	14,893
3.	Net profits (1-2) (vide item 7 in Account II)	(-)4,428	(-)3,835	(-)4,915

12. Net output of departmental commercial undertakings

The following table presents the net output of the departmental commercial undertakings indicating an increasing trend during the period under review.

It has increased from Rs.4,242 lakhs during 1982-83 (A/c) to Rs.5,897 lakhs during 1983-84 (R.E) and further to Rs.6,566 lakhs during 1984-85(B.E). The percentage increase in the output of these undertakings is 39.1 between 1982-83 (A/c) and 1983-84 (R.E) and it is 11.3 between 1983-84 (R.E) and 1984-85 (B.E).

Table 12  
Net output of departmental commercial undertakings  
(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Wages and salaries (vide item 1 in Account II)	3,141	3,587	4,562
2.	Wages and salaries component of expenditure on repairs and maintenance (computed at 50% of item 3 in Account II)	458	430	488
3.	Interest (vide item 4 in Account II)	5,625	6,392	7,315

1	2	3	4	5
4. Profits transferred and retained by DCU (i.e. items 6 and 7 in Account II)		(-)4,421	(-)3,835	(-)4,915
5. <u>Deduct</u> renewals and replacements (vide item 1B(1)(b) and 1B(2)(b) in Account III)		562	678	885
6. <u>Add</u> provision for depreciation (vide item 5 in Account II)		1	1	1
7. Total		4,242	5,897	6,566

13. Income generation by the State Government

The budgetary operations of the State Government are expected to generate a total income of Rs.85,798 lakhs during 1984-85 (B.E). It was Rs.59,077 lakhs during 1982-83 (A/c) and Rs.72,434 lakhs during 1983-84 (R.E). The percentage increase in the total income generation between 1982-83 and 1983-84 is 22.6, whereas, it is expected to be 18.5 between 1983-84 and 1984-85. An increasing trend in income generation is noticed during all the three years under study.

Table 13

Total income generation by the State Government

		(Rs. in lakhs)		
Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
1.	Wages and salaries income generated by the State Government Administration including pensions (vide item 1.1 in Account I)	45,241	55,297	65,443
2.	net output of departmental commercial undertakings (vide Table 12)	4,242	5,897	6,566
3.	Wages and salaries component of Government outlays on buildings and other constructions (one third of items 1A (1) and 1B(1) in Account III)	9,594	11,240	13,789
4.	Total income generation (1+2+3)	59,077	72,434	85,798

14. Economic classification: Percentage distribution

This contains the entire expenditure of the State Government (excluding the current expenditure of departmental commercial undertakings) furnished in Accounts I, III, IV and V of the Economic Classification for the years from 1982-83, to 1984-85 and it is presented in the following table.

Table 14  
Economic Classification: Percentage distribution  
(Rs. in lakhs)

Sl. No.	Economic head	1982-83 (A/c)		1983-84 (R.E)		1984-85 (B.E)	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
1	2	3	4	5	6	7	8
A.	Total current expenditure	77,244	50.23	98,102	51.39	1,16,271	54.82
1.	Net consumption expenditure	46,051	29.94	56,914	29.81	69,152	32.60
2.	Interest	7,799	5.07	11,059	5.79	13,058	6.16
3.	Subsidies	1,321	0.86	3,776	1.98	4,056	1.91
4.	Transfers to local bodies	4,352	2.83	5,379	2.82	6,764	3.19
5.	Transfers to households	17,721	11.53	20,974	10.99	23,241	10.96
B.	Total capital expenditure	76,543	49.77	92,799	48.61	95,822	45.18
1.	Gross capital formation	33,190	21.58	39,176	20.52	47,112	22.21
a)	Buildings and other constructions	28,781	18.71	33,719	17.66	41,367	19.50
b)	Machinery and equipment	3,429	2.23	4,172	2.19	4,377	2.06
c)	Increase in stocks	980	0.64	1,285	0.67	1,368	0.65
2.	Capital transfers	4,044	2.63	5,582	2.92	7,248	3.42
a)	To local bodies	489	0.32	437	0.22	450	0.21
b)	To others	3,555	2.31	5,145	2.70	6,798	3.21
3.	Investments in shares	3,418	2.22	4,779	2.50	3,110	1.47
4.	Loans & Advances	20,866	13.57	23,126	12.12	19,133	9.02
a)	To local bodies	513	0.33	4,412	0.22	490	0.23
b)	To others	20,353	13.24	22,714	11.90	18,643	8.79
5.	Repayment of public debt	15,025	9.77	20,136	10.55	19,219	9.06
C.	Grand Total (A+B)	1,53,787	100.00	1,90,901	100.00	2,12,093	100.00

15. Sources and Use of Funds - Karnataka Government Budget

The major sources of funds of the Government and the different uses to which they are put during the years from 1980-81 to 1984-85 are given in the following table.

Table 15

Sources and Use of Funds - Karnataka Government Budget  
Sources of Funds

(Rs. in lakhs)

Sl. No.	Item	1980-81 (A/c)	1981-82 (A/c)	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	6	7
1.	Current receipts (a+b)	68,953	87,499	94,765	1,13,609	1,26,366
a)	Tax receipts	57,101	69,997	76,895	90,396	1,00,009
b)	Income from property and entrepreneurship and other receipts	11,852	17,502	17,870	23,213	26,357
2.	Capital transfers	4,686	5,660	5,808	7,826	10,702
3.	Internal resources of the departmental commercial undertakings	32	43	8	1	1
4.	Repayment of loans	2,001	5,661	7,529	<del>38,260</del> 8,260	9,054
5.	Total receipts (1 to 4)	75,672	98,863	1,08,110	1,29,696	1,46,123
	Excess of total expenditure over total receipts	24,357	17,468	30,652	41,069	46,751
	Financed by:					
a)	Borrowings(net)	14,158	11,802	18,684	23,134	24,111
b)	Withdrawals from cash balances	10,199	5,666	11,968	17,935	22,640

Table 15 (Concl'd.)

Sources and Use of Funds - Karnataka Government Budget

Use of Funds

(Rs. in lakhs)

Sl. No.	Item	1980-81 (A/o)	1981-82 (A/c)	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5	6	7
1.	Current expenditure (a+b)	56,167	63,746	77,244	98,102	1,16,271
	a) Consumption expenditure	34,954	38,903	46,051	56,914	69,152
	b) Current transfers	21,213	24,843	31,193	41,188	47,119
2.	Loans and advances for current consumption	1,994	2,285	3,034	5,168	3,871
3.	Gross capital formation (a+b+c+d)	27,749	32,505	37,234	44,758	54,360
	a) Buildings and other constructions	21,942	24,299	28,781	33,719	41,367
	b) Machinery and equipment	2,841	2,953	3,429	4,172	4,377
	c) Increase in stocks	627	2,281	980	1,285	1,368
	d) Capital transfers	2,339	2,972	4,044	5,582	7,248
4.	Investments in shares and debentures	2,795	3,181	3,418	4,779	3,110
5.	Loans and advances for capital formation	11,324	14,614	17,832	17,958	15,262
6.	Total expendi- ture (1 to 5)	1,00,029	1,16,331	1,38,762	1,70,765	1,92,874



4. RECONCILIATION

The following statements present a reconciliation between the magnitudes of current revenue and current and capital expenditures as given in <sup>the</sup> Annual Financial Statement 1984-85 (Budget) and the magnitudes arrived at in the Accounts I and III of the present Economic Classification.

(1) CURRENT ACCOUNT-REVENUE

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
	A. Revenue as shown in the Financial Statement	1,28,066	1,50,945	1,70,734
	<u>Less</u>			
1.	Estate duty transferred to Account III	70	77	82
2.	Sale of land and property	13	11	17
3.	Sale of goods and services treated as reduction of consumption expenditure	11,135	11,581	12,686
4.	Capital grants transferred to Account III	5,738	7,749	10,620
5.	Gross receipts of the departmental commercial undertakings transferred to Account II	6,987	8,756	9,978
6.	Interest receipts from departmental commercial undertakings	5,619	6,392	7,315
	<u>Add</u>			
7.	Profits transferred from departmental commercial undertakings	(-) 4,428	(-) 3,835	(-) 4,915
8.	Refunds	683	1,064	1,244
9.	Miscellaneous adjustments	6	1	1
10.	B. Total adjustments	(+) 33,301	(-) 37,336	(-) 44,368
	C. Current revenue from Government administration as shown in Economic Classification (A+B)	94,765	1,13,609	1,26,366

(2) CURRENT ACCOUNT-EXPENDITURE

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
A	A. Expenditure (Revenue Account) as shown in the Financial Statement	1,23,877	1,52,008	1,73,334
	<u>Less</u>			
1.	Sale of goods and services treated as reduction of consumption expenditure	11,135	11,581	12,686
2.	Appropriation for reduction or avoidance of debt	4,701	6,857	4,510
3.	Current expenditure of the departmental commercial undertakings (net)	9,887	10,926	12,906
4.	Expenditure of capital nature in the revenue account	20,629	24,591	26,874
5.	Transfers to funds	353	190	164
6.	Inter-account transfers eliminated.	1,230	1,273	1,616
	<u>Add</u>			
7.	Expenditure of revenue nature from capital account administration	198	658	792
8.	Recoveries treated as receipts	1,102	855	905
9.	Miscellaneous adjustments	2	(-1)	(-4)
	B. Total adjustments	(-)46,633	(-)53,906	(-)57,063
	C. Current expenditure of Government administration as shown in the Economic Classification (A+B)	77,244	98,102	1,16,271

(3) CAPITAL ACCOUNT-EXPENDITURE

(Rs. in lakhs)

Sl. No.	Item	1982-83 (A/c)	1983-84 (R.E)	1984-85 (B.E)
1	2	3	4	5
	A. Capital Expenditure outside the revenue account as shown in the Financial Statement	18,844	24,384	30,913
	<u>Less</u>			
1.	Financial investments in shares taken over to Account IV	3,418	4,779	3,110
2.	Expenditure of revenue nature transferred to Account I	198	6,658	792
3.	Expenditure of revenue nature transferred to Account II	1,528	1,665	1,987
4.	Sale of land and property brought over from receipts in revenue account administration and treated as reduction of capital expenditure	13	11	17
	<u>Add</u>			
5.	Capital expenditure brought over from revenue account administration	18,560	22,048	23,760
6.	Capital expenditure brought over from revenue account departmental commercial undertakings	2,069	2,543	3,114
7.	Transfers from funds	310	429	434
8.	Recoveries treated as receipts	2,608	2,467	2,042
9.	Miscellaneous adjustments	-	-	3
	B. Total adjustments	18,390	20,374	23,447
	C. Total capital expenditure as shown in the Economic Classification (A+B)	37,234	44,758	54,360

5. NOTES ON THE ACCOUNTS

Account I: Transaction in Goods and Services and Transfers:

Current Account of State Government Administration

This account deals with the current revenue and expenditure of all the administrative departments. All departments except those listed in Account II are considered administrative for the purpose of this classification. The current expenditure of administrative departments consists of Government consumption expenditure and transfer payments. The former is made up of wages and salaries (including pensions) and purchase of goods and services and the latter is inclusive of interest, grants, subsidies, scholarships etc., to the rest of the economy which are added indirectly to the disposable income of the community. To meet these current expenditures, Government appropriates a part of the income of the community through a variety of taxes, miscellaneous fees etc., accruing in the course of administration. In addition, Government has an investment income from property and entrepreneurship and also receives revenue grants, contributions and recoveries from the Union Government and the rest of the economy. The excess of current receipts over current expenditure denotes the savings of the Government administration available for the domestic capital formation. Some of the items included in this account are explained below.

1.1 (a) Wages and Salaries: This item comprises of pay of Officers, pay of establishment and allowances and honoraria other than travelling and daily allowances. Contributions to provident funds are also included here.

1.1 (b) Pensions: Pensions actually paid to Government employees.

1.2 Goods and Services: This item includes all expenditure under contingency such as pay and allowances of casual employees, office supplies, rent, fuel, light, printing, travel expenses, telephone and telegraph charges and other items of current operations, less sales of goods and services by Government to other Government enterprises and households.

2. Transfer Payments: From the economic point of view, the expenditure incurred by the Government are of three types viz., consumption expenditure, capital formation and transfers to the rest of the economy. In the economic classification scheme presented here, a distinction has been drawn between current and capital transfers. Capital transfers are supposed to assist capital formation. Current transfers have been broken up into interest payments, grants to local bodies, educational institutions, co-operatives and others, subsidies, scholarships and other current transfers to individuals which are considered to augment personal incomes of the recipients.

2.1 Interest: This comprises of interest charges on public debt and other obligations and interest on loans from Central Government. Interest charges of departmental commercial undertakings are excluded from this head and are shown under item 4 in Account II.

2.2 Grants: Grants are classified according to types of institutions to which they flow. Four classes of institutions distinguished here are, local bodies, educational institutions, Co-operatives, and others. The last sub-item includes other unclassified grants and grants to non-profit making institutions.

2.3 Subsidies: Subsidies shown here take the form of direct payments to producers or of differentials between the buying and selling prices of Government trading organisations. The subsidies given by the Government to a specific group of population to enable them to get goods at prices lower than the current market prices are not included here, as such payments will be shown as grants to others. The subsidies represent the payments given towards rebate on the sale of handlooms, loss on the sale of fertilisers, improved seeds, pesticides, agricultural implements, to co-operative societies for maintenance of managers, loss suffered by the co-operative societies and to make good the loss between economic rent and subsidised rent.

2.4 Scholarships and stipends: Self-explanatory

2.5 Other current transfers: This item comprises of other current transfers to households such as pensions for distinguished and meritorious services, territorial and political pensions, old

age pensions, family allowances, prizes, gratuitous relief to famine stricken people, awards and other miscellaneous compensations and contributions etc., to private non-profit institutions not included above.

3. Savings on current account: This represents the excess of current receipts over current expenditure.

4. Tax Revenue: They are broadly classified into direct and indirect taxes.

Direct taxes include State's share of income tax and tax on railway fares, taxes on agricultural income & land revenue *and other taxes on income and expenditure.*

Indirect taxes include State's share of Union excise duties, stamps and registration fees, State excise, sales tax, taxes on vehicles, taxes on goods and passengers, electricity duties and other taxes like betting and entertainment taxes, education and health cess and other miscellaneous receipts.

5. Income from property and entrepreneurship: This flow records the income receivable by the State Government from departmental commercial undertakings as well as the net rent, interest and dividends accruing to it from the ownership of buildings and financial assets.

6. Transfers from households: This item includes payments to State Government made by households and private non-profit institutions for regulatory and social services provided mainly by Government agencies. These charges are levied in connection with their regulatory activities and for services for which there is no parallel in private sector. Such services are mostly provided by the Government since they depend on the use of compulsory powers. Examples of such charges are birth, death and marriage registration fees, court fees, fines and penalties etc., which are given under different revenue heads of the State Government budget.

7. Revenue grants, contributions and recoveries: These are current transfer receipts *accruing to the State Government*

from the Union Government, Central institutions like Indian Council of Agricultural Research, National Co-operative Development and Ware-housing corporations, various committees and Boards etc.

Account II: Transactions in Goods and Services and Transfers:  
Current Account of Departmental Commercial  
Undertakings of the State Government

The departmental commercial undertakings may be defined as Government agencies producing goods and services that are not provided free of charge. The essential characteristics distinguishing these departments from Government administrative departments are, that they charge for what they provide according to use and are thus able to meet most of their costs from their sale proceeds. Other related characteristics are:

- i) Departmental commercial undertakings are subject to market forces i.e., demand and supply.
- ii) The activities of such undertakings are subordinate to legislative control and are owned, run and managed by the Government.
- iii) The intention to make profit is not the essential characteristic and the activities of an undertaking may be carried on deliberately at a loss.
- iv) Commercial accounting methods are used to determine the profit or loss.
- v) The operations of the undertakings usually involves the use of expensive capital equipment and the holding of stock which may be subject to large fluctuations and the provision for depreciation may, therefore, be a significant element in the total cost of operations.
- vi) To maintain their operations, commercial undertakings must both give and receive commercial credit.

Independent, statutory corporations and boards set up by the State Government are excluded from the purview of this account. In this study, the following have been considered under departmental commercial undertakings.

- a) Stationery and printing
- b) Dairy Development
- c) Forest

- d) Industries
- e) Irrigation
- f) Power projects
- g) Ports, Light Houses and Shipping
- h) Road and Water transport services.

The current expenditure side of the departmental commercial undertakings is divided into wages and salaries, goods and services, repairs and maintenance, interest, provision for depreciation and profits, part of which has been transferred to Government administration. On the revenue side the gross sales proceeds of the departmental commercial undertakings are furnished departmentwise. The interest receipts accruing to the depreciation reserve funds are deducted from the gross sales proceeds of these departments.

Provision for depreciation, which is shown on the expenditure side, is made for the purpose of ensuring that the value of the fixed capital used up during the year is charged as a cost against the operating revenue of the year. The provisions are designed to cover the wear and tear and foreseen obsolescence of all fixed capital as well as accidental damage to it.

Account III: Transactions in Goods and Services and Transfers:  
Capital Account of State Government Administration and Departmental Commercial Undertakings

This account deals with the total capital outlay resulting in physical asset formation both by State Government administration and departmental commercial undertakings together with capital transfer payments mostly for assisting capital formation in the rest of the economy. The capital expenditure on Government administration and departmental commercial undertakings are given separately, where as, the resources of finance are common to both.

The physical asset formation is shown in terms of gross as well as net aggregate. Net increase in stocks is classified into work stores and other stores, which is inclusive of stocks of food, fertilisers etc. . Capital transfers have been



divided into capital grants to local bodies, capital grants to others and compensation to land owners, etc.

Gross savings, on the receipts side, constitute savings on current account of Government administration transferred from Account I, provision for depreciation and retained profits of departmental commercial undertakings from Account II. These, together with capital grants received from the Union Government etc., form the source of finance for all expenditures recorded in this account. The deficit which is shown as a balancing item in Account III along with net increase in financial assets in Account IV gives the total requirements of finance of the State Government to be met out of borrowings or by adjustments in Government's cash balances.

Gross capital formation is the gross value of the goods which are added to the domestic capital stock of the State. It comprises expenditure on the acquisition of fixed assets as well as the value of physical change in stocks. It has been classified into buildings and other constructions, machinery and equipment. Each of them is further classified into new outlay and renewals and replacements. The former is a measure of net capital formation by the Government and together with the latter gives gross capital formation.

Buildings and other constructions: Buildings include all expenditure on new constructions and major alterations to residential and non-residential buildings including the value of the change in work-in-progress. Other constructions include mostly expenditure on construction of roads and bridges and works on power and irrigation projects, flood control, forest clearance, land reclamation, water supply and sanitation.

Machinery and equipment: This item includes expenditure incurred on the purchase of various equipments such as buses, jeeps, trucks, tractors, power generating machinery, agricultural machinery and implements, office machinery and equipment, construction and other industrial machinery and equipment and instruments used by professional men.

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Net increase in stocks: Changes in stocks represent the value of physical change in raw materials, work-in-progress (other than the work-in-progress in buildings which are included under fixed capital formation) and finished products which are held by commercial enterprises and in Government stock-piles. The net increase or decrease in stocks needed for construction work and stocks of commercial enterprises are shown separately from changes in stocks of strategic materials like food, fertilisers, etc., held by administrative departments for policy purposes.

Capital transfers: They cover grants given to finance the construction of buildings, purchase of machinery and equipment and public works such as roads, irrigation works, water supply and sewerage systems, etc. Compensation to land owners etc., are also included here. These capital transfers are intended to assist capital formation in other sectors of the economy.

Receipts on capital account: Receipts available for capital formation consist of gross savings on current account brought over from Accounts I and II, Estate duty and capital grants, etc., from Union and other State Governments.

Estate duty is included here on the assumption that it is paid out of capital.

Account IV: Changes in Financial Assets:  
Capital Account of State Government Administration and Departmental Commercial Undertakings

This account shows the net changes in financial assets of the Government and is concerned with financial investments in shares in industrial and commercial concerns and loans and advances granted to the rest of the economy. Loans for capital formation and loans for current consumption are shown separately. Loans for capital formation indicate the extent to which the State Government promotes capital formation in the rest of the economy through financial assistance in comparison with the capital formation actually undertaken by the Government.

1. Investments in shares: These include the share capital of the State Government in departmental commercial undertakings,

Government statutory corporations, co-operatives and others.

2.1 Loans and advances for capital formation: Loans for capital formation are the loans given for the creation of capital assets like the construction of buildings, roads, industrial housing schemes, water supply and drainage schemes etc., and loans for purchase of machinery and equipment. These loans have been shown separately for co-operatives, local bodies, State Electricity Board, Housing Board, Statutory corporations and others. Loans to others for capital formation are mostly for construction of houses, sinking of new wells, construction of tube wells and purchase of pumpsets and implements.

2.2 Loans and advances for current consumption: These include loans to cultivators for purchase of seeds, fertilisers etc., loans to students and other loans.

4. Repayment of loans: Repayment of loans has not been shown separately in respect of loans granted for capital formation and current consumption, as it is assumed that repayments have been made from current income and not out of capital.

5. Net increase in financial assets: Balance showing the net increase in financial assets is added to the deficit in Account III to give the total financial requirements of the State Government for fixed assets formation and for the accumulation of financial claims against the rest of the economy. This is to be met out of borrowings or by adjustments in Government cash balances.

Account V: Changes in Financial Liabilities:

Capital Account of State Government Administration and Departmental Commercial Undertakings

This account records the borrowing operations of the State Government. Incomings represent the increase in financial liabilities and outgoings measure the reduction in

liabilities. The balance, therefore, shows the net increase in financial liabilities resulting from increase (expenditure for acquisition of financial assets. Permanent debt, loans from Central Government and other loans are shown gross, while floating debt, unfunded debt, inter-state settlements, cash balance, investment account and other debts are shown net.

Account VI: Cash and Capital Reconciliation Account of State Government Administration and Departmental Commercial Undertakings

This account sums up the net position in respect of Accounts III, IV and V showing the effect of all transactions of the State Government on its cash position. While Account III gives the net position in respect of all (real) transactions in goods and services and transfers, Accounts IV and V bring out the net position in respect of financial assets and financial liabilities respectively.

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PART II  
FUNCTIONAL CLASSIFICATION

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## 6. FUNCTIONAL CLASSIFICATION OF THE STATE GOVERNMENT BUDGET

A major reform has been brought about in the classification of Government transactions with the introduction of functional character to it in the budgets of Central and State Governments.

The main object of functional classification is to show the Government expenditure (current as well as capital) in terms of the immediate or the short-term purposes served or services rendered.

The functional classification excludes current expenditure on goods and services of departmental commercial undertakings as they produce goods and services that are sold largely outside the Government sector and represents only cost of production and not the expenditure on final goods and services provided by the Government. This classification does not apply to the Government receipts, but the receipts obtained from the sale of goods and services produced in the Government Sector, are taken into account to workout expenditure on net purchase of goods and services by the Government. Financial investments by Government, grants and loans given to commercial organisations, non-Government institutions or individuals and repayment of public debt by the Government are included in this classification. But repayment of loans to Government and inter-Government transfers are excluded.

The functional classification presented here follows the broad four-fold classification of budgetary transactions adopted by Central and State Governments. They are: (1) General Services which consist of Police, General Administration, Judiciary, Elections, Pensions, Revenue Collection Services etc. which are indispensable to an organised State and cannot be conceptually allocated to a particular group of beneficiaries. (2) Social and community services cover the provision of services needed for community living, such as Education, Health, Social Security, etc. and community services like Water supply, Sanitation etc. (3) Economic Services cover activities or the provision of assistance to the agencies in the field of production and trade such as Agriculture, Industry, Power, Transport etc. (4) Items of expenditure incurred by the Government for compensation to local bodies, loans to Government Servants etc., which cannot be classified under any of the other three categories mentioned earlier are taken as the expenditure for other purposes.

FUNCTIONAL CLASSIFICATION: PERCENTAGE DISTRIBUTION

(Rs. in lakhs)

Sl. No.	Functional Head	1982-83 (A/c)		1983-84 (R.E)		1984-85 (B.E)	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
1	2	3	4	5	6	7	8
1.	General Services	37,859	24.62	50,742	26.58	56,121	26.46
2.	Social and Community Services	46,073	29.95	55,074	28.85	63,371	29.88
	i) Education	23,847	15.51	27,697	14.51	31,291	14.75
	ii) Medical, Family Welfare, Public Health, Sanitation and Water Supply	11,385	7.40	14,228	7.45	17,103	8.06
	iii) Housing and Urban Development	1,810	1.18	2,128	1.11	2,298	1.08
	iv) Social security and welfare	6,781	4.40	8,547	4.48	10,311	4.86
	v) Others	2,250	1.46	2,474	1.30	2,368	1.13
3.	Economic Services	63,523	41.31	77,493	40.59	82,955	39.11
	i) Agriculture and Allied Activities	24,263	15.78	29,804	15.62	34,542	16.29
	ii) Industries and Minerals	5,893	3.83	9,249	4.84	5,995	2.83
	iii) Water and Power Development	22,495	14.63	23,544	12.33	24,757	11.67
	iv) Transport and Communications	6,806	4.43	6,843	3.58	8,255	3.89
	v) Others	4,066	2.64	8,053	4.22	9,406	4.43
4.	Other purposes	6,332	4.12	7,592	3.98	9,646	4.55
Total		1,53,787	100.00	1,90,901	100.00	2,12,093	100.00

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PART III  
ECONOMIC-CUM-FUNCTIONAL CLASSIFICATION

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## 7. ECONOMIC-CUM-FUNCTIONAL CLASSIFICATION

For purposes of accountability, expenditure is usually charged according to immediate object of expenditure at the time money is spent, such as, wages and salaries, goods and services, grants, loans etc. While the economic classification groups these primary items of expenditure by their economic character, the functional classification groups them according to the particular purpose they serve. Both economic and functional classifications have been combined here into a single two-way classification by significant economic-functional categories. This classification shows how expenditure for a particular purpose is divided between economic categories, such as, current expenditure on goods and services, various types of transfers, capital formation, investments in shares, loans etc., and different types of functional services provided by the Government. Economic and functional classification of transactions provides useful economic data for the policy makers and gives in broad terms, the pattern of resources allocation and its impact on the rest of the economy. Such a cross classification of the Government's budgetary expenditure is of great value in evaluating the progress of actual expenditure.

Economic-cum-functional classification presented in the following tables of this part relates to the years 1982-83 (A/c), 1983-84 (R.E) and 1984-85 (B.E). The table splits up horizontally the expenditure on each service into significant economic categories and vertically into different functional categories. The broad division of the economic classification is current and capital expenditure and that of functional classification is, General Services, Social and Community Services, Economic Services and other Purposes.

1982-83 (A/c)

(Rs. in lakhs)

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Sl. No.	Economic/Functional Classification	Current Expenditure							
		Current consumption expenditure	Less Out side sales	Net current consumption expenditure	Interest on general debt	Subsidies	Transfers to income account of households	Transfers to Local bodies for current operations	Total current expenditure (5) to (9)
1	2	3	4	5	6	7	8	9	10
1.	General Services	18,775	7,400	11,375	7,799	129	2,192	1	21,496
2.	Social and Community Services	28,075	1,830	26,245	-	84	13,665	134	40,128
	(i) Education	15,542	788	14,754	-	-	8,388	33	23,175
	(ii) Medical, Family Welfare Public Health, Sanitation & Water Supply	8,540	804	7,736	-	-	921	29	8,686
	(iii) Housing and Urban Development	243	5	238	-	60	44	72	414
	(iv) Social Security and Welfare	2,552	148	2,404	-	24	3,882	-	6,310
	(v) Others	1,198	85	1,113	-	-	430	-	1,543
3.	Economic Services	10,336	1,905	8,431	-	1,108	1,864	315	11,718
	(i) Agriculture and Allied Activities	6,501	677	5,824	-	663	1,132	315	7,934
	(ii) Industries & Minerals	1,674	859	815	-	158	530	-	1,503
	(iii) Water & Power Development	167	3	164	-	-	70	-	234
	(iv) Transport and Communications	513	83	430	-	4	-	-	434
	(v) Others	1,481	283	1,198	-	283	132	-	1,613
4.	Other purposes	-	-	-	-	-	-	3,902	3,902
	Total	57,186	11,135	46,051	7,799	1,321	17,721	4,352	77,244

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ECONOMIC-CUM-FUNCTIONAL CLASSIFICATION OF KARNATAKA GOVERNMENT BUDGETARY EXPENDITURE  
1982-83 (A/c) (Concl'd.)

(Rs. in lakhs)

Sl. No.	Economic/Functional classification	Capital Expenditure										Grand Total Col. (10) + (20)
		Gross capital formation			Investments in shares & debentures	Capital transfers to		Loans and Advances to		Repayment of public debt	Total capital expenditure Col. (11) to (19)	
		Buildings & other constructions	Machinery & equipment	Net increase in stocks		Local	Other	Local	Other			
1	2	11	12	13	14	15	16	17	18	19	20	21
1.	General Services	993	974	(-)685	-	1	55	-	-	15,025	16,363	37,859
2.	Social & Community Services	1,787	998	69	281	432	1,001	500	877	-	5,945	46,073
	(i) Education	179	43	-	-	87	318	-	45	-	672	23,847
	(ii) Medical, Family Welfare, Public Health, Sanitation and Water Supply	575	932	69	-	-	345	192	586	-	2,699	11,381
	(iii) Housing & Urban Development	521	6	-	-	337	11	308	213	-	1,396	1,810
	(iv) Social Security and Welfare	115	15	-	<del>278</del>	1	51	-	11	-	471	6,781
	(v) Others	397	2	-	3	7	276	-	22	-	707	2,250
3.	Economic Services	26,001	1,457	1,596	3,137	56	2,499	13	17,046	-	51,805	63,523
	(i) Agriculture and Allied Activities	11,168	432	1,861	166	6	1,273	13	1,410	-	16,329	24,263
	(ii) Industries & Minerals	272	84	-	1,134	50	569	-	2,281	-	4,390	5,895
	(iii) Water and Power Development	9,739	695	(-)151	-	-	-	-	11,978	-	22,261	22,495
	(iv) Transport and Communications	4,804	241	(-)114	1,206	-	-	-	235	-	6,372	6,806
	(v) Others	13	5	-	631	-	657	-	1,142	-	2,453	4,566
4.	Other purposes	-	-	-	-	-	-	-	2,430	-	2,430	6,332
	<b>Total</b>	28,781	3,429	980	3,418	489	3,555	513	20,355	15,025	76,543	1,55,787

ECONOMIC-CUM-FUNCTIONAL CLASSIFICATION OF KARNATAKA GOVERNMENT BUDGETARY EXPENDITURE  
1983-84 (R.E)

(Rs. in lakhs)

Sl. No.	Economic/Functional classification	Current Expenditure							
		Current consumption expenditure	Less Out side sales	Net current consumption expenditure	Interest on general debt	Subsidies	Transfers to income account of households	Transfers to Local bodies for current operations	Total current expenditure cols. (5) to (9)
1	2	3	4	5	6	7	8	9	10
1.	General Services	22,784	7,885	14,899	11,058	141	2,285	-	28,383
2.	Social and Community Services	33,342	1,768	31,574	-	138	16,056	261	48,029
	(i) Education	18,464	745	17,719	-	45	9,353	64	27,181
	(ii) Medical, Family Welfare, Public Health, Sanitation and Water Supply	9,582	855	8,727	-	-	1,552	56	10,335
	(iii) Housing and Urban Development	284	4	280	-	60	11	141	492
	(iv) Social Security and Welfare	3,413	66	3,347	-	29	4,776	-	8,112
	(v) Others	1,599	98	1,501	-	4	364	-	1,869
3.	Economic Services	12,369	1,928	10,441	1	3,497	2,633	126	16,698
	(i) Agriculture and Allied Activities	7,930	484	7,446	1	1,656	1,969	126	11,198
	(ii) Industries & Minerals	2,087	1,027	1,060	-	298	381	-	1,739
	(iii) Water and Power Development	184	22	162	-	-	80	-	242
	(iv) Transport and Communications	645	89	556	-	-	-	-	556
	(v) Others	1,523	306	1,217	-	1,543	203	-	2,963
4.	Other purposes	-	-	-	-	-	-	4,992	4,992
	<b>Total</b>	<b>68,495</b>	<b>11,581</b>	<b>56,914</b>	<b>11,059</b>	<b>3,776</b>	<b>20,974</b>	<b>5,379</b>	<b>98,102</b>

Sl. No.	Economic/Functional Classification	Capital Expenditure										
		Gross capital formation			Invest-ments in sha-res & debentures	Capital tra-nsfers to		Loans and Advances to		Repay-ment of public debt	Total capital expenditure	Grand Total
		Build-ings & other constr-uctions	Machi-nery & equip-ment	Net incre-ase in stocks		Local bod-ies	Other domes-tic sect-ors	Local bod-ies	Other domes-tic sect-ors			
11	12	13	14	15	16	17	18	19	20	21		
1.	General Services	1,190	962	-	-	-	71	-	-	20,136	22,359	50,742
2.	Social & Community Services	2,016	1,115	-	166	420	973	363	1,992	-	7,045	55,074
	(i) Education	136	71	-	-	101	154	-	54	-	516	27,697
	(ii) Medical, Family Welfare, Public Health, Sanitation and Water Supply	681	1,008	-	-	-	517	124	1,563	-	3,893	14,228
	(iii) Housing & Urban Development	681	14	-	-	299	50	239	353	-	1,636	2,128
	(iv) Social Security and Welfare	143	11	-	165	-	63	-	13	-	395	8,547
	(v) Others	375	11	-	1	20	489	-	9	-	605	2,474
3.	Economic Services	30,513	2,095	1,285	4,613	17	4,101	49	18,122	-	60,795	77,493
	(i) Agriculture and Allied Activities	13,739	570	1,285	178	13	1,511	2	1,308	-	18,606	29,804
	(ii) Industries & Minerals	279	367	-	2,343	4	781	-	3,736	-	7,510	9,249
	(iii) Water & Power Development	11,252	845	-	-	-	1,202	-	11,203	-	23,302	23,544
	(iv) Transport and Communications	5,222	307	-	738	-	20	-	-	-	6,287	6,843
	(v) Others	21	6	-	1,354	-	1,787	47	1,875	-	5,090	8,053
4.	Other purposes	-	-	-	-	-	-	-	2,600	-	2,600	7,592
	Total	33,719	4,172	1,285	4,779	437	5,145	412	22,714	20,136	92,799	1,90,901

ECONOMIC-CUM-FUNCTIONAL CLASSIFICATION OF KARNATAKA GOVERNMENT BUDGETARY EXPENDITURE  
1984-85 (B.E)

(Rs. in lakhs)

Sl. No.	Economic/Functional classification	Current Expenditure							
		Current-consumption expenditure	Less Out side sales	Net current consumption expenditure	Interest on general debt	Subsidies	Transfers to income account of households	Transfers to Local bodies for current operations	Total current expenditure cols. (5) to (9)
1	2	3	4	5	6	7	8	9	10
1.	General Services	26,663	8,706	17,957	13,058	168	2,537	1	33,721
2.	Social and Community Services	40,397	1,907	38,490	-	85	17,310	336	56,201
	(i) Education	21,349	827	20,522	-	-	9,802	71	30,395
	(ii) Medical, Family Welfare, Public Health, Sanitation & Water Supply	12,489	905	11,584	-	-	1,804	132	13,520
	(iii) Housing and Urban Development	513	3	510	-	60	50	108	723
	(iv) Social Security and Welfare	4,553	67	4,486	-	24	5,402	-	9,909
	(v) Others	1,493	105	1,388	-	4	252	5	1,649
3.	Economic Services	14,778	2,073	12,705	-	3,803	3,394	150	20,052
	(i) Agriculture and Allied Activities	9,346	527	8,819	-	1,996	2,677	150	13,642
	(ii) Industries and Minerals	2,644	1,094	1,550	-	380	407	-	2,337
	(iii) Water & Power Development	242	25	217	-	-	80	-	297
	(iv) Transport and Communications	705	95	610	-	-	-	-	610
	(v) Others	1,841	332	1,509	-	1,427	230	-	3,166
4.	Other purposes	-	-	-	-	-	-	6,297	6,297
	<b>Total</b>	<b>81,838</b>	<b>12,686</b>	<b>69,152</b>	<b>13,058</b>	<b>4,056</b>	<b>23,241</b>	<b>6,764</b>	<b>1,16,271</b>

(Rs. in lakhs)

Sl. No.	Economic/Functional Classification	Capital Expenditure										Grand total Cols. (10)+ (20) (11)to (19)
		Gross capital formation			Invest-ments in sha-res & debentures	Capital tra-nsfers to		Loans and Advances to		Repay-ment of public debt	Total capital expenditure	
1	2	Build-ings & other constr-uctions	Machi-nery & equip-ment	Net incre-ase in stocks	14	Local bod-ies	Other domas-estic sect-ors	Local bod-ies	Other domes-tic sect-ors	19	20	21
1.	General Services	1,941	1,164	-	-	-	76	-	-	19,219	22,400	56,121
2.	Social & Community Services	2,895	1,243	-	123	412	1,288	254	955	-	7,170	63,371
	(i) Education	221	56	-	-	111	452	-	56	-	896	31,291
	(ii) Medical, Family Welfare, Public Health, Sanitation & Water Supply	1,224	1,151	-	2	-	310	15	881	-	3,583	17,103
	(iii) Housing & Urban Development	971	11	-	-	299	50	239	-	-	1,570	2,298
	(iv) Social Security and Welfare	245	15	-	120	1	13	-	8	-	402	10,311
	(v) Others	234	10	-	1	1	463	-	10	-	719	2,368
3.	Economic Services	36,531	1,970	1,368	2,987	38	5,434	236	14,339	-	62,903	82,955
	(i) Agriculture & Allied Activities	15,778	646	1,348	197	13	1,771	236	911	-	20,900	34,542
	(ii) Industries & Minerals	329	134	-	604	25	801	-	1,765	-	3,658	5,995
	(iii) Water & Power Development	14,112	765	20	-	-	3	-	9,560	-	24,460	24,757
	(iv) Transport and Communications	6,269	416	-	950	-	10	-	-	-	7,645	8,255
	(v) Others	43	9	-	1,236	-	2,849	-	2,103	-	6,240	9,406
4.	Other purposes	-	-	-	-	-	-	-	3,349	-	3,349	9,646
<b>Total</b>		<b>41,367</b>	<b>4,377</b>	<b>1,368</b>	<b>3,110</b>	<b>450</b>	<b>6,798</b>	<b>490</b>	<b>18,643</b>	<b>19,219</b>	<b>95,822</b>	<b>2,12,093</b>

\*D/-