PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Subject: Budget Control & Implementation order-Reg.

READ: 1. Appropriation Act No. 12/2003
2. OM No.FD 36 BPE 86 dated 18-3-1987
3. Delegation of Powers G.O. No.FD 12 TFP 2000 dated 15-11-2000 &
4. FD 1 TFP 02 dated 20-1-2003
5. Circular No. FD/DS (B&R)/F.1238/2002 dated 23-5-2002 regarding Treasury Budget Control

****

Preamble:

1. The passage of the Appropriation Bill and the publication of the Appropriation Act authorises Grants/Appropriations to the extent indicated in Schedule/s attached thereto. The Heads of Departments/Controlling Officers/Drawing and Disbursing Officers etc. are, therefore authorised to incur expenditure not exceeding amounts specified for the purposes indicated in the schedule/s attached thereto, keeping in view the instructions in force from time to time regarding measures to enforce economy in expenditure and general delegation of financial powers.

2. Instructions issued regarding procedure for release of funds to Zilla Panchayat by Government in Official Memorandum No. FD 36 BPE 86 dated 18th March 1987 are also to be followed and the respective heads of departments are responsible to ensure that the budget provision related to Zilla Panchayats, which are included in the respective demands for grant are not exceeded and expenditure is monitored by obtaining monthly statements from the field departments under Zilla Panchayats.

3. Plan expenditure is incurred as per the approved monthly and quarterly M.M.R statement of expenditure. Reappropriation of funds is regulated by Article 308, 309, 310, 311, 312, 313 and 314 of the Karnataka Financial Code (KFC) as revised from time to time. Releases/Expenditure are to be done as per the delegation of financial powers issued by Finance Department from time to time as well as observing all rules under KFC/Manual of Contingent Expenditure (MCE)/Budget Manual and Digital Accounts Code as well as Circulars issued from time to time.

4. The White Paper on the State's finances has brought to light a noticeable deterioration in the fiscal position of the state. The revenue deficit, fiscal deficit and debt stock have become unsustainable vis-à-vis the revenue receipts and Gross State Domestic Product (GSDP) of the state. Over the last few years of the Ninth Plan and the first two years of the Tenth Plan, the Balance on Current Revenue (BCR) has been negative. If these trends continue unchecked, the state could face a fiscal crisis. Recognising this danger, the government has embarked upon a Medium Term Fiscal Plan which is dovetailed into the Annual Budget and aims to reduce revenue deficit, fiscal deficit and debt to stable & sustainable levels.

5. While the first two years of fiscal correction have yielded positive results, it has been noticed that fiscal correction can be combined with enhanced developmental expenditure if unproductive expenditure is curtailed and public expenditure is prioritised, thereby calibrating the expenditure policy to fiscal targets and commitments. Another disturbing trend has been the growing cash management problems the state has been facing, partly due to lumping of receipts and expenditures, and the practice in certain cases of drawing of funds or reappropriating funds to prevent lapse.

6. While it is necessary to control unwanted and wasteful expenditure and observe strict austerity, it is also necessary to smoothen the flow of funds evenly and enable the departments to prioritize their expenditure programs within approved allocations and empower the departments to conduct their programs unhindered.

7. In the Budget Speech of the Chief Minister delivered on 21st March 2003 efforts made to prune non-plan non-development expenditure and to right size government expenditure have been emphasised as key measures to release scarce resources for enhanced planned development expenditure. All departments are expected to operate within their budget allocation both on the plan and the non-plan side. This is a statutory requirement under the Karnataka Fiscal Responsibility Act. The FRA has become effective from 1.4.2003.

8. The Budget Control mechanism in the Treasuries is expected to come into effect from August 1, 2003. This will involve a three stage information flow to the Network Management Centre and District Treasuries corresponding to the release of funds by Finance Department, Heads of Departments/Chief Controlling Officers and Controlling Officers. The information flow will have to be time-bound and as per prescribed formats to ensure that release of funds are not hampered in any way.

9. The above issues have been examined in detail and it has been found necessary to issue a comprehensive procedure for utilisation and monitoring of the Budget. Hence this Order:

Government Order No. FD 25 BPE 2003 BANGALORE, DATED 31-05-2003

1. A series of budget release orders will be issued by the Finance Department, releasing in suitable instalments, the budget provisions for each scheme/item for which otherwise concurrence of Finance department is required. The release order will be made departmentwise excluding the following:

(a) Salaries
(b) Pensions
(c) Debt servicing under plan and non plan
(d) Grants to ZPs/TPs/GPs
(e) Public works/Forest and Irrigation departments where system of LOC is in vogue
(f) Food, Transport and power subsidies
(g) Loans/grants to statutory boards/corporations/autonomous bodies, co-operative institutions and ULBs
(h) New schemes being implemented for the first time, the schemes where funding pattern has changed, Centrally Sponsored Schemes, Externally Aided projects where reimbursements are involved.
(i) Non plan, Central grants.

The items (a) to (i) above will continue to be released as per existing norms.

2. For the financial year 2003-04 the existing authorisation to incur expenditure vide Official Memorandum No. FD 16 BPE 2003 Dated 31st March 2003 will suffice till end July 2003. The second instalment will be released during the month of August to the extent of 50% of the budget provision.

3. At present plan expenditure is being incurred as per approved monthly and quarterly M.M.R. statements. By November end each department shall review their Plan as approved in the monthly and quarterly M.M.R. statements available till October and the Non-Plan schemes. Based on such review Departments are required to submit proposals for Revised Estimates for the current year. The Finance Department shall estimate the overall availability of resources for the balance period and finalise the Revised Estimates for the current year and subsequently release the 3rd instalment of the Budget provision. The final instalment would be released in January to enable full implementation of Plan & Non Plan provisions.

4. Items not covered by the budget release order will be regulated by orders/circulars/instructions in existence and issued from time to time.

5. On all the items covered by the Budget Control Orders files need not be transmitted to Finance department. Further, to smoothen the flow of funds and to enable the departments to incur expenditure evenly spread out across the year, enhanced delegation of general financial powers are being issued separately.

6. The demands for grants have been framed departmentwise from the current year, and consolidation of object heads has been carried out. Having regard to the above and the enhanced delegation of financial powers, the existing powers of reappropriation with Heads of departments and Secretaries are kept in abeyance for the time being.

7. The role/responsibilities and functions of IFAs in Expenditure Management are being issued separately. In view of enhanced delegation of financial powers, the IFAs are required to exercise greater vigil in managing the finances of the Department to which they have been attached. The IFAs have to give regularly monthly reports to the Finance department in the formats prescribed. It would be the responsibility of the IFAs to watch expenditure on all items under the Budget Release Orders to ensure smooth and even flow of funds.

8. In order to adhere to the Karnataka Fiscal Responsibility Act, 2002, it is necessary for all departments to ensure that all proposals for additionality are fully offset by savings elsewhere within the departmental demand and wherever relevant within the revised estimates. Necessary formats would be issued along with the rules to be notified under the provisions of the Karnataka Fiscal Responsibility Act. All the departments would have to prepare the Departmental Medium Term Fiscal Plan which would replace their performance budgets.

9. The Budget Control Mechanism in the Treasuries will come into force by August 1, 2003. Budget Control will involve a three stage information flow and monitoring and checking system. In the first stage, the Budget release orders as issued from time to time and the Appropriation Act with Schedules attached thereto would be communicated to the NMC and would form the upper limits for disbursal of funds from the Heads of Departments to Controlling Officers/Drawing & Disbursing Officers. In the second stage, the Heads of Departments/Chief Controlling Officers would provide information on the reallocation of funds to Controlling Officers/District Level DDOs in the prescribed formats on floppies/CDs, to the NMC, Bangalore. This information would be transferred to the accounts of the DDOs in the District Treasuries, online. The funds thus transferred would form the limits for the district level DDOs and payment would be regulated within those limits. Payments will not be passed/cleared if the limits are crossed. In the third stage, the district/sub-district DDOs of the respective departments have to furnish the details of further sub-allocations to the drawing officers under their control to the respective district treasury officer. The sub-treasury will allow fund drawal

only to the extent transferred to the account of each local DDO by the District Treasury. All administrative departments and HoDs are to take note of this and ensure compliance down the line. The computerized system in the Treasuries will not allow passage of bills till the required information is fed into the servers at the NMC and District Treasuries.

By order and in the name of the
Governor of Karnataka

B.K. Das
Principal Secretary to Government
Finance Department

To:

1. The Accountant General, Karnataka, Bangalore
2. Private Secretary to Chief Secretary
3. The Additional Chief Secretary to Government
4. Additional Chief Secretary & Development Commissioner
5. All Principal Secretaries/Secretaries to Government
6. All the Heads of Department
7. The Registrar General, Karnataka High Court, Bangalore - with covering letter
8. The Karnataka Lokayukta, Bangalore – with covering letter
9. The Registrar, Karnataka Administrative Tribunal, Bangalore – with covering letter
10. All Divisional Commissioners
11. All Deputy Commissioners
12. All Chief Executive Officers of ZP
13. The Director of Treasuries, Bangalore
14. The Controller, State Accounts Department
15. All Sections in Karnataka Government Secretariat
16. All Internal Financial Advisors in the Secretariat
17. Weekly Gazette