The Karnataka Fiscal Responsibility Act, 2002

KARNATAKA
India

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Act 16 of 2002

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Karnataka Fiscal Responsibility Act, 2002(Karnataka Act No. 16 of 2002)Statement of objects and Reasons. - The State Government published a White paper on State finances in March 2000. This was followed by a Medium Term Fiscal Plan from 2001-02 to 2004-0S, which aimed at achieving fiscal stability and sustainability in the medium term with the clear objectives of eliminating revenue deficit, containing the fiscal deficit to 3% of GSDP, maintaining debt stock as a percentage of GSDP at a prudent level and maximising developmental expenditure. In the Budget for the year 2002-03 an announcement was made to bring out a Fiscal Responsibility Bill to achieve the above objects.The Fiscal Responsibility Bill among other things provides for the following:(i) requiring the State Government to lay in each financial year before both the Houses of the State Legislature a medium term fiscal plan along with the annual budget which will set forth four years rolling target for the prescribed fiscal indicators.(ii) specifying fiscal management principles to guide the State Government.(iii) requiring the State Government to take appropriate measures to eliminate revenue deficit and containing the Fiscal deficit to 3% of GSDP by 31st March 2006.(iv) requiring the State Government to take suitable measures to ensure greater transparency in Fiscal Operation and to minimise, as far as practicable, secrecy in the preparation of the annual budget.(v) to require that the annual budget and the policies announced at the time of Budget shall be consistent with the objectives and targets specified in the Medium Term Fiscal Plan for the coming and future years.(vi) half yearly review of the trends in receipts and expenditure in relation to the budget by the Finance Minister and placing the out come of such review before both the Houses of the State Legislature.(vii) requiring the Finance Minister to make statement in both the Houses of the State Legislature explaining any deviation in meeting the obligations cast on the State Government under the Legislation.(viii) relaxation from deficit reduction targets to deal with unforeseen demands on account of national security or unprecedented natural calamities.Hence the Bill. (L.A. Bill No. 28 of 2002)(First published in the Karnataka Gazette Extra-ordinary on the thirtieth day of August, 2002)An Act to provide for the responsibility of the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government borrowings, debt and deficits, greater transparency in fiscal operations of the State Government and use of a medium-term fiscal framework and for matters connected therewith or incidental thereto.Whereas it is expedient to provide for the responsibility of the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government borrowings, debt and deficits, greater transparency in fiscal operations of the State Government and use of a medium-term fiscal framework and for matters connected therewith or incidental thereto.Be it enacted by the Karnataka Legislature in the Fifty- third Year of the Republic of India as follows :-

1. Short title, extent and commencement.

- (I) This Act may be called the Karnataka Fiscal Responsibility Act, 2002.(2)It extends to the whole of Karnataka.(3)It shall come into force on such date as the State Government may, by notification, appoint.

2. Definitions.

- In this Act, unless the context otherwise requires-(a)"Annual Budget" means the annual financial statement laid before both Houses of the State Legislature under article 202 of the Constitution;(b)"Current Year" means the year preceding the year for which budget and Medium Term Fiscal Plan (MTFP) are being presented.(c)"Fiscal Deficit" means the excess of -(i)total disbursements from the Consolidated Fund of the State (excluding repayment of debt) over total receipts into the Fund excluding the debt receipts during a financial year; or(ii)total expenditure from the Consolidated Fund of the State (including loans but excluding repayment of debt) over own tax and non-tax revenue receipts, devolution and other grants from Government of India to the State, and non-debt capital receipts during a financial year which represents the borrowing requirements, net of repayment of debt, of the State Government during the financial year;Explanation: - For the purpose of calculation of fiscal deficit, borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government are to be treated as borrowings of the Government.(d)"Fiscal Indicators" means the measures such as numerical ceilings and proportions to gross state domestic product, as may be prescribed, for evaluation of the fiscal position of the State Government;(e)"Previous Year" means the year proceeding the current year.(f)"Revenue Deficit" I means the difference between revenue expenditure and revenue receipts.Explanation: - For the purpose, of this clause interest payment by Government towards borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on Government, shall be treated as revenue expenditure.(g)"Total Liabilities" means the liabilities under the Consolidated Fund of the State and the public account of the State.

3. Medium Term Fiscal Plan to be laid before the Legislature.

(1)The State Government shall in each financial year lay before both Houses of the Legislature a Medium Term Fiscal Plan along with the annual budget.(2)The Medium Term Fiscal Plan shall set forth a four-year rolling target for the prescribed fiscal indicators with specification of underlying assumptions.(3)In particular and without prejudice to the provisions contained in sub-section (2), the Medium Term Fiscal Plan shall include an assessment of sustainability relating to,-(i)the balance between revenue receipts and revenue expenditures;(ii)the use of capital receipts including borrowings for generating productive assets.(4)The Medium Term Fiscal Plan shall, inter alia, contain-(a)the medium term fiscal objectives of the State Government;(b)an evaluation of the performance of the prescribed fiscal indicators in the previous year vis-a-vis the targets set out earlier, and the likely performance in the current year as per revised estimates.(c)a statement on recent economic trends and future prospects for growth and development affecting fiscal position of the State Government.(d)the strategic priorities of the State Government in the fiscal area for the ensuing financial year;(e)the policies of the State Government for the ensuing financial year relating to taxation, expenditure, borrowings (including borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government, with ceiling fixed for each agency) and other liabilities, lending and investments, pricing of administered goods and services and description of other activities, such as guarantees and activities of Public Sector Undertakings which have potential budgetary implications; and the key fiscal measures and targets pertaining to each of these;(f)an evaluation as to how the current policies of the State Government are in conformity with the fiscal management principles set out in Section 4 and the fiscal objectives set out in the Medium Term Fiscal Plan.(5)The Medium Term Fiscal Plan shall be in such form as may be prescribed.

4. Fiscal Management Principles.

(1)The State Government will be guided by the following fiscal management principles:(a)maintain Government debt at prudent levels;(b)manage guarantees and other contingent liabilities prudently, with particular reference to the quality and level of such liabilities;(c)ensure that policy decisions of the Government have due regard to their financial implications on future generations;(d)ensure that borrowings are used for productive purposes and accumulation of capital assets, and are not applied to finance current expenditure;(e)ensure a reasonable degree of stability and predictability in the level of the tax burden;(f)maintain the integrity of the tax system by minimizing special incentives, concessions and exemptions;(g)pursue tax policies with due regard to economic efficiency and compliance costs;(h)pursue non-tax revenue policies with due regard to cost recovery and equity;(i)pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare;(j)build up a revenue surplus for use in capital formation and productive expenditure;(k)ensure that physical assets of the Government are properly maintained;(l)disclose sufficient information to allow the public to scrutinize the conduct of fiscal policy and the state of public finances;(m)ensure that Government uses resources in ways that give best value for money; and also ensure that public assets are put to best possible use;(n)minimize fiscal risks associated with running of public sector undertakings and utilities providing public goods and services;(o)manage expenditure consistent with the level of revenue generated;(p)formulate budget in a realistic and objective manner with due regard to the general economic outlook and revenue prospects, and minimize deviations during the course of the year;(q)ensure discharge of current liabilities in a timely manner.(2)The State Government shall take appropriate measures to eliminate the revenue deficit and contain the fiscal deficit at sustainable level and build up adequate revenue surplus.(3)In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall -(a)reduce revenue deficit to nil within a period of four financial years beginning from the initial financial year on the 1st day of April, 2002 and ending on the 31st day of March, 2006;(b)reduce revenue deficit as a percentage of Gross State Domestic Product (GSDP) in each of the financial years beginning on the 1st day of April, 2002, in a manner consistent with the goal set out in clause (a);(c)reduce fiscal deficit to not more than three per cent of the estimated gross state domestic product within a period of four financial years beginning from the initial financial year on the 1st day of April, 2002 and ending on the 31st day of March, 2006;(d)reduce fiscal deficit as a percentage of Gross State Demostic Product (GSDP) in each of the financial years beginning on the 1st day of April, 2002 in a manner consistent with the goal set out in clause (c);(e)not to give guarantee for any amount exceeding the limit stipulated under the Karnataka Ceiling to Government Guarantees Act, 1999 (Karnataka Act 11 of 1999);(f)ensure within a period of thirteen financial years, beginning from the initial financial year on the 1st day of April, 2002, and ending on the 31st day of March, 201S; that the total liabilities at the end of the last financial year do not exceed twenty five per cent of the estimated gross state domestic product for that year;Provided that revenue deficit and fiscal deficit may exceed the limits specified under this sub-section due to ground or grounds of unforeseen demands on the finances of the State Government due to national security or natural calamity, subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost that can be attributed to the calamities;Provided further that the ground or grounds specified in the first proviso shall be placed before the House of Legislature, as soon as may be, after it becomes likely that such deficit amount may exceed the aforesaid limits, with an accompanying report stating the likely extent of excess, and reasons therefor.

5. Measures for Fiscal Transparency.

(1)The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize as far as practicable, secrecy in the preparation of the annual budget.(2)In particular, and without prejudice to the generality of the foregoing provision, the State Government shall, at the time of presentation of the annual budget, disclose in a statement in the form as may be prescribed -(a)the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of prescribed fiscal indicators;(b)as far as practicable, and consistent with protection of public interest, the contingent liabilities created by way of guarantees; the actual liabilities arising out of borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government; all claims and commitments made by the State Government having potential budgetary implications, including revenue demands raised but not realised; tax expenditure; losses incurred in providing public goods and services through public utilities and undertakings; liability in respect of major works and contracts; and subsidy payments and the impact of the same on the fiscal position of the State including in relation to the targets referred to in sub-section (3) of Section

4.

6. Measures to enforce compliance.

(1)The Annual budget, and policies announced at the time of the budget, shall be consistent with objectives and targets specified in the Medium Term Fiscal Plan for the coming and future years.(2)The Minister in charge of the Department of Finance, shall review, every half year, the trends in receipts and expenditure in relation to the budget, remedial measures to be taken to achieve the budget targets and place before both the Houses of Legislature the outcome of such reviews. The review report shall be in such form as may be prescribed.(3)The review report shall explain :(a)any deviation or likely deviation in meeting the obligations cast on the State Government under this Act;(b)whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and how much of the deviation can be attributed to general economic environment and to policy changes by the State Government; and(c)the remedial measures the State Government proposes to take.(4)Whenever there is a prospect of either shortfall in revenue or excess of expenditure over pre-specified levels for a given year on account of any new policy decision of the State Government that affects either the State Government or its Public Sector Undertakings, the State Government, prior to taking such policy decision, shall take measures to fully offset the fiscal impact for the current and future years by curtailing the sums authorized to be paid and applied from and out of the Consolidated Fund of the State under any Act to provide for the appropriation of such sums, or by taking interim measures for revenue augmentation, or by taking up a combination of both.Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under clause (3) of article 202 of the Constitution.Provided further that, while adhering to the fiscal targets, the State Government will give priority to protecting certain expenditure declared in the Medium Term Fiscal Plan as "high priority development expenditure" (including, inter alia, elementary education, basic health and rural water supply) from curtailment or may impose a reduced or partial curtailment.(5)Whenever one or more supplementary estimates are presented to the Houses of Legislature, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the Medium Term Fiscal Plan objectives and targets for the future year.

7. Power to make rules.

(1)The State Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act,(2)In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely :-(a)the fiscal indicators to be prescribed for the purpose of sub-section (2) of section 3 and clause (a) of sub-section (2) of section S;(b)the form of the Medium Term Fiscal Plan referred to in sub-section (S) of section 3 and sub-section (2) of section S;(c)any other matter which is required to be, or may be, prescribed.

8. Rules to be laid before Legislature.

- Every rule made under this Act shall be laid, as soon as may be after it is made, before each House of State Legislature, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

9. Protection of action taken in good faith.

- No suit, prosecution or other legal proceedings shall lie against the State Government or any officer of the State Government for anything which is in good faith done or intended to be done under this Act or the rules made thereunder.

10. Application of other laws not barred.

- The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

11. Power to remove difficulties.

(1)If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act as may appear to be necessary for removing the difficulty:Provided that no order shall be made under this section after the expiry of two years from the commencement of this Act.(2)Every order made under this section shall be laid, as soon as may be after it is made, before each House of the State Legislature.