

Chapter – III

Collection of DMFT Funds

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The main source of funds for the DMFT was by way of contributions made by lease holders of mines and quarries at prescribed rates. Audit noticed that there was no control system in place to ensure collection of amounts due to the Fund. There was no system of obtaining returns indicating the details of minor minerals used for works, Royalty and contribution to DMF deducted, etc. from the Work Executing Departmental Agencies. Interest received by implementing agencies on the funds provided by the DMFT were lying with the implementing agencies without transferring it to DMFT Ballari.

3.1 Fund Management

The main source of funds for the DMFT was by way of payments made by lease holders of mines and quarries at the rates prescribed by GoI⁹ for Major minerals (17 September 2015) and GoK¹⁰ for Minor minerals (12 August 2016). The DMFT fund was collected by the Department of Mines & Geology while collecting Royalty on major/minor minerals before issue of mineral dispatch permits and credited to the trust account maintained at Bank.

The year wise DMFT fund contribution collected and spent as of March 2023 in the State are as under:

Table No. 3.1: Status of Royalty collection, DMF funds collected and spent as of March 2023

(₹ in crore)				
Sl. No.	Financial Year	Royalty Collected	DMF Collection	Expenditure
1	2015-16	1,911.81	0.20*	0.00
2	2016-17	2,228.68	328.38	0.00
3	2017-18	2,590.25	603.22	19.86
4	2018-19	2,647.98	505.80	64.29
5	2019-20	3,057.15	490.59	302.21
6	2020-21	3,047.45	556.61	514.07
7	2021-22	4,218.77	824.91	463.53
8	2022-23	4,073.77	693.80	462.50
	Total	23,775.86	4,003.51	1,826.46¹¹

(Source: Information as furnished by the Director, Department of Mines & Geology, Bengaluru)

* DMF collection for major minerals from 17 September 2015 and Minor minerals from 12 August 2016.

⁹ 10 per cent of the Royalty paid in respect of mining leases or, as the case may be, perspective licence cum mining lease granted on or after 12 January 2015 and 30 per cent of the Royalty paid in respect of mining leases granted before 12 January 2015.

¹⁰ 10 per cent of the Royalty, in case of quarry leases except ordinary sand granted through auction and 30 per cent of the Royalty, in case of leases granted without auction and 10 per cent of the Royalty in case of ordinary sand.

¹¹ Includes Covid-19 expenditure of ₹ 204.72 crore incurred from 2019-20 to 2022-23.

3.3 The District wise amount of DMFT fund collected and utilised from 2015-16 to 2022-23 in selected districts are depicted in the table below:

Table No. 3.2: Depicting district wise amount of DMFT fund collected and utilised in selected Districts

(₹ in crore)						
Sl. No.	District	DMFT collected	No of projects	Sanctioned cost	DMFT utilised	Percentage of utilisation
1	Ballari	1,912.55	1,764	1,593.68	629.62	39.51
2	Vijayanagara	463.21	1,420	750.25	333.79	44.49
3	Chitradurga	422.49	305	319.39	254.52	79.69
4	Bengaluru Urban	51.52	607	76.35	42.74	55.98
5	Gadag	9.73	95	5.56	4.30	77.34
	Total	2,859.50	4,191	2,745.23	1,264.97	46.08

Source: Data provided by the Department

As against the sanctioned cost of ₹ 2,745.23 crore an amount of ₹ 1,264.97 crore was utilised representing 46.08 *per cent*. The percentage of utilisation ranged between 39.51 *per cent* in Ballari to 79.69 *per cent* in Chitradurga during 2015-16 to 2022-23.

Rule 18 of the DMFT Rules, 2016 stipulates that 85 *per cent* of fund should be earmarked for implementation of projects and schemes under PMKKKY, ten *per cent* towards endowment purposes to be spent after closure of mining activities in the affected areas, four *per cent* towards administrative expenditure of the DMFT and one *per cent* for the functioning of State Level Steering Committee, State Level Empowered Committee and State Level Monitoring and Evaluation Cell and other administrative charges at Directorate of Mines and Geology.

3.4 Assessment, Demand and collection of Contributions to DMF

The Department of Mines & Geology was responsible for assessment, demand and collection of contribution to DMF from lease holders. The Department maintains the data on leases issued, dispatch permits issued, Royalty and DMF collected in the Integrated Lease Management System (ILMS)¹². The lease holders pay Royalty and Contribution to DMF separately, while obtaining permit for transportation of the minerals. Royalty was remitted to the treasury and Contribution to DMF was remitted to the respective bank account of the DMFT.

The Department prepares a statement of the Demand, Collection, and Balance (DCB) of Royalty and other dues that accrues from lease holders. A proper accounting mechanism was necessary wherein the DMF dues to be collected and actually collected are accurately calculated and recorded. Ideally, the Demand, Collection and Balance Statement should also include the accruals and

¹² Integrated Lease Management System a web based application software to automate the processes of issue of permits for transport of mineral, filing of periodical returns by lease holders.

collections from the lease holders on account of DMF contributions. However, Audit observed that the statement does not include DMF contribution dues and receipts from lease holders. In the absence of such information, Audit could not ascertain how the Department verified the accuracy of dues and collections of DMFT from lease holders.

The Government stated (August 2024) that DCB would be prepared including details of Contribution to DMF, in future.

Recommendation:

3. The DMF dues and collections should also be reflected in the Demand Collection and Balance statement to ensure comprehensiveness and accuracy.

3.5 Non deduction of contribution to DMF by Work Executing Departments/Agencies (WEDAs)

Special provisions for minor minerals required for all Government Departmental works are made under Rule 3B of KMMCR, 1994 which states that concerned Government Department/Corporation/authority executing major infrastructure projects could obtain quarry lease or licenses for their requirement of minor minerals and transport it with Royalty exempted Mineral Dispatch Permit (MDP), provided the Royalty, and Contribution to DMF are deducted from the contractors' work bill. Further, *vide* circular dated December 2019, the Director, DMG instructed the WEDAs to recover contribution to DMF at 30 *per cent* on Royalty when the contractors did not submit MDP for the minerals used in the works/projects.

In five test checked Districts, ₹ 393.27 crore¹³ was paid towards Royalty by WEDAs during the period from 2020-21 to 2022-23. Further, Royalty of ₹ 388.31 crore¹⁴ was shown as collected in the test checked three Districts through Treasury Transfer Receipt (TTR)¹⁵. The contribution to DMF receivable on the Royalty so collected would be within the range of ₹ 78.15 crore (if calculated at the rate of 10 *per cent* of Royalty) to ₹ 234.47 crore (if calculated at the rate of 30 *per cent* of Royalty).

However, neither the Department nor the DMFTs were able to confirm whether contribution to DMF was deducted and paid by WEDAs. There was no system of obtaining returns indicating the details of minor minerals used for works, Royalty and contribution to DMF deducted, *etc.* from the WEDAs.

¹³ Ballari - ₹ 32.45 crore, Bengaluru (Urban) - ₹ 251.04 crore, Chitradurga - ₹ 73.55 crore
Vijayanagara - ₹ 15.92 crore and Gadag - ₹ 20.31 crore.

¹⁴ Bengaluru (Urban) - ₹ 319.85 crore, Chitradurga - ₹ 31.79 crore & Gadag - ₹ 36.67 crore.

¹⁵ TTR-used where Drawing and Disbursing Officer has to transfer the amount from their service Head of Account to any other Head of Account.

The Government replied (August 2024) that action had been initiated to collect DMF from the WEDAs by intimating (November 2023) them about non-collection of DMF on Royalty (in Chitradurga District). Further, it was stated that a circular (November 2023) had been issued to form a team (in Gadag District) to monitor the collection of DMF. However, no specific instructions were given in respect of the remaining three districts. Government needs to ensure that action was taken in all districts.

Recommendation:

- 4. A proper system of obtaining returns from the WEDAs indicating details of Royalty, penalty, and contribution to DMF may be devised to ensure that dues are deducted and remitted correctly.**

While accepting the recommendation, Government stated (August 2024) that a suitable mechanism would be developed to monitor collection of DMF by Government Work Executing Departments.

3.6 Non-collection of contribution to DMF on illegally transported minerals

Rules 36, 36A, 42, and 44 of KMMCR, 1994 stipulates that holders of quarry lease or license are required to pay Royalty and contribution to DMF as a percentage of Royalty on the minerals removed or consumed. In order to transport minerals from the quarry, an MDP had to be obtained after payment of Royalty. Transportation of minerals without MDP attract penalty at five times the Royalty payable on the mineral so dispatched on first occasion and repeated offenses could result in determination of lease.

On scrutiny of Demand Collection and Balance (DCB) Reports maintained at the Department in test checked Districts for the years 2018-19 to 2021-22¹⁶, it was noticed that the Department had levied penalty of ₹ 516.60 crore for dispatch of Minor Minerals by the license holders without MDP. However, Royalty on the minerals removed and contribution to DMF to the extent of ₹ 14.16 crore was not demanded from the license holders. The details of penalty imposed, Royalty and DMF contribution not levied are tabulated below:

Table No. 3.3: Statement showing penalty imposed, Royalty and DMF not collected (₹ in crore)

Sl. No	District	Penalty imposed	Royalty not collected	DMF not collected
1	Ballari	19.67	3.93	1.18
2	Bengaluru Urban	24.27	4.87	1.29
3	Chitradurga	313.11	62.62	10.19
4	Gadag	22.05	4.31	0.46
5	Vijayanagara	137.50	5.93	1.04
Total		516.60	81.66	14.16

Source: Data provided by the Department

The Government replied (August 2024) that Rule 44(4) of the KMMCR Rules,

¹⁶ DCB Report for the year 2022-23 was being prepared at the time of Field Audit Execution (October 2023).

1994 stipulated collection of penalty at five times Royalty for illegal mining and transportation and that there was no provision for collection of DMF. The reply was not acceptable as the DMF had to be collected as a percentage of Royalty payable and that Royalty was payable when the minerals are removed or consumed (Rule 36). Thus, the Department did not demand/collect Royalty and consequent DMF thereon, while imposing penalty for illegal mining and transportation of minerals.