

## CHAPTER-VI: NON TAX RECEIPTS

### 6.1 Results of audit

Test check of records of concerned departmental offices, conducted in audit during the year 2004-05, disclosed short realisation or losses of revenue amounting to Rs.714.55 crore in 55 cases, under the following broad categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
<b>Public Works</b>			
1	Determination of lower lease rent	1	516.45
	<b>Total</b>	<b>1</b>	<b>516.45</b>
<b>Miscellaneous General Services</b>			
1	Non recovery of guarantee commission	1	82.58
	<b>Total</b>	<b>1</b>	<b>82.58</b>
<b>Forestry and Wild Life</b>			
1	Non/short recovery of lease rent and licence fee	12	10.16
2	Non/short recovery of taxes and royalty	15	8.15
3	Short collection of seigniorage rate	1	3.41
4	Non renewal of bank guarantees	3	0.06
5	Non recovery of cost of compensatory afforestation and safety zone afforestation	5	0.54

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
6	Non recovery of cost of extraction	2	0.74
7	Non recovery of net present value of forest land	3	15.45
8	Other irregularities	11	17.95
	<b>Total</b>	<b>52</b>	<b>56.46</b>
<b>Village and Small Industries (Sericulture Industries)</b>			
1	Sericulture Receipts	1	59.06
	<b>Total</b>	<b>1</b>	<b>59.06</b>
	<b>Grand Total</b>	<b>55</b>	<b>714.55</b>

During the course of the year 2004-05, Forest Department accepted and recovered Rs.0.08 crore in 11 cases which had been pointed out in audit in earlier years.

A few illustrative cases involving Rs.630.18 crore are given in the following paragraphs.

## A. Public Works

### 6.2 Determination of lower lease rent

The Karnataka Public Works Departmental Code envisages leasing out of Government lands and buildings to private bodies, associations, companies or individuals. According to Paragraph 206 thereof, annual rent in such cases is required to be fixed as per the following norms:

- lease rent should be fixed based on the rates secured in the open auction;
- in cases where auctions are not held, the rates should be fixed in consultation with the jurisdictional Deputy Commissioners with reference to those obtainable in similar localities;
- the lease in each case should not be for more than five years at a time;
- Paragraph 354 of the said Code also stipulates that the lease rent shall not be less than seven *per cent* of the capital cost of the building. Capital cost includes the cost of the land and cost of the building after allowing depreciation.

A review of files/records in two Public Works Divisions in Bangalore during November 2004-March 2005 revealed that none of the said parameters for assessment and levy of lease rent had been complied with while sanctioning land on lease basis. No reasons were on record for non observance of the prescribed procedure and also for determining lower lease rents. Details in respect of three cases are given below:

Area involved (Acres-Guntas)/ Period of lease	Date of possession/ lease agreement	Lease rent fixed	Capital cost <sup>▼</sup>	Annual lease rent <sup>▲</sup> to be fixed	Revenue forgone (Rs. in crore)
<b>Name of the lessee: Bangalore Golf Club</b>					
60 A 15 G (26,29,935 sq. ft)/ 50 years from 1971	1971/ July 1987	Upto 1984 :Rs.100 Upto 1991 : Rs.5,000 From 1992 : Rs.10,000	From April 1999: Rs.882.87 crore ( at Rs.3,357 per sq. ft) From August 2002 : Rs.894.18 crore (at Rs. 3,400 per sq. ft.)	Rs.61.80 crore  Rs.62.59 crore	310.32
<p>The lease rent was finalised in 1987 for the entire period of lease of 50 years without providing a clause for revision of rent at periodical intervals. Considering the estimated guideline market values of December 1998/July 2002 published by the Revenue Department, loss of revenue due to leasing at lower rent for the period 1999 to 2004 was Rs.310.32 crore. Sanction of lease for 50 years in one stretch without provision of revision of lease rent deprived Government of the opportunity of revising rent at periodical intervals.</p> <p>Government reported in September 2005 that Golf is not a revenue yielding sport and it created lung space in the center of the city. Further, it was reported that the matter of revision of lease rent was under consideration.</p>					
<b>Name of the lessee: Karnataka State Cricket Association</b>					
17 A 08 G (7,49,232 sq. ft)/ 99 years from July 1969	July 1969: 16 A 10 G  23 G 15 G from November 1996/ March 1970	Rs.1,000 per annum Rs.500 per month Rs.1,000 per month for 15 Guntas (In all Rs.19000 per annum)	From April 1999 : Rs.599.39 crore ( at Rs.8,000 per sq. ft) From August 2002: Rs.539.45 crore (at Rs.7,200 per sq. ft)	Rs.41.96 crore  Rs.37.76 crore	202.78
<p>Though in the proposals made by the Chief Engineer, Communications and Buildings (South) in May 1969/March 1994, annual lease rents had been recommended at Rs.33,033, Rs.1,40,026 and Rs.1,90,575 respectively for the three pieces of land computed at seven <i>per cent</i> of the capital cost, Government fixed rent at lower rates. No grounds had been made out for subsidising the rent and the terms of lease did not provide for any enhancement of rent.</p> <p>Government reported in September 2005 that the proposal for revision of rent was under process.</p>					
<b>Name of the lessee: Ms. K. Indu Muddappa (Retail outlet of Indian Oil Corporation)</b>					
32,717.18 sq. ft/ 30 years	November 1998/ November 1998	Rs.29,538 per month subject to upward revision by 30 <i>per cent</i> after every five years	From April 1999: Rs.1.47 crore (at Rs.450 per sq. ft) From August 2002 : Rs.1.47 crore (at Rs.450 per sq. ft)	Rs.10.31 lakh  Rs.10.31 lakh	0.33
<p>It was seen that rent fixed was lower than the rent as per norms of the Department. The enhancement provided at 30 <i>per cent</i> after every five years also did not make the rent on par with the rate to be applied as per norms.</p> <p>Government contended in September 2005 that the lease rent had been fixed in accordance with the norms at seven <i>per cent</i> of the capital cost of the land as fixed by Revenue Department. The reply was not tenable as the estimated guideline market value of the land was Rs.450 per sq. ft in December 1998/July 2002 based on which the lease rent would be Rs.0.86 lakh per month and not Rs.0.30 lakh as fixed by Government.</p>					
<b>Total</b>					<b>513.43</b>

The total revenue forgone in the three cases amounted to Rs.513.43 crore

▼ Capital cost computed on the basis of the estimated guideline market value published by Revenue Department in April 1998 and July 2002

▲ Lease rent computed at seven *per cent* of the capital cost

**B. Miscellaneous General Services****6.3 Non recovery of guarantee commission**

In exercise of the powers conferred by Article 293 of the Constitution of India, the State Government guarantees repayment of loans obtained by public sector undertakings, statutory boards and corporations and certain other bodies. Such guarantees constitute contingent liability for the State. Under the Karnataka Ceiling on Government Guarantees Act, 1999 (Act), commission of a minimum of one *per cent* is to be charged by Government from the beneficiary institution in all such cases. The Act prohibits waiver of the commission under any circumstance. Though the Act does not specify the manner of its computation and the periodicity of payment, according to the guidelines of Government in Finance Department issued in September 1969 and September 2002, the amount of commission chargeable is to be calculated on the actual amount of loan due and outstanding including interest at the end of each month and is to be paid once in six months. The Finance Department in an official memorandum (November 1971) also laid down criteria and procedure for adoption by the administrative departments to safeguard the interests of Government in connection with guarantees given. Accordingly, sanctions for standing guarantee should specify the head of the department who would watch the payment of guarantee commission on the due dates, maintenance of a register in the prescribed proforma, rate of guarantee commission, whether interest is also guaranteed, etc.

Details of maintenance of registers and records for watching the payment of guarantee commission and system of issue of demand notices to the bodies for payment of guarantee commission were not made available, though specifically called for.

However, a detailed analysis of the data obtained by test check of records of nine departments and 14 loanees showed that guarantees given by Government on loans/bonds for the period from 1999-2000 to 2003-04 outstanding as on 31 March 2004 was Rs.7,095.83 crore. Guarantee commission payable by the bodies/institutions worked out to Rs.82.58 crore, as detailed in the following table:

(Rupees in crore)

Sl. No.	Name of the department Name of the beneficiary	Sums guaranteed outstanding as on 31.3.2004	Guarantee commission outstanding as on 31.3.2004
<b>1</b>	<b>Water Resources</b>		
	Krishna Bhagya Jala Nigama Limited	4,026.48	35.49 (for 2003-04 only)
	Karnataka Neeravari Nigama Limited	881.73	15.24
	Cauvery Neeravari Nigama Limited	257.92 (including interest of Rs.8.37 crore)	1.04
<b>2</b>	<b>Public Works</b>		
	Karnataka Road Development Corporation Limited	385.49	5.99
<b>3</b>	<b>Industries and Commerce</b>		
	Karnataka State Khadi and Village Industries Board (KSKVIB)	81.83 (includes interest of Rs.14.15 crore)	0.70
Though guarantee commission of one <i>per cent</i> was payable by KSKVIB as per Government order dated 3 August 1999, the Board has not admitted the payment of guarantee commission as due to Government.			
<b>4</b>	<b>Rural Development and Panchayat Raj</b>		
	Karnataka Land Army Corporation	155.50 (includes interest of Rs.4.62 crore)	2.92
<b>5</b>	<b>Social Welfare</b>		
	Karnataka Scheduled Castes and Scheduled Tribes Development Corporation Limited	59.62 (includes interest of Rs.0.52 crore)	1.65
<b>6</b>	<b>Urban Development</b>		
	Karnataka Urban Water Supply and Drainage Board (KUWSDB) (Loans taken for executing works of urban local bodies)	599.90	5.19 (for 2003-04 only)

(Rupees in crore)

Sl. No.	Name of the department Name of the beneficiary	Sums guaranteed outstanding as on 31.3.2004	Guarantee commission outstanding as on 31.3.2004
	Bangalore Water Supply and Sewerage Board (BWSSB)	96.14	1.22
	Bangalore Mahanagara Palike (BMP)	20.27	0.51
BWSSB and BMP admitted the guarantee commission payable at 0.50 <i>per cent</i> in accordance with Government order, though minimum guarantee commission payable was at one <i>per cent</i> . Reasons for charging the guarantee commission at lower rates, though called for, are not forthcoming.			
<b>7</b>	<b>Information Technology</b>		
	Karnataka Electronics Development Corporation (KEONICS)	60.00	2.03
Government in the order dated 16 November 2000 gave guarantee to raise Rs.300 crore through mahithi bonds <sup>∞</sup> in 3 phases, first phase being for Rs.60 crore. Though Government has given unconditional guarantee for payment of principal and interest, KEONICS had not admitted the payment of guarantee commission.			
<b>8</b>	<b>Housing</b>		
	Rajeev Gandhi Rural Housing Corporation Limited	315.69	8.80
	Karnataka Slum Clearance Board (KSCB)	152.06	1.61
In Government order dated 26.6.2000, guarantee for Rs.7.38 crore for the loan raised from HUDCO was given to KSCB and guarantee commission at the rate of 0.50 <i>per cent</i> was payable by the loanee organisation. Reasons for charging lower guarantee commission at the rate of 0.50 <i>per cent</i> , though called for is not forthcoming.			
<b>9</b>	<b>Home and Transport</b>		
	North Western Karnataka Road Transport Corporation (NWKRTC)	3.20 (includes interest of Rs.0.04 crore)	0.19
	<b>Total</b>	<b>7,095.83</b>	<b>82.58</b>

<sup>∞</sup> Bonds floated to raise funds for schemes under Millennium IT Policy

Neither the Act nor the sanctions issued for standing guarantee specified the consequences of non payment of the commission on the due dates, such as levy of interest and disqualification for fresh guarantees. Further, it was seen that some orders for standing guarantees did not contain details as to the rate of guarantee commission, periodicity of its payment, whether guarantee commission was also payable on the interest amount, head of the department who should watch and monitor the receipt of guarantee commission, etc.

Government (Water Resources Department) reported that the nigams were being insisted upon to pay guarantee commission. Government in Urban Development Department forwarded the reply of KUWSDB which stated that Government had agreed to adjust the guarantee commission due from the State Finance grants payable to the urban local bodies. In respect of NWKRTC, Government (Transport Department) forwarded the reply of NWKRTC which stated that it was not in a position to pay the guarantee commission due to heavy loss incurred and that Government would be requested to convert the guarantee commission as equity capital. Government in Housing, Information Technology, Public Works, Rural Development and Panchayat Raj and Social Welfare Departments stated that the boards/corporations could not pay guarantee commission as there was no budgetary provision. The replies were not tenable as payment of guarantee commission was an ascertained liability and budget provision should have been made. Replies in respect of Industries and Commerce Department had not been received (January 2006).

## **C. Forestry and Wild Life**

### **6.4 Non realisation of lease rent**

The Karnataka Forest Development Corporation Limited (KFDC), a State Government company, held forest lands leased out by the Karnataka Forest Department (Department) comprising of plantations (other than rubber) raised by the Department; plantations (other than rubber) raised by KFDC and rubber plantations. In September 1992, Government prescribed a uniform rent



for forest lands leased out at 12 ½ *per cent* of the value of produce per year per hectare. This was also applicable to earlier cases where nominal rents had been fixed. On a representation made by KFDC and on the recommendations made by a Committee constituted to review the lease rent fixed with respect to the representation of KFDC, Government refixed in August 2000 the lease rent payable by KFDC for the three types of leases at 12 ½ *per cent*, six *per cent* and three *per cent* of the value of produce per year per hectare respectively. Based on the representation of KFDC against the lease rent fixed in August 2000, Government constituted another committee in March 2001 to review the lease rent and if necessary, propose downward revision of lease rent. Interest of nine *per cent* upto 90 days and 18 *per cent* penal interest thereafter are leviable on all revenue overdue to Forest Department.

As per the lease agreement, the Corporation was to pay the lease rent by 31 March of every year. It was noticed in March 2005 from the records of the Principal Chief Conservator of Forests (PCCF) that KFDC had not paid lease rent from 1998-99. PCCF had also not issued demand notices for the same. Non realisation of lease rent for the period from 1999-2000 to 2003-04 amounted to Rs.6.55 crore inclusive of interest of Rs.1.92 crore upto March 2004.

Government reported in August 2005 that recommendations of the Committee submitted in October 2001 were under consideration.

## **D. Village and Small Industries (Sericulture Industries)**

### **6.5 Loss of revenue due to irregular sale of raw silk**

The activities of the sericulture industry in the State from the stage of rearing of cocoons upto the stage of production of yarn are governed by the Karnataka Silkworm Seed, Cocoon and Silk Yarn (Regulation of Production, Supply, Distribution and Sale) Act, 1959 (Act) and the Rules made thereunder in 1960. Under the Act, trading of silk yarn reeled by a reeler<sup>¶</sup> outside a silk exchange established for the purpose is prohibited. The Rules prescribe levy of a fee at the rate of two *per cent* on the value of

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<sup>¶</sup> A person in charge of a reeling establishment and carrying on the business of reeling cocoons

silk yarn purchased by a licensed trader. From the details of quantity of silkworm cocoons transacted in the cocoon markets and renditta<sup>♦</sup>, the quantity of raw silk required to be transacted through silk exchanges is ascertainable.

A scrutiny of the extent of compliance during the period 1999-2000 to 2003-04 revealed the following position:

Year	Quantity of cocoons sold in cocoon markets for reeling	Renditta	Raw silk required to be produced	Actual sale of raw silk in silk exchanges	Raw silk not passed through silk exchanges (Percentage to column (4))	Average price per kg	Value of silk in column (6)
	(In tonnes)	(Kg)	(In tonnes)			(Rs.)	(Rs. in crore)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1999-2000	46,579	12 to 8.5	4,750	1,681	3,069 (65)	1,204 to 733	257.10
2000-2001	48,048	12 to 8.5	4,900	1,688	3,212 (66)	1,344 to 820	301.27
2001-2002	49,060	12 to 8.5	5,115	1,674	3,441 (67)	1,269 to 742	299.99
2002-2003	43,995	11 to 7.5	5,517	1,615	3,902 (71)	987 to 598	264.66
2003-2004	37,944	11 to 7.5	4,414	1,292	3,122 (71)	1,139 to 767	257.75
<b>Total</b>	<b>2,25,626</b>		<b>24,696</b>	<b>7,950</b>	<b>16,746 (68)</b>		<b>1,380.77</b>

Thus, 16,746 tonnes of raw silk constituting 68 *per cent* of production valued at Rs.1,380.77 crore escaped passage through the silk exchanges of the State. Only 267 tonnes (one *per cent*) of silk yarn had been seized from reelers and traders by the enforcement wing of the Department during the period 1999-2000 to 2002-03 indicating its ineffectiveness in ensuring compliance with the Act. As a result, the Department could not realise fee of Rs.27.62 crore at the rate of two *per cent* on the aggregate value of raw silk not passed through the silk exchanges during the five year period.

<sup>♦</sup> Quantity of cocoons required to produce one kilogram of raw silk in respect of the three types, viz., Charaka, Dupion and Filature

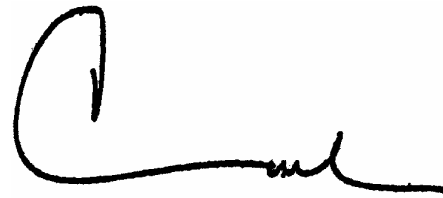
After the matter was reported to the Government/Commissioner for Sericultural Development and Director of Sericulture, Government confirmed in September 2005 the irregular sale and stated that the enforcement of law was not stringent.



**(R.S. Rangarajan)**  
**Accountant General**  
**(Works, Forest & Receipt Audit)**  
**Karnataka**

**Bangalore**  
**The**

**Countersigned**



**(Vijayendra N.Kaul)**  
**Comptroller and Auditor General of India**

**New Delhi**  
**The**