

OVERVIEW

Union Government Accounts: 1998-99 at a glance

The budget estimates and actuals of Receipts and Disbursements of the Union Government under the different heads during 1998-99 were as under:

(Rupees in crore)

		Budget Estimates	Actuals	Shortfall (-)/ Excess (+)
1.	Total Receipt of the Union Government (7+8)	796429	814067	(+) 17638
2.	Revenue Receipts	247315	239889	(-) 7426
	Tax Revenue ^β	141986	129317	(-) 12669
	Non-Tax Revenue	105329	110572	(+) 5243
3.	Non-debt Capital Receipts	5000	5874	(+) 874
4.	Total Revenue and non-Debt Capital receipts (2+3)	252315	245763	(-) 6552
5.	Recovery of Loans and Advances	11560	13189	(+) 1629
6.	Receipt of Public Debt	412547	395297	(-) 17250
7.	TOTAL RECEIPT IN THE CONSOLIDATED FUND OF INDIA (4+5+6)	676422	654249	(-) 22173
8.	Public Account Receipt	120007	159818	(+) 39811
9.	Total disbursement by the Union Government (15+16+17)	796429	813831	(+) 17402
10.	Revenue Expenditure	295383	300456	(+) 5073
	Interest Payments included in Revenue expenditure	75000	77882	(+) 2882
11.	Capital Expenditure	28168	25200	(-) 2968
12.	Loans and Advances	36241	46594	(+) 10353
13.	Total expenditure of the Union Government (10+11+12)	359792	372250	(+) 12458
14.	Repayment of Public Debt	359080	322679	(-) 36401
15.	TOTAL DISBURSEMENT OUT OF CONSOLIDATED FUND OF INDIA (13+14)	718872	694929	(-) 23943
16.	Public Account Disbursement	77557	118875	(+) 41318
17.	Contingency Fund	--	27	--
18.	Revenue Deficit (10-2)	48068	60567	(+) 12499
19.	Fiscal Deficit {13-(4+5)}	91025 ^ψ	113298 [*]	(+) 22273

^β Does not include Taxes on Income assigned to States (Rs 14480 crore) under Article 270 of the constitution.

^ψ As appearing in the budget at a glance 1999-2000 after netting. However, on the basis of figures appearing in the BE column, the Fiscal Deficit worked out to Rs 95917crore

^{*} Including the Contingency Fund withdrawal not recouped during the year, the Fiscal Deficit would be Rs 113325 crore

Overall assessment

- The budgetary assumption for **Tax Receipts** was over-optimistic. The actual collection fell short of the estimates by Rs 12669 crore. On the other hand, the **Revenue Expenditure** and provisions for **disbursement of Loans and Advances** were grossly underestimated. The end result of overestimation of the Receipts, particularly the Tax Receipts and underestimation of the Expenditure was that the **forecasts made at the time of presenting the budget before the Parliament in respect of Revenue Deficit and Fiscal Deficit proved grossly inaccurate, as the actual** of these deficits exceeded the estimates by Rs 12499 crore and Rs 22273 crore respectively.
- The steep fall in collection of **Tax Revenue** with reference to the estimates was offset to some extent by higher **Non-tax Receipts** of Rs 5243 crore, mainly because of more realisation under interest receipts : Rs 4733 crore, dividends and profits : Rs 1466 crore, power : Rs 1029 crore and petroleum * : Rs 7026 crore.
- Shortfall of Rs 12669 crore in Tax Receipt was mainly on account of Corporation Tax: Rs 2021 crore, Taxes on Income: Rs 690 crore, Customs duties: Rs 7480 crore, Excise duty: Rs 4444 crore, which was partly offset by higher than estimated collection of interest and service tax.
- This tendency of the Government to **under estimate the expenditure and over estimate the Revenue Receipt** at the time of presentation of the budget to profess a particular level of Fiscal Deficit has been persistent over at least the last five years. The actual **Fiscal Deficit** overshoot the estimated figures during all these years by 10 to 60 *per cent*. This was despite the fact that Government resorted to post budget economy cuts and austerity measures including on plan schemes.
- **Fiscal Deficit** of Rs 113298 crore in the Consolidated Fund during 1998-99 was financed by borrowings consisting of net addition of Rs 72618 crore to the Public Debt stock and utilisation of net accretion of Rs 40943 crore in the Public Account. Rs 60567 crore of the borrowing were applied to Revenue Expenditure. These would entail further higher interest costs in subsequent years.

* Includes Rs 6382 crore on account of contribution towards redemption/servicing of Petroleum Bonds

Recommendations

- Utilisation of borrowed funds for current expenditure has been the bane of the resource administration system. In order to allow the borrowed funds to be applied to asset creation, policy measures may be considered to strengthen the resource application regime.
- In order to reduce, and eventually eliminate Revenue Deficit altogether, greater attention is required to be paid to the functioning of the revenue collection, widening of the tax base and further strengthening of the non-tax revenue base of the economy. More than expenditure control, it is by augmenting the resource generation that a turnaround can be achieved. Government **expenditure** being largely **inflexible**, the Revenue and Fiscal Deficits can be tackled mainly by increasing the Tax Revenue. Thus, the government ought to take up the challenge of controlling Revenue and Fiscal Deficits more through improved Revenue management. Since the present level of **Tax Revenue** is at **an all time low of 8.16 per cent** of the GDP, there is a great deal of scope for raising the tax collections through widening the tax base, review of exemptions/incentives and strict tax compliance.
- Fiscal responsibility in matters of borrowings, application of borrowed funds, significantly aberrant budgetary assumptions reported to Parliament, excess over authorised expenditure and cases of significant deviations from fiscal discipline/rules ought to be established through an Act. While policies may change, the system of financial administration must abjure adhocism and demonstrate both continuity and consistency. Government may expedite enactment of the proposed Fiscal Responsibility Act, which should address, among others, the above issues.

Trend of the economy

- Deterioration over the last 23 years from a revenue surplus of 0.33 *per cent* of the GDP in 1976-77 to a Revenue Deficit of 3.44 *per cent* of the GDP in 1998-99 has aggravated the dependence on borrowed funds. This was as much due to **increasing Revenue Expenditure** as due to falling **Revenue Receipts in terms of percentage of GDP**. The Revenue Receipts as percentage of **GDP have been declining since 1992-93 touching an all time low of 14.43 per cent in 1998-99 since 1976-77**, while over the same period **Revenue Expenditure has increased by 2.63 percentage points** of the GDP, compelling higher borrowings.

- More and more **borrowed funds** are applied for meeting the **Revenue Expenditure**. During 1998-99, out of the **Fiscal Deficit** of 6.43 *per cent* of the GDP, amount constituting **3.44 per cent of the GDP was applied to meet the Revenue Expenditure**. Nearly one fifth of the **total Revenue Expenditure was met through borrowings**.
- **Increasing interest burden** arising out of ever increasing borrowings has limited the ability of achieving a breakthrough in curbing the escalating Revenue Expenditure. Interest payment as percentage of GDP has increased from a mere 1.62 to 4.42 over the last 23 years. Excluding transfer to states, **interest payments** alone constituted a **third of total Revenue Expenditure**.
- The **Capital Expenditure**¹ has decreased by 3.6 percentage points of GDP over 1986-87. The shrinking of Capital Expenditure has been the result of demands made by increasingly inflexible Revenue Expenditure and pressure to limit the borrowings. In order to sustain the demands for committed expenditure, Government has been compelled to borrow more and more, which in turn has increased the liability of interest payment and therefore, the Revenue Expenditure.

Trends of Receipts and Disbursements

Receipts

- In absolute terms, the **gross Revenue Receipts** of Rs 254369 crore was up by Rs 22562 crore with reference to 1997-98, though as percentage of GDP, it was down to 14.43 compared to 14.82 during the previous year. The Tax Revenue and Non-Tax Revenue collection were 8.16 *per cent* and 6.27 *per cent* of the GDP respectively. During 1998-99, the **Tax Revenue** as percentage of GDP dropped to its **lowest level since 1976-77**.
- The **Tax Revenue** collections consisted of **Direct tax Revenue** of Rs 46600 crore and Indirect Tax Revenue of Rs 97197 crore. The **Indirect Taxes** were short of the estimated receipts of Rs 108855 crore by Rs 11658 crore. As pointed out earlier, this was a result of serious shortfall in collection of Customs duty and Union Excise duties.
- Out of the gross collection of Rs 20240 crore from **Taxes on Income other than Corporation Tax**, Rs 14480 crore were **assigned to the States**, while out of the gross collection of **Union Excise duties** of Rs 53246 crore, Rs 24665 crore were assigned

¹ Capital expenditure + loans and advances

to States. The total of these two assignments of the Union taxes to States was **27.22 per cent** of the total Tax revenue collected by the Union Government.

- Both **Direct** and **Indirect Taxes** continued to slide downwards as percentage of GDP. The **Direct Taxes** dropped to **all time low** of 2.64 *per cent* of GDP while Indirect Taxes also followed suit and **dropped to an all time low** of 5.52 *per cent* of the GDP. Even with reference to the previous year, the Direct and Indirect taxes came down by 0.45 and 0.29 percentage points during 1998-99. Persistent slide in Central Excise duty year after year is a cause of serious concern.
- Non-tax revenues also declined consistently since 1994-95 except during 1998-99, when it picked up slightly over the 1997-98 levels. There has been no break-through in raising the **Non-tax Revenues** either, which has been oscillating around 6 *per cent* of the GDP. But for the disinvestments through cross holding, the non-tax revenues would have remained stagnant. **Non-tax Revenue** dropped from 6.66 *per cent* of the GDP in 1994-95 to 6.27 *per cent* in 1998-99.

Expenditure

- The total expenditure of the Union Government during 1998-99 was Rs 372250 crore, which was **Rs 12458 core more than the budget estimates**.
- Over the last five years, the **total expenditure** in absolute terms increased by Rs 151387 crore from Rs 220863 crore in 1994-95, while over the same period, the **total revenue increased** by only Rs 93219 crore. The widening resource gap is sought to be bridged by borrowings year after year, without success in mobilising and rallying the revenue resources to match the increased demand for expenditure.
- Total **transfer of funds to the state governments**, including the share of net proceeds of taxes on income other than Corporation Tax assigned to states and states' share of Union Excise duties, state Plan Schemes, non-Plan grants and loans aggregating Rs 105771* crore during 1998-99 constituted 28.41 *per cent* of the total expenditure of the Union Government. The total transfers to state governments constituted about 74 *per cent* of the total gross Tax Revenue collected by the Union Government.
- The total assistance to **the state governments** from the Union Government accounted for 35.19 *per cent* of the total receipts in the Consolidated Fund of the States.

* Includes Rs 14480 crore, share of net proceeds of income tax assigned to states

- Though the **Revenue Expenditure** as percentage of the GDP declined marginally in 1998-99 compared to the previous few years, it failed to arrest the **worsening position** of **Revenue Deficit** due to a critical decline in the Revenue Receipt, which swept off the marginal gain of reduction in Revenue Expenditure in nominal terms. Over the last five years, the Revenue Expenditure increased from Rs 177699 crore in 1994-95 to Rs 300456 crore in 1998-99.
- A major part of the **Revenue Expenditure** consisted of **Interest Payments**. During 1998-99, interest payment of Rs 77882 crore constituted 25.92 *per cent* of the total Revenue Expenditure. As brought out above, it was 4.42 *per cent* of the GDP during 1998-99.
- **Revenue Expenditure** during 1998-99 constituted 80.71 *per cent* of the total expenditure while the **Capital Expenditure** booked in accounts was only 6.77 *per cent*. Reckoning loans advanced by the Union government as Capital Expenditure, the total Capital Expenditure booked in accounts was less than 20 *per cent*. This was significantly lower than 1988-89, when the capital expenditure accounted for over 25 *per cent* of the total expenditure.
- As brought out above, the pressure due to increasing Revenue Deficit, demand from the state governments for more and more loan and compulsion of keeping the Fiscal Deficit within a limit has led to shrinking of the expenditure on capital account. During 1998-99, the Capital Expenditure was a mere 1.43 *per cent* of the GDP.
- **Total explicit subsidies** as percentage of total revenue expenditure jumped within one year from 7.48 in 1997-98 to 8.36 *per cent* in 1998-99. As percentage of GDP, the explicit subsidies during 1998-99 were 1.42 *per cent*. Besides, there were many implicit subsidies which were not reflected distinctly in the budget and accounts.

Investment and return

- Public sector companies and corporations paid **dividend** of a mere 3.97 *per cent* on the total progressive investment of Rs 60099 crore.
- Out of the total 244 PSUs, only 77 paid dividend to the Union Government between 0.04 and 131.76 *per cent* of the equity.
- Seventeen PSUs registered post tax profit of Rs 1303.49 crore during 1997-98. But they did not pay any dividend to Government during 1998-99 in violation of the orders of the Ministry of Finance.

- The **nationalised banks** paid dividend of only Rs 384.19 crore (2.81 *per cent*) on the total progressive investment of Rs 13672.62 crore towards the share capital, while the Government paid Rs 1277.99 crore as interest to them on special securities issued to them by re-capitalising the investment in equity.

Debt of the Union Government

- **Total liability** of the Union Government, which consisted of the internal borrowings, external borrowings and balances in the Public Account utilised as resource by the Government, increased by 61 *per cent* over the last five years from Rs 630071 crore in 1994-95 to Rs 1012486* crore in 1998-99.
- The total liability consisted of **Internal Debt stock** of Rs 459696 crore, **External Debt** at the current rate of exchange of Rs 177934 crore, balances in **Small Savings, Provident Fund**, etc. of Rs 333261 crore and **Reserve Funds and Deposits** of Rs 41595 crore. The total debt stock and the Public Account liability of the Union Government at the end of March 1999 constituted 57.44 *per cent* of the GDP.
- While 66.46 *per cent* of the **Internal Debt** was made up of the **market borrowings**: Rs 305513 crore, 4.10 *per cent* consisted of outstanding Treasury Bills: Rs 18845 crore and 22.15 *per cent* consisted of **Treasury Bills** converted into securities: Rs 101818 crore. The rates of interest on market borrowing stocks were between 5.5 and 14 *per cent*, while that on the Treasury Bill converted into securities was 4.6 *per cent*. Most of the Public Accounts attracted interest at 12 *per cent*.
- **Unutilised committed external assistance** stood at Rs 50157 crore at the end of March 1999. The Union Government paid commitment charges of Rs 47.59 crore on unutilised external assistance during 1998-99. The unutilised committed external assistance related to Power, Water Resource Management, Roads and Social Sectors.
- The pressure of repayment of the principal and payment of interest on the **External Debt** has already turned the net inflow negative since 1994-95. In order to use the channels of **Market Loans** and External Debt as a net resource after repayment of the principal and payment of the interest, Government will be compelled to borrow more, exerting still higher pressure on the budget in the coming years unless a **breakthrough in Revenue Receipt** is achieved.

* External debt at current rate of exchange

- Government has not fixed any **ceiling on borrowings** with the approval of Parliament in accordance with **Article 292 of the Constitution despite repeated recommendations of the PAC** and recommendation of the **Estimates Committee**. Without any law limiting the borrowing powers of the executive, Government's borrowing continued to be guided by the need to bridge the gap between the total expenditure and Revenue Receipts rather than a considered fiscal policy/law.

Deficit

- As brought out earlier Government was unable to maintain the commitment to limit the **Fiscal Deficit** to 5.6 per cent of the GDP. The actual Fiscal Deficit stood at 6.43 per cent of the GDP, which was, 0.83 percentage point above the commitment level.
- **Revenue Deficit** of Rs 60567 crore during 1998-99 exceeded the Budget Estimates by Rs 12499 crore. Revenue Deficit of all State Governments together was Rs 42242 crore.
- Government has consistently failed to contain the **Fiscal/Revenue Deficits** to the levels projected in the budget estimates presented to the Parliament. While actual **Fiscal Deficit** overshoot the budget estimates during all five years: 1994-99, the **Revenue Deficit** overshoot the estimates during the last three years.

Correctness of Accounts

- The completeness and accuracy of accounts of the Union Government were affected by (i) non-reconciliation of accounts, (ii) inability to complete review of balances (iii) large outstanding balances under suspense heads awaiting final clearance (iv) increasing number of adverse balances in the accounts and (v) outstanding under Cheques and Bills.
- Since the format of Finance Accounts provides for indicating the balances under the suspense heads on 'net' basis, the actual magnitude of outstanding balances under major suspense heads, which is a total of all **plus** and **minus debit** and **credit** balances, was not discernible. Sample checks in the ministries disclosed that in many cases the details of plus and minus credit and debit balances were not maintained properly.
- Excluding the items under 'Discount Sinking Fund' and 'Suspense Account for Purchases Abroad', which are designed to be booked initially under suspense as per the prescribed procedure, the balances under major suspense heads continued to increase, suggesting more accretion to the balances than their clearance. Since,

suspense accounts ought to be transitory in nature, increasing suspense balances is a cause of anxiety. Excluding balances under Discount Sinking Fund and Suspense Account for Purchases Abroad, the net amount of suspense balance appearing in the Finance Accounts at the end of 1998-99 was Rs 6775 crore.

- The progressive investments in nationalised banks did not reflect the true and fair view, as the effect of losses by a few banks written off by Govt. during 1994-97 were not adjusted.

Appropriation Accounts

Disbursements from the Consolidated Fund of India against the funds authorised by the Parliament during 1998-99 were as under:

	Total number of grants		96
Of which,			
	Departmentalised	93	
	Non-departmentalised	3	
(Rs in crore)			
	Total provision *		643188.49
Of which,			
	Original Supplementary	628740.73 14447.76	
Of which,	Revenue		217995.39
	Voted	112763.79	
	Charged	105231.60	
	Capital		425193.10
	Voted	26319.82	
	Charged	398873.28	
	Provision for recoveries		6303.52
	Total net provision		636884.97
	Total gross disbursements # *		608167.09
Of which,			
	Revenue		220441.19
	Voted	114203.68	
	Charged	106237.51	
	Capital		387725.90
	Voted	25284.07	
	Charged	362441.83	
	Recoveries in reduction of expenditure		8026.96
	Voted	8000.20	
	Charged	26.76	
	Total net disbursement		600140.13
	Unspent provision with reference to gross provision and disbursement		35021.40

** This does not include the figures of Railways, Defence and P&T, while the figures in chapter X include the disbursement for them.*

Includes repayment of debt

Disbursement

- Total disbursement of Rs 608167 crore in civil ministries during 1998-99 was higher by Rs 23696 crore than the total disbursement of Rs 584471 crore during 1997-98. Rs 400562 crore constituting 66 *per cent* of total disbursements under civil ministries was on account of re-payment of debt and interest payments.

Unspent provision

- The net **Unspent provision** of Rs 35021.40 crore constituted 5.44 *per cent* of the total authorisation. This unspent provision is without taking into account the funds demanded in the second batch of supplementary demands for grants in March 1999, which did not materialise. Since the Appropriation Act authorising the demands made in the second batch would not come into force before the end of the financial year, the quality of financial control of ministries should be viewed after taking into account the demands included in the second batch of supplementary grant. Reckoning the amounts demanded in the second batch, the actual unspent provisions would have aggregated to a massive Rs 46831 crore.

Excluding the unspent provision due to less repayment of Treasury Bills on account of less drawal and consequent less payment of interest on them, the effective aggregate unspent provision was Rs 6771.17 crore, which would have been Rs 18580.72 crore, reckoning the provisions made in the second batch of supplementary were taken into account.

- In 25 cases of 20 grants and one appropriation, unspent provisions aggregating Rs 6407.91 crore and Rs 38264.64 crore respectively were in excess of Rs 100 crore. Unspent provisions in excess of Rs 100 crore under each grant/ appropriation call for explanatory note to the Public Accounts Committee.
- Large unspent provisions occurred in developmental areas. Some of the major unspent provisions were in the grants of the ministries of Chemicals and Fertilisers: Rs 529 crore, Department of Animal Husbandry and Dairying: Rs 150 crore; Department of Civil Aviation: Rs 175 crore; Department of Food and Civil Supplies: Rs 305 crore; Ministry of Coal: Rs 224 crore; Ministry of Environment and Forests: Rs 213 crore; Currency, Coinage and Stamps: Rs 330 crore; Health: Rs 460 crore; Family Welfare: Rs 106 crore; Education: Rs 725 crore; Broadcasting Services: Rs 426 crore; Department of Rural Development: Rs 126 crore; Department of Rural Employment and Poverty Alleviation: Rs 398 crore; Roads: Rs 751 crore; Welfare: Rs 493 crore; Nuclear Power Schemes: Rs 135 crore; and Department of Space: Rs 161 crore, etc. Some of the schemes in these areas failed to take off during the year as per the plan.

- In another 36 cases involving 31 grants, aggregate unspent provisions of Rs 1834.15 crore were due to unspent provision between Rs 20 crore and Rs 100 crore in each of them.

Expenditure in excess of authorisation

- The expenditure exceeded the **authorised** amount by Rs 11824.46 crore in 56 segments of 42 grants/appropriation in civil ministries, Rs 300.85 crore under grant of Telecommunication services, Rs 283.91 crore under three grants/appropriations under Defence Services and Rs 346.75 crore under four grants and five appropriations of Railways which require regularisation in terms of Article 115 (1)(b) of the Constitution. Much of the excess expenditure can be termed technical in nature, if the provisions included in the second batch of supplementary demand are taken into account.
- Reckoning the provisions in the second batch of supplementary, the excess expenditure aggregating Rs 711.68 crore occurred in seven grants/ appropriations in civil ministries

Charged expenditure

- The charged expenditure of civil ministries constituted between 71 and 77 *per cent* of the total expenditure during 1994-99.
- The scope of financial control of the Parliament gets limited to a relatively small portion of the total expenditure because charged expenditure is not subject to vote by Parliament.

Re-appropriations

Re-appropriations of Rs 9481 crore in 32 cases/sub-heads of 16 grants/appropriations were injudicious. Even the original provision under those heads to which the amounts were re-appropriated could not be utilised and the re-appropriated amounts remained totally unutilised.

- In 26 cases/sub heads of 17 grants/appropriations, from which ministries approved re-appropriations of Rs 173 crore, ultimately ended up with excess.
- This is indicative of deficient accounting information system or assumptions for likely expenditure even towards the close of the year.

Rush of expenditure

- Ministries/departments continued to incur a large part of expenditure in the month of March.
- Expenditure incurred in March 1999/last quarter of the financial year relating to 77 major heads in 36 grants/appropriations constituted 27 to 100 *per cent* of the total expenditure under those major heads.
- Most of the expenditure on grants, loans and investments, etc. were released only in March.

Unauthorised expenditure on New Service

- In 94 cases of 24 grants/appropriation, the ministries/departments infringed the provisions relating to “New Service/New Instruments of Service”. This would require regularisation.
- Most of the cases of New Services/New Instruments of Services occurred as the Appropriation Act authorising the additional expenditure came into force after financial year had already ended. Reckoning the provisions in the second batch of supplementary demands for grants the expenditure in five cases in four grants attracted limitation of New Service/New Instruments of Service.

Supplementary provisions without requirement

- Supplementary grants in five cases relating to five grants were unnecessary, since the actual expenditure under them were less than the original provision. Reckoning the second batch of supplementary demands for grants, supplementary grants in 13 cases would have become unnecessary.
- These shortcomings in financial management and control reflect poorly on the systems and procedures in the finance and accounts wings in the ministries.

Review of selected grants

Sample checks of budget and accounting records of Ministries of Environment and Forests, Health and Family Welfare, Departments of Rural Development and Atomic Energy disclosed the following:

- Unspent provision made for vital sectors, schemes and programmes;
- Disbursements in excess of authorisation;
- Irregular and injudicious re-appropriation as the original provision from which funds were transferred by re-appropriation, or funds were not adequate or inadequate and consequently there were final unspent provision and excess;
- Disproportionately large disbursement/expenditure during March; and

Expenditure attracting limitations of New Service/New Instrument of Service.
A few important cases are indicated below:

- Ministry of Environment and Forests registered persistent unspent provisions under Hazardous Substance Management, Eco-development around Important Protected Areas and National Afforestation and Eco-development Board.
- There was persistent excess expenditure under Promotion of Common effluent Treatment Plant during 1996-99. The percentage of the disbursement in excess of budget allotment ranged between 100 to 787 *per cent*.
- Ministry of Health and Family Welfare registered persistent unspent provisions for the schemes of National Tuberculosis Control Programme, National Malaria Eradication Programme, Demographic and Other Communication Research, Selected Area Programme (including India Population Project) and Reproductive and Child Health Project during 1996-99.
- Department of Rural Development registered persistent unspent provisions for the programmes and schemes of Accelerated Rural Water Supply Programme, National Old Age Pension Scheme, National Family Benefit Scheme, National Maternity Benefit Scheme and Central Rural Sanitation Programme.