

Union Government Finances and Accounts: 2007-08

This Report discusses the comments of the Comptroller and Auditor General of India on the accounts of the Union and also analyses the finances of the Union Government for the year 2007-08. It also contains an analysis of the Appropriation Accounts, 2007-08.

HIGHLIGHTS

C&AG's comments on Union Government Accounts

- Eight additional statements on disclosure of subsidies, committed liabilities, repayment schedule of debt and other liabilities, accretion to or erosion in the financial assets, expenditure on salaries, pensions, maintenance, etc., recommended by the Twelfth Finance Commission in their Report of November 2004 and accepted in principle by the Government have not been included in the Finance Accounts.

(Para 2.1)

- Union Government made a provision for transfer of central plan assistance of Rs. 51259.85 crore (as per revised estimates) directly to state/district level autonomous bodies and authorities, societies, non-governmental organisations, etc., for implementation of centrally sponsored schemes without devolving funds through State Government accounts. The amount of unspent balances in their accounts maintained outside Government accounts is unascertainable. The Government expenditure as reflected in the Accounts to that extent is overstated.

(Para 2.2)

- Rs. 20273.52 crore under 28 Major Heads of accounts (representing functions of the Government) has been classified as 'other expenditure' in Union Government Finance Accounts constituting more than 50 *per cent* of the total expenditure recorded under the respective Major Heads indicating significant degree of opaqueness in these accounts.

(Para 2.3)

- There is understatement of closing balance of Universal Service Obligation Fund by Rs. 14033 crore. A total Universal Service Levy of Rs. 20404.44 crore was collected during 2002-03 to 2007-08 but a disbursement of only Rs. 6371.44 crore was made from the Fund

during this period. Thus, the closing balance of the Fund as on 31 March, 2008 should be Rs. 14033 crore as against nil balance shown under the Head 8235-General & Other Reserve Funds, 118-Universal Service Obligation Fund in the Public Account of India.

(Para 2.4)

- Though an amount of Rs. 6500 crore in 2006-07 and Rs. 6000 crore in 2007-08 was transferred from the Consolidated Fund of India to the Social and Infrastructure Development Fund in the Public Account of India and was treated as capital expenditure, an amount of Rs. 1586.75 crore was incurred from this Fund in 2007-08 on items of expenditure which were of revenue nature, thereby overstating the capital expenditure of the Government.

(Para 2.5)

- Rs. 1325.49 crore has been retained by Securities and Exchange Board of India and Insurance Regulatory and Development Authority outside Government Account in contravention of Constitutional provisions and instructions of the Ministry of Finance.

(Para 2.6)

- Rs. 2745 crore has been disbursed by the Ministry of Defence to two Defence Public Sector Undertakings in 2007-08 for meeting the committed liabilities that would arise in the next year, 2008-09.

(Para 2.7)

- Suspense heads in Government accounts are operated to reflect transactions of receipts and payments, which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. The aggregate net balance under the Suspense Heads in the Union Finance Accounts including Civil, Defence, Railways, Posts and Telecommunications was Rs. 6524.85 crore (debit) as on 31 March, 2008. Netting of debit/credit balances leads to significant understatement of Suspense balances in the Finance Accounts and the real magnitude of outstandings under these heads does not, therefore, get reported in the annual accounts of the Union Government presented to the Parliament.

(Para 2.9.1)

- No money should be withdrawn from the Consolidated Fund of India except under appropriations made by law passed in accordance with the provisions of Article 114(3) of the Constitution. However, during 2007-08, there was an excess disbursement of Rs. 100.14 crore in four segments of four grants/ appropriations in civil ministries and Rs. 71.19 crore in one segment of a grant in Defence which requires regularisation under Article 115 (1) (b) of the Constitution.

(Para 8.1)

- Unspent provisions in a grant or appropriation indicate either poor budgeting or shortfall in performance or both. During 2007-08, unspent provisions of more than Rs. 100 crore occurred in 60 cases of 47 grants (including Civil, Posts and Defence). The aggregate unspent provisions in these cases was Rs. 109958.73 crore. The major unspent provision was in the grant/appropriation relating to Repayment of Debt (Rs. 70108.62 crore). The other significant unspent provisions were in the grants/appropriations for Capital Outlay on Defence Service (Rs. 4417.70 crore), Payment to Financial Institutions (Rs. 4934.50 crore), Transfer to States and UT Governments (Rs. 6229.79 crore), Department of Higher Education (Rs. 2952.13 crore), Department of School Education and Literacy (Rs. 2668.29 crore), Police (Rs. 2073.74 crore), Ministry of Panchayati Raj (Rs. 1082.04 crore), Department of Telecommunications (Rs. 1033.79 crore), Department of Health and Family Welfare (Rs. 1982.64 crore) and Nuclear Power Schemes (Rs. 1950.47 crore).

(Para 8.4)

Union Government Finances 2007-08

- The year 2007-08 ended with a surplus of Rs. 99030 crore in the Consolidated Fund of India as against the deficit of Rs. 19244 crore in the previous year, while the surplus in Public Account decreased from Rs. 48639 crore in 2006-07 to Rs. 35721 crore during the current year.

(Para 1.3)

Resources

- The gross tax collections witnessed acceleration in the rate of growth from the very first year of the X Plan (2002-07) and increased by 25.27 *per cent* in 2007-08 from the large base of Rs. 473512 crore attained in the previous year. The trends reveal that the gains to the exchequer improved in the form of higher corporate tax collections while the share of excise and custom duties in gross tax revenue has been declining every year since 2002-03. The share of service tax increased consistently since its inception in 1994-95. The overall tax buoyancy has improved significantly and tax-GDP ratio reached the level of 12.58 in 2007-08 after exceeding 10 *per cent* for the first time in 2005-06.

(Para 3.13, 3.15, 3.18 & 3.20)

- As the non-tax receipts were relatively more buoyant in 2007-08 relative to 2006-07, their share in incremental revenue receipts increased from 13.8 *per cent* (Rs. 13037 crore) in 2006-07 to 28.92 *per cent* (Rs. 35868 crore) during 2007-08. The increased collection under interest receipts, economic services and dividends and profits, respectively, by Rs. 8059 crore (30.35 *per cent*), Rs. 20532 crore (20.44 *per cent*) and Rs. 5190 crore (17.71 *per cent*) over the previous year resulted in an overall increase of Rs. 35868 crore (20.83 *per cent*) in non tax receipts during the current year.

(Para 3.22, 3.23, 3.24 3.26 & 10.3)

- The capital receipts increased steeply in 2007-08 by Rs. 29962 crore over the previous year mainly on account of Annual Transfer of Surplus by RBI due to sale of its stake in State Bank of India to Government of India, which was partly offset by less recovery in loans and advances.

(Para 3.3)

Disbursements

- Aggregate disbursement of Union Government in 2007-08 consists of four major components: actual expenditure inclusive of the grants in aid to the States (28.36 *per cent*); mandatory transfer of the proceeds from Union taxes to the States (4.99 *per cent*); repayment of debt (52.68 *per cent*) and disbursements from public accounts (13.97 *per cent*). Long term trends indicate that the average share of actual expenditure has consistently declined from 50.84 *per cent* in the VIII

Plan to 28.36 *per cent* in the current year while debt repayment increased from the level of 29.17 *per cent* to 52.68 *per cent* during this period.

(Para 4.5, 4.6)

- Revenue expenditure continued to be the dominant component of the total expenditure and its share increased consistently to the peak level of 90.47 *per cent* in 2006-07. During the current year, its share however declined to 85.10 *per cent* mainly on account of its relatively slower growth rate of 11.64 *per cent* over the previous year vis-à-vis a steep increase of 97.22 *per cent* in capital expenditure during the current year.

(Para 4.9 to 4.11)

- During 2007-08, the capital expenditure increased (Rs. 57644 crore) by the highest ever rate of 97.22 *per cent* mainly on account of steep increase in non-plan capital expenditure due to acquisition cost of RBI's stake in SBI (Rs. 35531 crore) and subscription in the rights issue of equity share of SBI (Rs. 9996 crore). Despite such a steep increase, capital expenditure was less than the level projected by Twelfth Finance Commission (TFC) for 2007-08.

(Para 4.11)

- The disbursement of Loans and Advances exhibited a steep decline during 2005-06 and 2006-07 on account of acceptance of TFC recommendation regarding disintermediation of Central Government in borrowings by State Governments to finance their State Plans. The loans and advances disbursed by the Union Government has, however, indicated an increase of Rs. 1758 crore (17.55 *per cent*) in 2007-08 over the previous year mainly on account of an increase of Rs. 1741 crore (35.58 *per cent*) in loans and advances to States. The amount of loans and advances disbursed to States still remained below the level of 2005-06.

(Para 4.12)

- The expenditure on social services increased from Rs. 46494 crore in 2006-07 to Rs. 63246 crore in 2007-08 registering a growth of 36.03 *per cent* as compared to an average growth rate of 7.96 percent in IX Plan and 21.89 *per cent* in X Plan. As regards economic services, the growth rate in 2007-08 was 24.45 *per cent* far above the growth of

only 6.36 *per cent* in IX Plan and 14.46 *per cent* in X Plan. Increased spending in these services was largely in areas such as rural employment, education, health and drinking water supply and sanitation, infrastructure facilities like rural roads, housing and rural electrification.

(Para 4.36 to 4.39)

- The share of development expenditure and plan expenditure in total expenditure, however, exhibited relative stability over time. Further analysis of trends in Government expenditure reveals that Non-plan expenditure far outweighs the Plan expenditure and revenue expenditure completely overshadows capital expenditure.

(Para 4.17, 4.18, 4.20 to 4.24, 10.4 & 10.5)

Management of Fiscal Imbalances

- Three key fiscal parameters - revenue, fiscal and primary deficits measured relative to GDP- indicate the extent of overall fiscal imbalances in the finances of the Union Government during a specified period. The fiscal performance of the Union Government in terms of these parameters has indicated improvement in 2007-08 over the previous year as both revenue and fiscal deficits have declined from Rs. 132847 crore and Rs. 182934 crore in 2006-07 to Rs. 85435 crore and Rs. 164962 crore in 2007-08, respectively.

(Para 5.1, 5.3 5.4 & 5.7)

- The actual levels of revenue and fiscal deficits in 2007-08 at 1.81 and 3.50 *per cent* of GDP were although higher than their budget estimates, respectively, by 0.31 and 0.20 percentage points but the fiscal correction during 2007-08 was higher than the minimum reductions of 0.3 *per cent* and 0.5 *per cent* (relative to GDP) for fiscal and revenue deficit, respectively, stipulated per year under the FRBM Rules, 2004. Furthermore, the Finance Accounts showed primary surplus of Rs. 15025 crore (which was, however, only 0.32 *per cent* of GDP) from the huge deficit of Rs. 28654 crore in 2006-07 reflecting containment of non-interest expenditure below the non-debt receipts.

(Para 5.4, 5.8, 5.14 5.19 & 5.20)

- Revenue and fiscal deficits as indicated/derived from the Finance Accounts continued to be different from those being depicted in

Budget at a Glance and some of the papers accompanying Budget Documents mainly on account of the fact that the issuance of the bonds/securities by Union Government is not taken as part of budgetary expenditure/receipts. As a result, not only the deficits in the Union Government Budget are understated, it also raises the issue of transparency in fiscal operations and inter-generational equity in fiscal management of the Government. For instance, the Government's outstanding liabilities on account of Petroleum Bonds alone has consistently increased and stood at Rs. 71288 crore as on 31 March, 2008, thereby transferring significant liabilities to future generations without appropriately reflecting them in the Union Budget.

(Para 1.6 to 1.9, 5.22, 6.19, 10.7)

Management of Fiscal Liabilities

- Aggregate fiscal liabilities increased consistently and reached the peak level of Rs. 2476357 crore in 2007-08. Internal debt was not only the most predominant component of the aggregate liabilities, accounting for around 72.66 *per cent* of them in 2007-08, but was also the fastest growing component with its growth rate of 16.48 *per cent*. Public account liabilities grew at the rate of 6.33 *per cent* during the current year. These two components, which in terms of their origin are domestic liabilities, constituted 91.52 *per cent* of the aggregate liabilities in 2007-08.

(Para 6.3, 6.4)

- The aggregate fiscal liabilities relative to GDP although indicated a declining tendency and reached the level of 52.54 *per cent* in 2007-08 but the incremental total liabilities relative to GDP at 6.18 *per cent* during the current year are marginally above the ceiling limit of 6 *per cent* projected for 2007-08 as per the Rules prescribed under FRBM Act.

(Para 6.5, 6.6)

- In terms of the criterion suggested by the Eleventh and Twelfth Finance Commissions as well as in terms of Domar's Debt Stability Equation, indicators for debt stability and sustainability reveal favourable trends and debt relative to GDP indicates declining tendency. This ratio at 52.54 *per cent* in 2007-08 is still far above the norm of 44 *per cent* recommended by TFC for 2009-10 in its Restructuring Plan of Union Finances.

(Para 6.12 to 6.19)