

Union Government Finances and Accounts: 2008-09

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 2008-09. It also contains an analysis of the Appropriation Accounts, 2008-09.

HIGHLIGHTS

A. C&AG's comments on Union Government Accounts

- For the year 2008-09, Union Government transferred Central Plan assistance of Rs. 83,224 crore directly to State/district level autonomous bodies and authorities, societies, non-governmental organisations, etc., for implementation of Centrally Sponsored Schemes outside the State Government Budget. The aggregate 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. 28,483 crore under 29 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. Although, as an interim measure, Controller General of Accounts (CGA) has inserted footnotes in Finance Accounts giving details of significant expenditure covered under Minor Head '800-Other Expenditure', the restructuring of the accounts to reflect the current activities of the government by way of opening of new heads of account and closure of obsolete heads of account has not been taken up by the Government to address the problem on permanent basis.

(Para 2.3)

- Scrutiny of the Union Finance Accounts 2008-09 revealed that while an income of Rs. 84.81 crore had been reflected as income from Portfolio Management Scheme (Discretionary Mode) of National Investment Fund (NIF) under Consolidated Fund of India (CFI), the Major head '8453-Income and Expenditure Account of NIF' has not been opened in the Public Account to depict the transfer of income from CFI in contravention of the prescribed accounting procedure.

(Para 2.4)

- There is understatement of closing balance of Universal Service Obligation Fund by Rs. 18,193 crore. A total Universal Service Levy of Rs. 26,164 crore was collected during 2002-03 to 2008-09 but a disbursement of only Rs. 7,971 crore was made from the Fund during this period. Thus, the closing balance of the Fund as on 31 March, 2009 should be Rs. 18,193 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)

- Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Pension Fund Regulatory Development Authority (PFRDA), Central Electricity Regulatory Commission (CERC) and Petroleum and Natural Gas Regulatory Board (PNGRB) were retaining their surplus funds generated through fee charges, unspent grants received from Government of India etc., aggregating to Rs. 1,747.37 crore at the end of March 2009 outside the Government Accounts in contravention of Constitutional provisions and instructions of the Ministry of Finance.

(Para 2.5)

- Expenditure on interest paid on income tax refunds amounting to Rs. 5,785.36 crore during 2008-09 was accounted for as reduction in the revenue of the Union Government in Union Government Accounts. Such accounting adjustment is not only against the accounting rules but also results in incurring of expenditure on interest payments without obtaining Parliament's approval through budgetary process. As a result, the expenditure as well as revenue of the Union Government was understated by Rs. 5,785.36 crore in the Union Government Accounts for the year 2008-09.

(Para 2.6)

- Ministry of Finance, Department of Revenue created the Income Tax Welfare Fund (ITWF) and transferred Rs. 100 crore to the Fund over the last three years which had not been agreed to by the Comptroller and Auditor General on the ground that the activities proposed to be covered by the Fund could be included in the annual budget of the department and be financed through the normal budgetary process.

(Para 2.7)

- Re-appropriation of funds from Capital section to Revenue section or vice-versa is not permissible under Rule 10 of Delegation of Financial Powers Rules (DFPR), 1978. Ministry of Water Resources issued a re-appropriation order on 31st March, 2009 involving re-appropriation of funds of Rs. 14.23 crore from the Capital (Plan) section of the grant to

the Revenue (non-Plan) section in contravention of the above provisions of DFPR.

(Para 2.9)

- Out of 43 departmentally managed Government Undertakings of commercial or quasi commercial nature as of March 2009, Proforma accounts of 29 undertakings were in arrears for periods ranging from one to twenty four years.

(Para 2.10)

- 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. 18,880.85 crore (Dr) as on 31 March, 2009. Further, there were 64 cases of adverse balance in the Finance Accounts of the Union Government for the year 2008-09. Out of these, 16 adverse balances were pending for more than 10 years.

(Para 2.14.1 & 2.14.2)

- 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)

- During the year 2008-09, total disbursements of the Civil Ministries were Rs. 31,49,073 crore out of which Rs. 24,04,957 crore were *Charged* on the Consolidated Fund of India which constituted 76 *per cent* of the total disbursement. Since *charged* disbursements are not subject to vote by the Parliament, effectively the scope of financial control by the Parliament is limited to about 24 *per cent* of the total disbursement.

(Para 7.8 & 7.9)

- 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 2008-09, there was an excess disbursement of Rs. 270.21 crore in four segments of four grants in civil ministries, Rs. 519.81 crore in 9 segments of eight grants/appropriations of Railways and Rs. 742.61

crore in two segments of two grants in Defence, which required regularization under Article 115 (1) (b) of the Constitution.

(Para 8.1)

- Savings in a grant or appropriation indicate either defective budgeting or shortfall in performance or both. During 2008-09, savings of more than Rs. 100 crore had occurred in 68 cases of 55 grants (including Civil, Posts, Railways and Defence Services). The aggregate savings in these cases was Rs. 89,902.44 crore. The major savings were in the grants/appropriation relating to Transfers to State and Union Territory Governments (Rs. 10,896.67 crore), Capital Outlay on Defence Services (Rs. 7,081.13 crore), Payments to Financial Institutions (Rs. 3,994.62 crore), Department of School Education & Literacy (Rs. 4,906.88 crore), Police (Rs. 3,109.49 crore), Department of Disinvestment (Rs. 2,003.12 crore), Department of Health and Family Welfare (Rs. 1,664.78 crore) and Department of Fertilizers (Rs. 1,345.18 crore). The savings were attributed by the Ministries/departments to some of the Schemes failing to take off.

(Para 8.4)

B. Union Government Finances 2008-09: An Overview

- The year 2008-09 ended with a deficit of Rs. 2,03,239 crore in the Consolidated Fund of India, while the surplus in Public Account was Rs. 68,862 crore. Receipt in CFI over the previous year increased by 19 *per cent* which mostly came from capital account receipt due to increased recovery of loans and raising of public debt while growth in revenue receipt was negligible due to slowdown in the industry and export sector. On the other hand expenditure out of CFI increased by 32 *per cent*, of which revenue expenditure grew by 37 *per cent* and capital expenditure registered negative increase of 34 *per cent* over 2007-08.

(Para 1.2)

Resources

- In 2008-09, gross tax collections grew by a mere 2.05 *per cent*. 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 tax-GDP ratio reached the level of 11.37 in 2008-09.

(Para 3.4, 3.5, 3.5.4)

- The non-tax receipts increased by less than 1 *per cent* in 2008-09, from the base of Rs. 2,08,079 crore attained during 2007-08. Except for the increased collection under dividends and profits of Rs. 4,108 crore

(11.91 *per cent*), the collections declined under other major components of non-tax revenue viz., interest receipts (10.8 *per cent*), social services (27 *per cent*) and economic services (two *per cent*).

(Para 3.6.1)

- When compared with the year 2007-08, the miscellaneous capital receipts decreased steeply by Rs. 38,230 crore (98.5 *per cent*) in 2008-09 and recovery in loans and advances increased by Rs. 3,118 crore (30 *per cent*).

(Para 1.2.1)

Disbursements

- Aggregate disbursement of Union Government in 2008-09 consists of four major components: actual expenditure inclusive of the grants in aid to the States (28 *per cent*); mandatory transfer of the proceeds from Union taxes to the States (4 *per cent*); repayment of debt (55 *per cent*) and disbursements from Public Account (13 *per cent*). Long term trends indicate that the average share of actual expenditure has consistently declined from 51 *per cent* in the VIII Plan to 28 *per cent* in the current year while debt repayment increased from the level of 29 *per cent* to 55 *per cent* during this period.

(Para 4.2)

- Revenue expenditure continued to be the dominant component of the total expenditure and its share increased consistently to the peak level of 91.64 *per cent* during 2008-09. This was mainly on account of increase of 37.47 *per cent* in the revenue expenditure in the current year over the previous year and a decline of 34 *per cent* in capital expenditure during the year. The disbursement of Loans and Advances exhibited a steep decline during 2005-06 and 2006-07 on account of acceptance of Twelfth Finance Commission's 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. 2,809 crore (23.85 *per cent*) in 2008-09 over 2007-08.

(Para 4.3)

- Analysis of trends in Government expenditure in 2008-09 reveals that the share of non-Plan expenditure to total expenditure was around 75 *per cent*, which far outweighs the relative share of Plan expenditure of 24.97 *per cent*.

(Para 4.5.2)

- In 2008-09, food subsidies grew by 39.65 *per cent* while the petroleum subsidy grew by 1.13 *per cent* over the previous year. Subsidies given on

indigenous and imported fertilizers (urea) increased by over 43 *per cent* while the growth in subsidies given to farmers on sale of decontrolled fertilizers was a phenomenal 275 *per cent*.

(Para 4.7)

- In the year 2008-09, the expenditure under flagship schemes increased by: Rs. 17,338 crore (136.94 *per cent*) under National Rural Employment Guarantee Scheme; Rs. 4,914 crore (126.49 *per cent*) under Indira Awaas Yojana; Rs. 1,587 crore (40.56 *per cent*) under Rajeev Gandhi Grameen Vidyutikaran Yojana; Rs. 1,280 crore (19.69 *per cent*) under Pradhan Mantri Gram Sadak Yojana; Rs. 2,034 crore (17.51 *per cent*) under National Rural Health Mission; Rs. 699 crore (11.99 *per cent*) under Mid Day Meal Scheme; and Rs. 1,162 crore (10.12 *per cent*) under Sarva Shiksha Abhiyan over the previous year.

(Para 4.9)

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 deterioration in 2008-09 over the previous year as both revenue and fiscal deficits have increased from Rs. 85,435 crore and Rs. 1,64,962 crore in 2007-08 to Rs. 3,56,377 crore (317.13 *per cent*) and Rs. 4,34,444 crore (163.36 *per cent*) in 2008-09, respectively.

(Para 5.1, 5.2)

- The revenue deficit at 6.70 *per cent* of GDP was much higher as against the FRBM target of 1 *per cent* for the year 2008-09. Similarly, the fiscal deficit at 8.16 *per cent* of GDP was far greater than the FRBM target of 2.5 *per cent* for year.

(Para 5.4)

- The Finance Accounts showed primary deficit of Rs. 2,33,864 crore (which was 4.39 *per cent* of GDP) from the primary surplus of Rs. 15,025 crore in 2007-08 as the fiscal deficit of Rs. 4,34,444 crore was much larger than the interest payments of Rs. 200,580 crore.

(Para 5.3)

Management of Fiscal Liabilities

- Aggregate fiscal liabilities increased consistently and reached the peak level of Rs. 28,40,135 crore in 2008-09. For the period 1992-2009, internal debt grew at an average annual rate of around 16 *per cent*, compared to which its growth in 2008-09 was lower at around 12 *per cent*. In both the other categories of fiscal liabilities, viz. External debt (at current rates) and liabilities in the Public Account, the growth in 2008-09 of 25.68 *per cent* and 19.21 *per cent* was much higher than the trend growth rates of 3.70 *per cent* and 6 *per cent* respectively. External debt at current rate grew as a result of depreciation of Rupee. Growth in Public Account liability was on account of issue of special bonds to fertiliser companies (Rs. 20,000 crore) and Petroleum Bonds (net of redemption Rs. 62,600 crore).

(Para 6.1)

- In 2008-09, the incremental total liabilities to GDP ratio was higher than the previous year at 6.84 *per cent* and was also significantly higher than the 5 *per cent* target set by FRBM Act and Rules.

(Para 6.2)

- The ratio of assets to liabilities in 2008-09 was only 36 *per cent* compared to the trend ratio of 44 *per cent* for the period 1992-2009. This means that over the years, the liabilities grew faster than the assets. As against a trend growth rate of around 11 *per cent*, total liabilities grew by nearly 15 *per cent* in 2008-09. Comparatively, there was only a marginal increase in the growth in assets (8 *per cent*) in 2008-09 compared to the trend growth rate of around 7.5 *per cent*.

(Para 6.3)

- The average interest rate (nominal) on total debt over time remained lower than the rate of growth of GDP at the market prices during 1992-2009. The average interest rate on internal debt in 2008-09 (8.67 *per cent*) was lower than the trend rate of 9.28 *per cent* for the entire post-liberalization period. The average interest rate paid on external debt is much lower than that paid on domestic debt.

(Para 6.4)

- Compared to an average shortfall in resources (incremental revenue expenditure minus incremental revenue receipts) of Rs 20,007 crore for the post-liberalization period of 1992-2009, the resource gap widened alarmingly in 2008-09 to Rs 2,70,942 crore which is almost 14 times the average trend resource gap.

(Para 6.4)

- As on 31 March 2009, unutilised committed external assistance was of the order of Rs. 95,486 crore, which was nearly *22 per cent* higher than the corresponding figure for the previous year. There were large undrawn balances in urban development, water resources, infrastructure and health sectors. Further, continued inadequate planning resulted in avoidable expenditure in the form of commitment charges on un-drawn external assistance amounting to Rs. 117.37 crore in 2008-09.

(Para 6.7)