

Union Government Finances and Accounts: 2009-10

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 2009-10. It also contains an analysis of the Appropriation Accounts, 2009-10.

HIGHLIGHTS

A C&AG's comments on Union Government Accounts

- For the year 2009-10, Union Government transferred Central Plan assistance of ₹ 93,880* crore (as per revised estimate) 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)

- ₹ 15,899.73 crore under 24 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 and 2009-10 revealed that while an income of ₹ 84.81 crore and ₹ 226.85 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

* As per Expenditure Budget 2010-11 (Volume-I)

procedure. This was also commented upon in the last year's Audit Report.

Further, under the revised accounting procedure, the disinvestment proceeds collected during the period 1 April 2009 to 31 March 2012 were to be transferred to NIF under the minor head '8452-102-Disinvestment proceeds of Government of India for the period from 1.4.2009 to 31.3.2012'. Scrutiny of the Union Finance Accounts 2009-10 revealed that the said minor head had not been opened and the booking of transfers to / from NIF of ₹ 23,552.97 crore had been done under the existing minor head '8452-101-Proceeds of Disinvestment of Government equity holding premium'.

(Para 2.4(i))

- There is understatement of closing balance of Universal Service Obligation Fund by ₹ 20,737.92 crore. A total Universal Service Levy of ₹ 31,109.36 crore was collected during 2002-03 to 2009-10 but a disbursement of only ₹ 10,371.44 crore was made from the Fund during this period. Thus, the closing balance of the Fund as on 31 March, 2010 should be ₹ 20,737.92 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(ii))

- 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 ₹ 2,142.47 crore at the end of March 2010 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 ₹ 12,815 crore during 2009-10 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 ₹ 12,815 crore (provisional figure as stated by CBDT) in the Union Government Accounts for the year 2009-10.

(Para 2.6)

- Ministry of Finance, Department of Revenue created the Income Tax Welfare Fund (ITWF) and transferred ₹ 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)

- The Ministry failed to implement the provisions of the Coal Mines Labour Welfare Fund (Repeal) Act, 1986 even after 24 years of its being passed by Parliament and continued to operate a dissolved fund to meet unauthorized expenditure, thus, undermining Parliament's authority over public expenditure.

(Para 2.8)

- Out of 43 departmentally managed Government Undertakings of commercial or quasi commercial nature as of March 2010, Proforma accounts of 37 undertakings were in arrears for periods ranging from one to eleven 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 ₹ 16,110.40 crore (Dr) as on 31 March, 2010. Further, there were 51 cases of adverse balance in the Finance Accounts of the Union Government for the year 2009-10. Out of these, 11 adverse balances were pending for more than 10 years.

(Para 2.13.1 & 2.13.2)

- 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 2009-10, total disbursements of the Union Government were ₹ 44,42,304 crore out of which ₹ 33,49,565 crore were *Charged* on the Consolidated Fund of India which constituted 75 *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 25 *per cent* of the total disbursement. In case of Civil Ministries, the proportion of *Charged* expenditure was 81 *per cent* (₹ 33,49,254 crore) as against the total disbursements of ₹ 41,17,712 crore.

(Para 6.4 & 6.9)

- 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 2009-10, there was an excess disbursement of ₹ 9,219 crore in four segments of four grants in civil Ministries, ₹ 1,930 crore in 12 segments of 11 grants/appropriations of Railways and ₹ 822 crore in one segment of one grant in Posts and ₹ 2,615 crore in three segments of two grants in Defence Services, which required regularization under Article 115 (1) (b) of the Constitution.

(Para 7.1)

- Savings in a grant or appropriation indicate either deficient budgeting or shortfall in performance or both. During 2009-10, savings of more than ₹ 100 crore had occurred in 66 cases of 53 grants (including Civil, Posts, Railways and Defence Services). The aggregate savings in these cases was ₹ 2,60,295 crore. Large savings were in areas like Repayment of Debt (₹ 1,62,413.18 crore), Department of Rural Development (₹ 11,142.92 crore), Transfers to State and Union Territory Governments (₹ 11,508.95 crore), Interest Payments (₹ 6,996.56 crore), Department of Disinvestment (₹ 5,379.90 crore), Department of School Education & Literacy (₹ 5,267.74 crore), Department of Road Transport and Highways (₹ 5,086.89 crore), Department of Financial Services (₹ 3,947.72 crore), Ministry of Power (₹ 2,661.91 crore), Police (₹ 2,538.02 crore), Department of Higher Education (₹ 1,552.60 crore), Ministry of Panchayati Raj (₹ 1,003.89 crore) and Department of Health and Family Welfare (₹ 1,599.82 crore) etc,. The savings were attributed by the Ministries/departments as ‘some of the schemes failing to take off’, ‘delay in submitting of progress report/utilisation certificates’, ‘slow pace of expenditure by the implementing agencies’, ‘unspent balances lying with the State Governments’ and ‘receipt of less proposals from State Governments’, etc,.

(Para 7.4 & Appendix VII-B)

B Union Government Finances 2009-10: An Overview

- The year 2009-10 ended with a deficit of ₹ 1,12,908 crore in the Consolidated Fund of India, while the surplus in Public Account was ₹ 28,268 crore.

(Para 1.2)

Resources

- Tax receipts of the Union Government (net of the States' share from its gross tax collections) increased at an average annual rate of around 22 *per cent* during the X Plan while non-tax revenue increased at a lower rate of around 5 *per cent* during the corresponding period. In comparison to this rate, net tax receipts grew only by around 3 *per cent* in 2009-10, while the growth in non-tax receipts was around 17 *per cent*.

(Para 3.3)

- The share of direct taxes (Corporation tax and income tax) has been increasing in the total tax receipts in the first three years of the XI Plan compared to the corresponding share in the X Plan. The shares of customs duties and excise duties have been falling in the first three years of the XI Plan as compared to the X Plan. The share of service tax, however, has been much higher in the recent years compared to the X Plan period because of larger collection of service tax due to increase in rates as well as increase in tax base.

(Para 3.4)

- During the current year ₹ 23,599 crore (including premium of ₹ 21,366 crore) actually realised from disinvestment in Central Public Sector Undertakings as against budget estimate of ₹ 1,120 crore.

(Para 3.6.1)

Disbursements

- The share of actual expenditure fell from 32 *per cent* in the X Plan period to around 26 *per cent* on an average in the first three years of the XI Plan, primarily because of the growing share of debt repayments. In the first two years of the XI Plan, the year-on-year growth in actual expenditure was much higher than the annual average growth rate for the X Plan period. In 2009-10, however, actual expenditure grew at a low rate of around 7 *per cent*, since the previous year saw a tremendous hike in actual expenditure to counter the recessionary trends.

(Para 4.1)

- Revenue expenditure continued to be the dominant component of the total expenditure at 90.05 *per cent* during 2009-10.

(Para 4.2)

- In 2009-10, food subsidies grew by 33.58 *per cent* while the petroleum subsidy grew by 3.47 *per cent* over the previous year. Subsidies given on indigenous and imported fertilizers (urea) decreased by around 21 *per cent*, while the subsidies given to farmers on sale of decontrolled fertilizers decreased by around 19 *per cent*.

(Para 4.2.2)

- The trends in the composition of Union Government expenditure reveal that non-Plan expenditure far outweighs the Plan expenditure and revenue expenditure completely overshadows capital expenditure. There was a marginal increase in the relative share of Plan expenditure in the total expenditure basket in 2009-10 (25.85 *per cent*) compared to the X Plan average of 24.17 *per cent*.

(Para 4.3.2)

- In Sarva Shiksha Abhiyan, actual expenditure exceeded budget estimates by nearly 8 *per cent* in 2009-10. In the case of the Mid -Day Meal (MDM) scheme, in all the three years of the XI Plan so far, the actual expenditure fell short of budget estimates. In the current year, there was a considerable short fall in the actual expenditure in NREG scheme and in the RGGVY scheme. Under Indira Awas Yojana, actual expenditure exceeded budget estimates by over 11 *per cent*. In the case of National Rural Health Mission there was a marginally higher expenditure than what was estimated for the current year, while in previous years of the XI Plan, actual expenditure fell short of budget estimates

(Para 4.6)

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 slight improvement in 2009-10 over the previous year as both revenue and fiscal deficits have decreased from ₹ 3,56,377 crore and ₹ 4,34,444 crore in 2008-09 to ₹ 3,52,956 crore and ₹ 4,32,443 crore in 2009-10, respectively.

(Para 5.2.2, 5.2.3)

- During the X Plan period and during 2007-08, there was a primary surplus, which means that the interest payments were higher than the fiscal deficits. However, in 2008-09 and 2009-10, fiscal deficit was two times the interest payments. This meant that during these two years, 50 *per cent* or more of the fiscal deficits were due to revenue expenditure other than interest payments. Prudent reduction of revenue expenditure could enable the Government to return to a state of primary surplus.

(Para 5.2.4)

Management of Fiscal Liabilities

- For the X Plan period, internal debt constituted 69 *per cent* of the total liabilities and grew at an average annual rate of around 11 *per cent*. In 2009-10, the share in total liabilities was as high as 74 *per cent* and its growth was higher at around 15 *per cent* compared to the X Plan period. High growth of internal debt can result in a “crowding-out” of potential private sector investment as interest rates tend to harden when government enters the debt market in such a significant manner. In both the other categories of fiscal liabilities, viz. External debt (at current rates) and liabilities in the Public Account, the growth in 2009-10 was lower than the average growth rate in the X Plan. External debt in the current year showed a negative growth since there was a considerable growth under this head in the previous year.

(Para 5.1)

- The XII Finance Commission had recommended a reduction in total liabilities of the Union to 43.7 *per cent* of GDP by 2009-10. Compared to this, the fiscal liabilities of the Union stood at over 50 *per cent* at the end of the current year.

(Para 5.2)

- The ratio of assets to *liabilities* in 2009-10 was only 35 *per cent* compared to the X Plan average ratio of over 40 *per cent*. This means that over the years, the liabilities are growing faster than assets. As against the average growth rate of around 9 *per cent* in the X Plan period, total liabilities grew by nearly 15 *per cent* in 2008-09 and around 11 *per cent* in the current year. Annual growth in assets in the first three years of the XI Plan has been higher than the average annual growth rate in the X Plan.

(Para 5.3)

- The average interest rate (nominal) on total debt over time remained lower than the rate of growth of GDP at the market prices during the X Plan period. The average *interest* rate on internal debt in 2009-10 (8.54

per cent) was lower than the growth rate of GDP (11.78 *per cent*). The average interest rate paid on external debt is much lower than that paid on domestic debt.

(Para 5.4)

- Compared to an average shortfall in resources (incremental revenue expenditure minus incremental revenue receipts) of ₹ 4,509 crore for the X Plan (2002-07), there was resource surplus of ₹ 3,421 crore in 2009-10.

(Para 5.4)

- As on 31 March 2010, unutilised committed external assistance was of the order of ₹ 1,05,339 crore. There were large undrawn balances in urban development, water resources, energy, infrastructure and health sector. Further, continued inadequate planning resulted in avoidable expenditure in the form of commitment charges on un-drawn external assistance amounting to ₹ 86.11 crore in 2009-10.

(Para 5.6)