

MANAGEMENT OF STATE FINANCES

COURSE GUIDE

Developed by

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**Developed by Assam Administrative Staff College,
Jawaharnagar, Guwahati.
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Management of State Finances Course Guide

1) Introduction: -

Finance is the backbone of administration and without finance it will be difficult on the part of the Government to discharge to function smoothly. Hence it is essential to mobilize the resources for the State exchequer by giving utmost priority by the authority to which the task is entrusted and to minimize expenditure as a responsible officer of the state administration. Simultaneously while incurring the expenditure it is the prime duty of the department to spend the same judiciously taking into account the responsibilities entrusted upon them. Further utmost care is to be taken while incurring the expenditure to give the maximum social benefit to the citizen. Finance will also facilitate the political system to implement the promises that are being given to the society (electoral) through the election manifesto.

As the population of the country/state increases at a rapid rate, adoption of various types of developmental activities to fulfil the needs of the society assumes prime importance. But to implement this, Government has to face numerous problems because of the non-availability of the resources. Even instances are there where not to speak of taking up of developmental schemes, the Governments are not even able to pay the regular pay and allowances to their employees and also the pensions to retired employees regularly. This is due to shortage of fund, lack of knowledge and skills about the proper management of state finances by the administrative machinery.

Thus it is essential to have a training programme on management of state Finance to acquaint the officials with the relevant aspect of the issues to be covered.

2) Aim: -

The main aim of the training programme is to equip the officers with the tools and techniques of financial management in respect of state finances.

3) Designed for :-

- 1) the individual whose duties to manage the finances of the state.
- 2) those who are engaged in mobilization of resources.
- 3) Those who formulate / adopt the financial policies or control the expenses.

Facilitators: -

The facilitators as recognized by the DoPT, Government of India/ State Training Institute. Guest faculties may also be inducted.

Style of the Course: -

The course is for 5 (five) days, it is mixed with activities. Each course will have 25 participants. Reading materials will be given at the end of the session enabling the participants to study at their own convenience. Participants will be given the techniques of adoption of correct methodology for boosting up of

revenues as well as to check the expenditures with a view to toning up of financial administration.

Assessment: -

The priority during the course will be to help participants to develop their skills for better financial management. Assessment is therefore, based on informal feedback and advice to individual participants.

Further Development: -

The course is for the Under Secretaries, Deputy Secretaries, Joint Secretaries, Additional Secretaries and Heads of the Department, Additional/Joint Heads of the Department, District Level Officers of different Departments. Since the participants will be from different Departments, their interaction, feed back etc. will be taken care of for further development of the course in future.

Enabling Objectives: -

Day – 1	
Session – I	
1.1	Ice breaking exercise
1.1.1	Exercise –1
1.1.2	Exercise –2
Session – II	
1.2.1	Describe the normative aspect of public finance, public goods and services.
Session – III	
1.3.1	Explain the concept and importance of State Finances.
1.3.2	Describe the present status of State Finances.
1.3.3	Identify the symptoms, which indicate financial stress faced at present by the States.
1.3.4	List the Constitutional provisions relating to State Finances – both revenues and expenditure
1.3.5	Identify the reasons, which have resulted in the present day situations.
Exercise – 3	
Session – IV	
1.4.1	Group works Formation of groups. Allotment of topic for group activity.
Day – 2	
Session – I	
2.1.1	Explain the different Constitutional Provisions relating to state finances and how they are being used in practice for management of finances.
Exercise – 4	

2.1.2	Explain how does the Constitution empower/restrict the State Government in management and control of its own finances.
2.1.3	Explain to what extent State Governments are dependent on the Central Government.
2.1.4	Explain the importance of Union List/State List /Concurrent List.
Session – II	
2.2.1	Explain the principle governing the Grants-in-aid.
2.2.2	List the organizations / institutions entitled to get the Grants-in-aid.
2.2.3	List the different conditions of awarding Grants-in-aid.
2.2.4	Explain the procedure for claims for reimbursement of expenditures incurred by the State in connection with security related Smatters
2.2.5	Describe the utility of utilization certificate in getting Grants-in-aid.
Session – III	
2.3.1	Describe the Constitutional Provisions about the Centre State Financial relation with special reference to management of State Finances.
2.3.2	List the recommendation of Sarkaria Commission about the Centre State Financial relation.
2.3.3	Describe implementation of Sarkaria Commission recommendations present status.
Session – IV	
2.4.1	Project Work
Day – 3	
Session – I	
3.1.1	Explain the concept of borrowing and its impact on State Finances.
3.1.2	State the methods of public borrowing i.e. from open market, Treasury bills and Bonds.
3.1.3	Describe the Government Guarantee – and role of Government Guarantor.
3.1.4	Explain Guarantee as a contingent liability of the State Government.
Session – II	
3.2.1	Explain the role Reserve Bank of India as banker to the State Government.
3.2.2	Explain the necessity of ways and means advance in the management of State Finances.
3.2.3	Explain the cash flow in government.
Session – III	
3.3.1	Project Work
Session – IV	
3.4.1	Explain the importance of budget
3.4.2	Describe the different stages for preparation of State Budget
3.4.3	State the role of Administrative Department / Heads of the Department / Drawing & Disbursing Officer in preparation of State Budget
3.4.4	Identify the elements to be taken into account by the estimating officers

3.4.5	Describe the coding pattern and head of account of budget
3.4.6	Explain Plan Budget and Non-Plan Budget – distinguish between revenue expenditure and capital expenditure.
3.4.7	Explain the demand for grants, appropriation bill and Appropriation Act.
3.4.8	State the meaning of re-appropriation and the restrictions for doing re-appropriation
3.4.9	Explain the meaning of Supplementary Demand and the Procedure to be followed for moving proposal for Supplementary Demand
3.4.10	Explain the budget as a tool to control expenditure
3.4.11	Describe the type of proposal to be initiated for advance from the contingency fund.
3.4.12	State the different types of budget and their utility I.e. concept of line item budget, Performance budget and Zero base Budget.
3.4.13	List different types of budgetary deficits.
Day – 4	
Session – I	
4.1.1	List the main sources of Fund of the State including sources of Revenue, Loans, Grant-in-aid.
4.1.2	List the Tax and Non Tax Revenue of the State in the flip chart.
4.1.3	Explain each tax and Non Tax Revenue along with constitutional provisions.
4.1.4	Explain average contribution of each source along with constitutional provision in percentage term to the state exchequer.
4.1.5	List the revenues received by the State from Central Government sources.
4.1.6	Explain the purpose of loan for raising of the States.
Session – II	
4.2.1	Describe the methods / procedure for Additional Resource Mobilization (ARM)
4.2.2	Outline different areas where ARM is possible.
4.2.3	Explain the role of tax administration in mobilizing resources.
Session – III	
4.3.1	Explain the constitution of Finance Commission, its role, terms of reference, its recommendations and the impact of recommendation on State Finances.
4.3.2	Describe the criteria for devolution of fund from divisible pool.
4.3.3	List out the Central Taxes which form part of the divisible pool.
4.3.4	Explain in detail the share of Centre and States and also ratio of sharing between the States (as per the latest Finance Commission award).
Session – IV	
4.4.1	Describe the criteria suggesting the Government for bringing the non-plan revenue gap.
4.4.2	Explain the procedure of constitution of the calamity relief fund and its administration.
4.4.3	Explain the up-gradation grants, special problem grants, grants to urban local bodies and Panchayati Raj Institutions.

Day – 5	
Session – I	
5.1.1	State the constitution of Planning Commission and its function relating to Devolution of Plan Fund to the states.
5.1.2	Different criteria for devolution of assistance under annual and five year plan to the states.
5.1.3	Explain how the resources for Annual Plan and Five year plans are arrived at.
5.1.4	Distinguish between Earmarked sector, Non earmarked sector.
5.1.5	Describe how sectoral allocations are made.
5.1.6	Explain the funds for externally aided projects.
5.1.7	State the criteria for determining the special category States.
5.1.8	Describe how normal central assistance is distributed.
5.1.9	Explain the importance of Central Sector Schemes and Centrally Sponsored Schemes.
Session – II	
5.2.1	Explain the methods of control and management of public expenditure.
5.2.2	List the different types of public expenditure.
5.2.3	Classify the nature of public expenditure.
5.2.4	Distinguish between revenue and capital expenditure.
5.2.5	Differentiate between plan and non plan expenditure.
Session – III	
5.3.1	Explain the provision of Art. 243 – I and Art. 243- of the Constitution regarding State Finance Commission (Miscellaneous Provision) Act.
5.3.2	Describe the importance of State Finance Commission for devolution of Fund to local bodies with specific reference to 73 rd and 74 th amendment of the Constitution.
Session - IV	
5.4.1	Explain the importance of delegation of financial power in the management of State finances and the Acts/Rules framed for the purpose.
5.4.2	State the broad purposes of Contingency Manual, Financial rules, Delegation of Financial Power Rules, Treasury Rules.
5.4.3	Describe the importance of sanction in the management of State Finances. Difference between Administrative Approval and Financial Sanctions.
5.4.4	Describe the methods of drawal of fund.
5.4.5	Explain the fraudulent drawal, defalcation, misappropriation and its consequences on State Finances.
Day – 6	
Session – I	
6.1.1	Explain the constitution of Consolidated Fund, Contingency Fund and Public Accounts and the credit of Government money into those funds.

6.1.2	describe the importance of treasuries for drawal of fund
6.1.3	describe the maintenance of accounts of the State Government by the treasuries
6.1.4	Explain the non-treasury accounts.
6.1.5	state the role of Comptroller and Auditor General in maintenance of accounts.
Session – II	
6.2.1	describe the importance of audit in the management of State Finance – both CAG's Audit and internal Audit/Local Audit.
6.2.2	explain the role of Accountant General in auditing the Government Accounts
6.2.3	describe different stages of audit leading to inclusion of draft para in CAG's report.
6.2.4	explain CAG's report (i) Civil Account (ii) Commercial Accounts (iii) Revenue Receipts.
6.2.5	describe the role of Public Accounts Committee in the management of State Finance.
6.2.6	state the reason of excess drawal by the department, its consequences and how they are regularized.
Session – III	
6.3.1	Presentation of Project Report
Session – IV	
6.4.1	Presentation of Project Report

PROGRAMME SCHEDULE ON “MANAGEMENT OF STATE FINANCES”

Day	Session – I	Session – II	Session – III
1.	Registration, Course briefing & Expectancy	Normative aspect of Public Finance, Public goods and Services.	Concept of State Finance and its importance. Analytical review of present status of State Finance.
2.	Constitutional Provision regarding Management of State Finance, Union List, State List and Concurrent List, i.e. the Seventh Schedule of the Constitution.	Grants-in-aid, Reimbursement Accounts. Procedure for preferring claims.	Centre State Financial Relation-Recommendation of the Sarkaria Commissions.
3.	Concept of borrowing. Loans from open market. Treasury Bills, Bonds, Role of Government in acting as Guarantor.	Ways and Means Advances, Overdraft facilities of Reserve Bank of India, Government Guarantee. Debt Management.	Project Work
4.	Sources of State Finance. Own sources Central Government sources. Loans Tax and Non Tax Revenue	Additional Resource mobilization – Role of Tax Administration in mobilization of State Resources.	Finance Commission – Terms of reference of Finance Commission, Constitutional provision. Share from divisible Central pool.
5.	Planning Commission role in formulating and Financing of the Annual Plans and Five Year Plans, Sectoral Allocation. Centrally Sponsored Schemes – Funding for Special Category States.	Control and Management of Expenditure – different types of expenditure, Capital / Revenue, Plan / Non Plan Expenditure.	Local bodies – its Finances Role of State Finance Commission for devotion of funds to local bodies; 73 rd & 74 th in amendment of the constitution
6.	Maintenance of Accounts and its importance on State Finance. Different kinds of Government Accounts.	Importance of Audit and its impact on State Finance. Role of P.A.C. in the Management of State Finance	Presentation of Project Report.

**LEARNING EVENT
ON
MANAGEMENT OF STATE FINANCE**

E.O.	TITLE	METHODS	MEDIA O.H.P.,W.B.	PERFORM ANCE AID.	TIME
1.1	Ice Breaking Exercise	Lecture, Discussion.	O.H.P./W.B.		
1.1.1	Exercise –1				
1.1.2	Exercise –2				
1.2.1	Describe the normative aspect of public finance, public goods and services.	Lecture, Discussion.	O.H.P./W.B.		
1.3.1	Explain the concept and importance of State Finances.	Lecture, Discussion.	O.H.P./W.B.		
1.3.2	Describe the present Status of State Finances.	Lecture, Discussion.	O.H.P./W.B.		
1.3.3	Identify the symptoms, which indicate financial stress faced at present by the States.	Lecture, Discussion.	O.H.P./W.B.		
1.3.4	List the Constitutional provisions relating to State Finances – both revenues and expenditure	Lecture, Discussion.	O.H.P./W.B.		
1.3.5	Identify the reasons, which had resulted in the present day situations.	Lecture, Discussion.	O.H.P./W.B.		
	Exercise – 3				
1.4.1	Prepare draft memorandum / financial proposals for the department seeking funds.	Discussion			
	Exercise – 4	Lecture, Discussion.	O.H.P./W.B.		
2.1.1	Explain the different Constitutional Provisions relating to State Finances and how they are being used in practice for management of Finances.	Lecture, Discussion.	O.H.P./W.B.		
2.1.2	Explain how does the Constitution empower / restrict the State Government in management and control of its own finances.	Lecture, Discussion.	O.H.P./W.B.		
2.1.3	Explain to what extent State Government is dependent on the Central Government.	Lecture, Discussion.	O.H.P./W.B.		
2.1.4	Explain the importance of Union List / State List /Concurrent List.	Lecture, Discussion.	O.H.P./W.B.		
2.2.1	Explain the principle governing the	Lecture,	O.H.P./W.B.		

	Grants-in-aid.	Discussion.			
2.2.2	List the organizations institutions entitled to get the Grants-in-aid.	Lecture, Discussion.	O.H.P./W.B.		
2.2.3	List the different conditions of awarding Grants-in-aid.	Lecture, Discussion.	O.H.P./W.B.		
2.2.4	Explain the procedure for claims for reimbursement of expenditure incurred by the State in connection with security related matters.	Lecture, Discussion.	O.H.P./W.B.		
2.2.5	Describe the utility of utilization certificate in getting Grants-in Aid.	Lecture, Discussion.	O.H.P./W.B.		
2.3.1	Describe the Constitutional Provisions about the Centre State Financial relation with special reference to management of State Finances.	Lecture, Discussion.			
2.3.2	List the recommendation of Sarkaria Commission about the Centre State Financial relation.	Lecture, Discussion.			
2.3.3	Describe implementation of Sarkaria Commission recommendation and its present status.	Lecture, Discussion.			
2.4.1	Prepare draft memorandum / financial proposals for the department seeking funds.	Discussion.			
3.1.1	Explain the concept of borrowing and its impact on State.	Lecture, Discussion.	O.H.P./W.B.		
3.1.2	State the methods of Public borrowing i.e. from open market, Treasury bills and Bonds.	Lecture, Discussion.	O.H.P./W.B.		
3.1.3	Describe the Government Guarantee – and role of Government Guarantor.	Lecture, Discussion.	O.H.P./W.B.		
3.1.4	Explain Guarantee as a contingent liability of the State Government.	Lecture, Discussion.	O.H.P./W.B.		
3.2.1	Explain the role Reserve Bank of India banker to the State Government.	Lecture, Discussion.	O.H.P./W.B.		
3.2.2	Explain the necessity of ways and means advance in the management of State Finances.	Lecture, Discussion.	O.H.P./W.B.		
3.2.3	Finances and Rules governing its administration	Lecture, Discussion.	O.H.P./W.B.		
3.2.4	Explain the cash flow in government.	Lecture, Discussion.	O.H.P./W.B.		
3.2.5	Explain the overdraft facility to the State Government	Lecture, Discussion.	O.H.P./W.B.		
3.3.1	Prepare reports on some selected	Discussion.			

	topics relating to State Finances				
3.4.1	Explain the importance of Budget	Lecture, Discussion.	O.H.P./W.B.		
3.4.2	Describe the different stages for preparation of State Budget	Lecture, Discussion.	O.H.P./W.B.		
3.4.3	State the role of Administrative Department / Heads of the Department / Drawing & Disbursing Officer in preparation of State Budget	Lecture, Discussion.	O.H.P./W.B.		
3.4.4	Identify the elements to be taken into accounts by the estimating officer	Lecture, Discussion.	O.H.P./W.B.		
3.4.5	Describe the Coding Pattern and head of account of budget	Lecture, Discussion.	O.H.P./W.B.		
3.4.6	Explain the Plan Budget and Non-Plan Budget – Distinguish between revenue expenditure and capital expenditure	Lecture, Discussion.	O.H.P./W.B.		
3.4.7	Explain the demand for grants, appropriation bill and Appropriation Act	Lecture, Discussion.	O.H.P./W.B.		
3.4.8	State the meaning of re-appropriation and the restrictions for doing re-appropriation	Lecture, Discussion.	O.H.P./W.B.		
3.4.9	Explain the meaning of Supplementary Demand and the Procedure to be followed for moving proposal for Supplementary Demand	Lecture, Discussion.	O.H.P./W.B.		
3.4.10	Explain the budget as a tool of control the expenditure	Lecture, Discussion.	O.H.P./W.B.		
3.4.11	Describe the type of proposal to be initiated for advance from the contingency fund	Lecture, Discussion.	O.H.P./W.B.		
3.4.12	State the different types of budget and their utility i.e. concept of line item budget, Performance budget and Zero based Budget.	Lecture, Discussion.	O.H.P./W.B.		
3.4.13	List different types of budgetary deficits.	Lecture, Discussion.	O.H.P./W.B.		
4.1.1	List the main sources of fund of the State including sources of Revenue, Loans, Grant-in-aid.	Lecture, Discussion.	O.H.P./W.B.		
4.1.2	List the tax and non tax revenue of the state in the flip chart,	Lecture, Discussion.	O.H.P./W.B.		
4.1.3	Explain each tax and non-tax revenue along with Constitutional provisions.	Lecture, Discussion.	O.H.P./W.B.		
4.1.4	Explain average contribution of each source along with Constitutional provision in percentage term to the state exchequer.	Lecture, Discussion.	O.H.P./W.B.		
4.1.5	List the revenues received by the State from Central Government sources.	Lecture, Discussion.	O.H.P./W.B.		
4.1.6	Explain the purpose of loan for raising	Lecture,	O.H.P./W.B.		

	revenues of the States	Discussion.			
4.2.1	Describe the methods / procedure for additional resource mobilization (ARM)	Lecture, Discussion.	O.H.P./W.B.		
4.2.2	Outline different areas where ARM is possible.	Lecture, Discussion.	O.H.P./W.B.		
4.2.3	Explain the role of tax administration in mobilizing resources.	Lecture, Discussion.	O.H.P./W.B.		
4.3.1	Explain the constitution of Finance Commission, its role, terms of reference, its recommendations and the impact of recommendation on State Finances.	Lecture, Discussion.	O.H.P./W.B.		
4.3.2	Describe the criteria for devolution of fund from divisible pool.	Lecture, Discussion.	O.H.P./W.B.		
4.3.3	List out the Central Taxes which form part of the divisible pool.	Lecture, Discussion.	O.H.P./W.B.		
4.3.4	Explain in detail the share of Centre and States and also ratio of sharing between the States (as per the latest Finance Commission award).	Lecture, Discussion.	O.H.P./W.B.		
4.4.1	Describe the criteria suggesting the Government for bridging the non plan revenue gap..	Lecture, Discussion.	O.H.P./W.B.		
4.4.2	Explain the procedure of constitution of the Calamity relief fund and its administration.	Lecture, Discussion.	O.H.P./W.B.		
4.4.3	Explain the up-gradation grants, special problem grants, grants to urban local bodies and Panchayati Raj Institution	Lecture, Discussion.	O.H.P./W.B.		
5.1.1	State the constitution of Planning Commission and its function relating to devolution of Plan Fund to the states.	Lecture, Discussion.	O.H.P./W.B.		
5.1.2	Different criteria for devolution of assistance under annual and five year plan to the states.	Lecture, Discussion.	O.H.P./W.B.		
5.1.3	Explain how the resources figure for Annual Plan and Five-year plans are arrived at.	Lecture, Discussion.	O.H.P./W.B.		
5.1.4	Distinguish between Earmarked sector, Non earmarked sector.	Lecture, Discussion.	O.H.P./W.B.		
5.1.5	Describe how sectoral allocations are made.	Lecture, Discussion.	O.H.P./W.B.		
5.1.6	Explain the funds for externally aided projects.	Lecture, Discussion.	O.H.P./W.B.		

5.1.7	State the criteria for determining the Special Category States.	Lecture, Discussion.	O.H.P./W.B.		
5.1.8	Describe how normal central assistance is distributed.	Lecture, Discussion.	O.H.P./W.B.		
5.1.9	Explain the importance of Central Sector Schemes and Centrally Sponsored Schemes.	Lecture, Discussion.	O.H.P./W.B.		
5.2.1	Explain the methods of control and management of public expenditure.	Lecture, Discussion.	O.H.P./W.B.		
5.2.2	List the different types of public expenditure.	Lecture, Discussion.	O.H.P./W.B.		
5.2.3	Classify the nature of public expenditure.	Lecture, Discussion.	O.H.P./W.B.		
5.2.4	Distinguish between revenue and capital expenditure.	Lecture, Discussion.	O.H.P./W.B.		
5.2.5	Differentiate between plan and non plan expenditure.	Lecture, Discussion.	O.H.P./W.B.		
5.3.1	Explain the provision of Art. 243 – I and Art. 243- of the Constitution regarding the State Finance Commission (Miscellaneous Provision) Act.	Lecture, Discussion.	O.H.P./W.B.		
5.3.2	Describe the importance of State Finance Commission for devolution of Fund to local bodies with specific reference to 73 rd and 74 th amendment of the Constitution.	Lecture, Discussion.	O.H.P./W.B.		
5.4.1	Explain the importance of delegation of financial power in the management of State finances and the Acts/Rules framed for the purpose.	Lecture, Discussion.	O.H.P./W.B.		
5.4.2	State the broad purposes of Contingency Manual, Financial rules, Delegation of Financial Power Rules, Treasury Rules.	Lecture, Discussion.	O.H.P./W.B.		
5.4.3	Describe the importance of sanction in the management of State Finances. Difference between Administrative Approval and Financial Sanctions.	Lecture, Discussion.	O.H.P./W.B.		
5.4.4	Describe the methods of drawal of fund	Lecture, Discussion.	O.H.P./W.B.		
5.4.5	Explain the fraudulent drawal, defalcation, misappropriation and its consequences on State Finances.	Lecture, Discussion.	O.H.P./W.B.		

6.1.1	Explain the constitution of Consolidated Fund, Contingency Fund and Public Accounts and the credit of Government money's into those fund.	Lecture, Discussion.	O.H.P./W.B.		
6.1.2	Describe / explain the importance of treasuries for drawal of funds	Lecture, Discussion.	O.H.P./W.B.		
6.1.3	Describe the maintenance of accounts of the State Government by the treasuries	Lecture, Discussion.	O.H.P./W.B.		
6.1.4	Explain the non-treasury accounts.	Lecture, Discussion.	O.H.P./W.B.		
6.1.5	State the role of Comptroller and Auditor General in maintenance of Accounts.	Lecture, Discussion.	O.H.P./W.B.		
6.2.1	Describe the importance of Audit in the management of State Finance – both CAG's Audit and internal Audit/Local Audit.	Lecture, Discussion.	O.H.P./W.B.		
6.2.2	Explain the Role of Accountant General in auditing the Government Accounts	Lecture, Discussion.	O.H.P./W.B.		
6.2.3	Describe different stages of Audit leading to the inclusion of draft para in CAG's report.	Lecture, Discussion.	O.H.P./W.B.		
6.2.4	Explain CAG's report (i) Civil Account (ii) Commercial Accounts (iii) Revenue Receipts.	Lecture, Discussion.	O.H.P./W.B.		
6.2.5	Describe the role of Public Accounts Committee in the management of State Finance.	Lecture, Discussion.	O.H.P./W.B.		
6.2.6	State the reason of excess drawal by the department, its consequences and how they are regularized.	Lecture, Discussion.	O.H.P./W.B.		
6.3.1	Prepare draft memorandum / financial proposals for the department seeking funds.				
6.4.1	Present proposals				

COURSE DESIGN
& MODULE
ON
MANAGEMENT OF
STATE
FINANCES

Developed by

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Chairman,
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**Developed by Assam Administrative Staff College,
Jawaharnagar, Guwahati.**

**In collaboration with
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Acknowledgement

The design and course module of State Finances has been sponsored by the Department of Personnel & Training, Training Division, Government of India, New Delhi under the UNDP Programme and given to Assam Administrative Staff College, Guwahati. I was appointed the Anchor Person when I was working as Joint Director of Training, Assam Administrative Staff College and Sri S.C. Das, IAS, Former Commissioner & Secretary to the Government of Assam, Finance Department and now Commissioner & Secretary to the Government of Assam, Industries & Commerce etc. Department, Dispur the Associate. Utmost effort have been made to make the module an effective one and topics have been incorporated taking into account its utility. I am getting immense help and guidance from Sri S.C. Das, IAS in giving the module a proper shape.

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Any suggestion for the improvement of the module will be gladly accepted and appreciated.

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Dated

(M.U. Ahmed, IAS)
Joint Secretary to the Government
of Assam, Finance Department,
& Anchor Person
(Ex-Joint Director of Training, AASC)

COURSE DESIGN ON MANAGEMENT OF STATE FINANCES

By Shri M.U. Ahmed,
Joint Director of Training,
AASC.

Introduction :

Government is entrusted with a number of responsibilities. It requires fund to carry out these responsibilities to the Union Government and the State Government. Similarly, the Constitution has made provisions for raising finances by the State Governments as well as by the Union Government. It is observed that the responsibilities given to the State are much more compared to the resources provided by the Constitution. In this context, the effective management of the State finances becomes very pertinent for smooth discharge of responsibilities of the State Government. The strain on the State finances has also increased due to the number of developmental activities that have been taken by the State Governments. Of late, it has been observed that most of the State Government are facing serious financial crisis. Prima facie, it appears that such a situation has resulted because of lack of effective management of the State Finances in the last two decades.

Within the State Government the Finance Department is responsible for management of the State Finances. But, different departments and the other senior functionaries of the government take decisions, which has a bearing on the State Finances.

Training Need :

It has been observed that many senior functionaries of the State Government are not aware about various aspects of the State Finances. Therefore, there is urgent need for training of senior officers of the State Government in Management of State Finances

Aim :

With such training these officers will be better equipped to take decisions with financial implications and indirectly contribute towards effective management of the State Finances.

Performance Problem: -

The performance problem, therefore, is that the officers of the administrative department in government right from Under Secretary to the Government upto the Secretary to the Government are facing difficulties in managing in financial matters because of lack of knowledge and skills in financial management.

Duration: 5days

Target Group: Under Secretaries, Deputy Secretaries, Joint Secretaries and Secretaries to the Government, Heads of Departments , Joints Heads of Departments, District Heads of the Departments and AFS Officers.

Entry Behavior: Heterogeneous educational background and difference in nature of works in different departments. With varied service experience care is to be taken to provide special coaching facility to lack those who experience and also to protect the interest of the seniors.

Constraints: Participants cannot be deployed more than a week for training as their presence at head quarter is imperative.

Training Cost: Not taken into account since benefit is much more greater.

Benefits:

- Make the officers aware the different aspect of state finances.
- The officers will be able to utilize / allocate scarce resources properly.
- Will be better equipped to take decisions with financial implications by keeping the over all scenario of state finances in mind.
- The officers will be able to effect economy in Government expenditure.
- This will inculcate financial discipline among the trained officers.

Performance Objectives: At the end of the training programme the participants will be able to make themselves aware about different aspects of State Finances.

Training Objectives: At the end of the training programme the participants will be able describe the different methods and ways of management of state finances.

Detail Day Wise Training Programme:

Day - 1

CONTENT

- 1.1 Registration – Course Briefing and Expectancy.
- 1.2 Normative aspect of public finance and, public goods and services.
- 1.3 Concept of State Finance and its importance.
- 1.4 Analytical review of the present status of State Finance.
- 1.5 Group Works / Formation of groups. Allotment of topic for group activity.
- 1.6 Constitutional Provision regarding management of State Finance.
- 1.7 Union List, State List and Concurrent List i.e. Seventh Schedule of the Constitution.

Objectives: At the end of these sessions the participants will be able to :-

- 1.2.1 Describe the normative aspect of public finance, public goods and services.
- 1.3.1 Explain the concept and importance of State Finance.
- 1.4.1 Describe the present status of State Finances.
- 1.4.2 Identify the symptoms which indicate financial stress faced at present by the States.
- 1.5.1 List the Constitutional provisions relating to State Finances – both revenues and expenditure.
- 1.5.2 Identify the reasons which has resulted in the present day situations.

DAY - II

CONTENTS

- 2.1 Constitutional Provision regarding Management of State Finance. Union List, State List and Concurrent List i.e. Seventh Schedules of the Constitution.**
- 2.2 Grants-in-aid, Reimbursement Accounts, Procedure for preferring Claims.**
- 2.3 Centre State Financial Relation-Recommendation of the Sarkaria Commission.**
- 2.4 Project Work.**

Objectives: At the end of these sessions the participants will be able to :-

- 2.1.1 Explain the different Constitutional provisions relating to state Finances and how they are being used in practice for management of Finances.
- 2.1.2 Explain how does the constitution empower / restricts the State Government in management and control of its own finances.
- 2.1.3 Explain to what extent State Government are dependent on the Central Government.
- 2.1.4 Explain the importance of Union List / State List / Concurrent List.
- 2.2.1 Explain the principle governing the Grants-in-aid.
- 2.2.2 List the organizations institutions entitled to get the Grants-in-aid.
- 2.2.3 List the different conditions of awarding Grants-in-aid.
- 2.2.4 Explain the procedure for claims for reimbursement of expenditure incurred by the State in connection with security related matters.
- 2.2.5 Describe the utility of utilization certificates in getting Grants-in-aid.
- 2.3.1 Describe the Constitutional Provision about the Centre State financial relation with special reference to management of State Finance.
- 2.3.2 List the recommendation of Sarkaria Commission about the Centre State Financial relation.
- 2.3.3 Describe implementation of Sarkaria Commission recommendation – present status.

DAY – III

CONTENTS

- 3.1 **Concept of borrowing, Loans from open market. Treasury Bills, Bonds, Role of Government in acting as Guarantor.**
- 3.2 **Ways and Means Advance, Overdraft facilities of Reserve Bank of India, Loans from Reserve Bank of India. Government Guarantee Debt Management.**
- 3.3 **Project Work**
- 3.4 **Preparation of State Budget. Role of Budget in regulating Public Expenditure.**

Objectives: *At the end of these sessions the participant will be able to: -*

- 3.1.1 Explain the concept of borrowing and its impact on state.
- 3.1.2 State the methods of Public Borrowing i.e. open market, Treasury Bills and Bonds.
- 3.1.3 Describe the Government Guarantee – and role of Government Guarantor.

- 3.1.4 Explain Guarantee as a contingent liability of the State Government.
- 3.2.1 Explain the role of Reserve Bank of India in State Finance as banker to the State Government
- 3.2.2 Explain the necessity of ways and means advance in the management of State Finances and rules governing in government.
- 3.2.3 Explain the cash flow in government.
- 3.2.4 Explain the overdraft facility to the State Government.
- 3.3.1 Prepare reports on some selected topics relating to State Finances.
- 3.4.1 Explain the importance of Budget.
- 3.4.2 Describe the different stages for preparation of State Budget.
- 3.4.3 State the role of Administrative Department / Heads of the Department / Drawing & Disbursing Officer in preparation of State Budget.
- 3.4.4 Identify the elements to be taken into account by the estimating officer.
- 3.4.5 Describe the Coding Pattern and Head of Account of Budget.
- 3.4.6 Explain the Plan Budget and Non-Plan Budget – Distinguish between revenue expenditure and capital expenditure.
- 3.4.7 Explain the demand for grants, Appropriation Bill and Appropriation Act.
- 3.4.8 State the meaning of re-appropriation and the restrictions for doing re-appropriation.
- 3.4.9 State the meaning of Supplementary Demand and the Procedure to be followed for moving proposal for Supplementary Demand.
- 3.4.10 Explain the budget as a tool of control the expenditure.
- 3.4.11 Describe the type of proposal to be initiated for advance from the contingency fund.
- 3.4.12 State the different types of budget and their utility i.e. concept of line item budget, Performance Budget and Zero based Budget.
- 3.4.13 List different types of budgetary deficits.

DAY – IV

CONTENTS

- 4.1 Sources of the State Finances, Own sources, Central Government Sources, Loans Tax and Non-Tax Revenue.**
- 4.2 Additional Resource Mobilization – Role of Tax Administration in Mobilization of State Resources.**
- 4.3 Finance Commission – Terms of reference, Constitutional Provision. Share from Divisible Central Pool.**
- 4.4 Role of Finance Commission in meeting Non-Plan Revenue gap of states including the assistance for natural calamity – Upgradation grants – Grants to Urban Local Bodies / Panchayati Raj Institutions.**

Objectives: *At the end of these sessions the participant will be able to: -*

- 4.1.1 List the main sources of Fund of the State including sources of Revenue, Loans and Grants-in-aid.
- 4.1.2 List the Tax and Non-Tax Revenue of the state in the flip chart.

- 4.1.3 Explain each Tax and Non-Tax Revenue along with constitutional provisions.
- 4.1.4 Explain average contribution of each source along with Constitution provision in percentage term to the state exchequer.
- 4.1.5 List the revenues received by the State from Central Government sources.
- 4.1.6 Explain the purpose of loan for raising revenues of the state.

- 4.2.1 Describe the methods / procedure for additional resource mobilization (ARM)
- 4.2.2 Outline different areas where ARM is possible.
- 4.2.3 Explain the role of Tax Administration in mobilization resources.
- 4.3.1 Explain the constitution of Finance Commission, its role, terms of reference, its recommendations and the impact of recommendation on State Finances.
- 4.3.2 Describe the criteria for devolution of fund from divisible central pool.
- 4.3.3 List out the Central Taxes, which form part of the divisible pool.
- 4.3.4 Explain in detail the share of Centre and States and also ratio of sharing between the States (as per Finance Commission award).
- 4.4.1 Describe the criteria suggesting the Government for bridging the Non-Plan Revenue gap.
- 4.4.2 Explain the procedure of constitution of the Calamity relief fund and its administration.
- 4.4.3 Explain the up-gradation grants, special problem grants, grants to urban local bodies and Panchayati Raj Institutions.

DAY – V

CONTENTS

- 5.1 Planning Commission’s role in formulating and Financing of the Annual Plans and Five Year Plans. Sectoral Allocation Centrally Sponsored Schemes – Funding for Special Category States.**
- 5.2 Control and Management of Expenditure – different types of expenditure. Capital / Revenue, Plan / Non-Plan Expenditure.**
- 5.3 Local Bodies – Its Finances, Role of State Finance Commission for Devolution of Funds to Local Bodies 73rd and 74th Amendment of the Constitution.**
- 5.4 Delegation of Financial Power to subordinates officers. Preparation of proposal sanction. Fraudulent drawal Mis-appropriation, defalcation and losses.**

Objectives: *At the end of these sessions the participant will be able to: -*

- 5.1.1 State the constitution of Planning Commission and its function relating to devolution of Plan Fund to the states.
- 5.1.2 Different criteria for devolution of assistance under annual and five year plan to the states.
- 5.1.3 Explain how the resources for Annual Plan and Five year plans are arrived at.
- 5.1.4 Distinguish between Earmarked sector, Non earmarked sector.

- 5.1.6 Describe how sectoral allocations are made.
- 5.1.7 Explain the funds for externally aided projects.
- 5.1.8 State the criteria for determining the special category States.
- 5.1.9 Describe how normal central assistance is distributed.
- 5.1.10 Explain the importance of Central Sector Schemes and Centrally Sponsored Schemes.
- 5.2.1 Explain the methods of control and management of Public Expenditure.
- 5.2.2 List the different types of public expenditure.
- 5.2.3 Classify the nature of public expenditure.
- 5.2.4 Distinguish between revenue and capital expenditure.
- 5.2.5 Differentiate between plan and non plan expenditure.
- 5.3.1 Explain the methods of control and management of Public Expenditure.
- 5.3.2 List the different types of public expenditure.
- 5.3.3 classify the nature of public expenditure.
- 5.3.4 distinguish between revenue and capital expenditure.
- 5.3.5 differentiate between plan and non plan expenditure.
- 5.4.1 Explain the importance of delegation of financial power in the management of State finances and the Acts/Rules framed for the purpose.
- 5.4.2 State the broad purposes of contingency Manual, Financial rules, Delegation of Financial Power Rules, Treasury Rules.
- 5.4.3 Describe the importance of sanction in the management of State Finances; difference between Administrative Approval and Financial Sanctions.
- 5.4.4 Describe the methods of drawal of fund.
- 5.4.5 Explain the fraudulent drawl, defalcation, misappropriation and its consequences on State Finances.

DAY – VI

CONTENTS

- 6.1 Maintenance of Accounts and its importance on State Finance. Different kinds of Government Accounts.**
- 6.2 Importance of Audit and its impact on State Finance. Role of Public Accounts Committee (PAC) in the Management of State Finances.**

Objectives: *At the end of these sessions the participant will be able to: -*

- 6.1.1 Explain the constitution of Consolidated Fund, Contingency Fund and Public Accounts and the credit of Government money's into those fund.
- 6.1.2 Describe / explain the importance of treasuries for drawal of funds
- 6.1.3 Describe the maintenance of accounts of the State Government by the treasuries
- 6.1.4 Explain the non-treasury accounts.
- 6.1.5 State the role of Comptroller and Auditor General in maintenance of Accounts.
- 6.2.1 Describe the importance of Audit in the management of State Finance – both CAG's Audit and internal Audit/Local Audit.
- 6.2.2 Explain the Role of Accountant General in auditing the Government Accounts
- 6.2.3 Describe different stages of Audit leading to inclusion of draft para in CAG's report.

- 6.2.4 Explain CAG's report (i) Civil Account (ii) Commercial Accounts (iii) Revenue Receipts.
- 6.2.5 Describe the role of Public Accounts Committee in the management of State Finance.
- 6.2.6 State the reason of excess drawal by the department, its consequences and how they are regularized.

COURSE MODULE ON MANAGEMENT OF STATE FINANCES

By Shri M.U. Ahmed,
Joint Director of Training, AASC.

Day -1

The first day will focus on concept of state finance its importance, analytical review, different sources of state revenues, its constitutional provision for effective management and streamlining the different functioning organs of the government within its policy

This type of training programme specially by involving the Senior and middle level officers who are engaged in day today managing the finances of the state, will throw up many issues during the course of discussion in the class room/session.

The first day will mainly focus on the importance of State Finance, present status and will out line the reasons, which has resulted in the present situation.

1.0 Session – I

Inauguration, Course briefing and Expectancy.

The introduction should include,

- a) Importance of training on management of state finance.
- b) Why management of State Finance is necessary when there are Codified Acts, Rules, and Guidelines about the receipt as well as incurring of expenditure.
- c) Introducing the training module and team facilitators
- d) Training Logistics.

1.1 Ice breaking exercise

The objective of the ice breaking exercise is to

- (a) Remove inhibitions of the participants.
- (b) understand their hopes and expectations from the training.

1.1.1 Exercise – 1

Method

The participants will be provided with some of the data/ recommendations of the Fiscal Reforms Committees, Expenditure Reforms Committees, Reserve Bank of India monthly bulletin of February – State Finances Supplement, White paper on State finances of few states like Punjab, Himachal Pradesh, Madhya Pradesh, Andhra Pradesh, and Assam, recommendations of the Finance Commissions and they will go

through it and thereafter they will discuss amongst themselves to have a glimpse about the present financial scenario of the state as well as its management techniques in practice.

1.1.2 Exercise – 2

Hopes and expectations

Flip charts will be provided in the classroom enabling the participants to list out their hopes and expectations. For more focused inputs, certain specific questions may be included in this exercise so that this becomes the basis for a “**spot needs assessment**”. The facilitators/facilitating teams hopes and fears also to be listed.

The facilitator’s rounds up the session by mentioning ground rules for the training which includes.

- **Maintaining timings.**
- **Participation good and active.**
- **Listening while others are speaking**
- **Avoidance of personal remarks etc.**

Session - II

1.2 Normative aspect of Public Finance, Public goods and Services.

Objective :

1.2.1 Describe the normative aspect of public finance, public goods and services.

Methods :

Lecture and discussion by using OHP/ White Board.

The session begins with explaining the contents of normative theory. The activities of the government and the economic policy or principles that make for efficient conduct of public budget are the concerns of what is called public finance. Explain the optimal budget plan, its importance and the basis on which the optimal budget plan is formulated, and how to achieve it. From that the participants will be able to understand how the market reacts to the budgetary policy i.e. the various tax expenditure policies so that they can choose that policy which would bring optimal results. The participants will be told how to differentiate the normative approach from real world situation, which does not always go by ‘norms’ or ideals. This will help them to develop a principle for ideal allocation of resources or ideal distribution of income, which the tax expenditure programmes of Government should strive to achieve. It may not be possible to achieve the ideals. Objective fully, but the nearer to the goal the better it is. Through comparison

and contrast the participants can know to what extent and why the 'norms' is realized and suggest corrective action to remove the defects Normative module is not designed to be realistic in the sense of describing what really goes on in the capitals of the world, but it is designed to show what would go on to this could be followed. Thus the normative approach to public finance is essential to the budget planner.

Facilitators Note :

- The facilitator will have to enlighten the participants about the normative ideals which can be achieved through budget plan.
- Public goods and services, allocative, Distributional and stabilization objective be explained.
- What allocation is about?
 - Definition of public goods.
- Collective consumption as distinguished from joint consumption.
- Condition for optimum allocation.
- Market imperfection and government interference.
- Occasion for allocation adjustment.
- Revelation preference
- Political process of voting and choice pattern.
- Supply of public goods and processing policy.

It is possible that people can reveal choice pattern if they so want.

Characteristics of Public Goods.

Types of Public Goods.

**NB : Reading materials at Chapter - 1
Session – III**

1.3 Concept of State Finance and its importance. Analytical review of the present status of State Finance.

Objectives

At the end of the session the participants will be able to

- 1.3.1 Explain the concept and importance of State Finance.
- 1.3.2 Describe the present status of State Finances.
- 1.3.3 Identify the symptoms which indicate financial stress faced at present by the States.
- 1.3.4 list the Constitutional provisions relating to State Finances – both revenues and expenditure.
- 1.3.5 Identify the reasons which have resulted in the present day situations.

Exercise – 3

The participants will be told about the concept of state finance and its importance giving some background history of finance under the **Crown**. The sources from where revenue were realized by the

Kings as well as their utilization and realization of revenues by the government after independence enabling them to make a comparative study. Also, give them the idea about the present status of State Finances. The participants will be asked to differentiate the following:

- a) the concept of finances of king / British Government
- b) the concept of finances in the democratic/federal set up.
- c) status of finances before and after independence
- d) state finances since late eighties and the present status.

Resource Persons / Facilitators Note

The facilitators will list out the findings of the participants on a flip chart under three separate heads –

- Knowledge, skills and attitude about the management of state Finance
- The Resource Persons / Facilitators must keep questioning the participants trying to elicit / extract more response. The purpose is to guide the participants towards a perception change. The questioning can also involve a livelier open house discussion.
- The facilitators will consolidate the presentation made by different participants on the basis of the listing on chart paper and conclude the session by providing clear, conceptual picture about the finances.

NB : Reading materials at Chapter – 2 & 3

Session – IV Group works, Formation of groups. Allotment of topic for group activity

Objectives: At the end of this session the participant will be able to:

- 1.4.1 Prepare draft memorandum / financial proposals for the department seeking funds.
- 1.4.2 Present proposals

BRIEF FOR THE SESSION

Participants will be explained about the importance of group activity in the training scenario. They will also be talked to how to begin with the work. Since the module itself is Management of State Finance and they are the senior level functionaries of the state directly linked with the Policy making process of the Government has a role to play in it. Accordingly, they split into smaller groups and each group will be assigned a topic which has a bearing on the state finances and around there to prepare a project

report / memorandum. For preparation of their project report / memorandum they will be provided with the help and guidance of the facilitators who will guide them for proper preparation of the report. The completed report will have to be presented before a panel of expert in-presence of the participants wherein everybody will have the opportunity of reaching the same / give feedback and the formulation of the report will have to give reply / clarifications when necessary.

In the training scenario group activity has a very important role in the learning process and taking into amount the above aspect the project work / activity is kept in the module.

Facilitator's note

- I explain how to begin with the work
- II how to chronologically arranged the facts
- III importance data to be incorporated

Day - 2

SESSION – I

2.2 Constitutional Provision regarding Management of State Finance. Union List, State List and Concurrent List i.e. Seventh Schedule of the Constitution.

OBJECTIVES

At the end of the session the participants will be able to :-

- 2.2.1 Explain the different Constitutional provisions relating to state finances and how they are being used in practice for management of finances.
- 2.2.2 Explain how the Constitution empower / restricts the State Government in management and control of its own finances.
- 2.2.3 Explain to what extents State Government are dependently on the Central Government.
- 2.2.4 Explain the importance of Union list/State List /concurrent List

Method Discussion in large group with the aid of O.H.P. W.B.

Brief for the session

The facilitator will first state and explain about the relevant Articles of the Indian Constitution where there is explicit mentioning about the finances. Further the facilitator will also explain in details, which of the Articles are related to imposition of tax/mobilization of resources, centre - state financial relation.

Exercise – 4

The facilitator will give a handout to the participants mentioning the Articles of the Constitution but without mentioning the respective content which relates to what. Ask them for the answers in quick succession with correct answers and convince those with wrong answers, wrap up with O.H.P.

Statements showing the assistance provided by the Central Government to meet the non-plan revenue gap as well as fund released for calamity/natural disaster during the past 2 – 5 years.

- Total non– plan revenue realized by the state as well as total non plan revenue expenditure of the state.
- Target for the non – plan revenue and the amount of revenue actually realized.
- Shortfall and its reasons.
- State’s demand to Finance Commission and the award thereon by the Commission.
- Projection of demand and their basis.

Facilitators Note

Wrap up the day by mentioning the highlights, which will include: -

- The provisions of the Constitution relating to the State Finances – to what extent these have been utilized by the State Government and have been benefited by these provisions or legislation flowing out of it.
- Provisions, which are yet to be used by, centre for benefit of the State Government Revenue.
- To what extent Acts/rules passed have been effectively implemented to manage State Finances.
- To / discuss about the importance of keeping a separate schedule for administering nation.

NB : Reading materials at Chapter – 4

Session – II

2.2 Grants-in-aids, Reimbursement Accounts, Procedure for preferring claims.

Objectives: At the end of the session, the participants will be able to:

- 2.2.1 Explain the principle governing the Grants-in-aid.
- 2.2.2 List the organizations institutions entitled to get the Grants-in-aid.
- 2.2.3 List the different conditions of awarding Grants-in-aid.
- 2.2.4 Explain the procedure for claims for reimbursement.
- 2.2.5 Explain the importance of utilization certificate.

Methods Lecture & Discussions

Brief for the Session

The general principle of Grants-in-aid is that it can be given to a person or a public body or an institutions having legal status of its own. Grants-in-aid including scholarships may be sanctioned by an authority competent to do so as per the delegation and the same is paid from the Consolidated Fund of the State. The following types of organizations institutions are entitled to get the grants-in-aid.

1. Institutions / organizations set up by government as autonomous bodies either under statute or as a society registered under the Societies Registration Act, 1860 or otherwise.
2. Voluntary organizations having state character / all India character which satisfy certain well defined criteria regarding their resources, activities and personal and their activities help promote the welfare schemes and the programme of the government. However, administrative department may make exceptions in highly deserving isolated organizations whose credibility and ability to achieve social objectives is accepted.
3. Educational and other institutions by way of scholarships, stipends to the students, local bodies and co-operative societies.
4. The government servant to promote amongst themselves social, cultural and sports activities as measures of vocational avenue.

Role of government for proper utilization of the grants-in-aid i.e. the government right to nominate each representatives on granting institutions.

Grants-in-aid may be sanctioned to meet the expenditure already incurred not earlier than a year prior to the date of the issue of sanction.

Facilitators Note: -

The facilitator will explain the provisions and entitlement of grants-in-aid by the organizations who requires to fulfill certain conditions to get the same.

The facilitator will explain about the grants-in-aid for general purposes and for specific purposes.

Facilitator will explain the institutions / body-seeking grants-in-aid from the government required to apply for the same and will explain the different documents to be enclosed along with the applications.

Facilitator will explain the importance of proper maintenance of different records of accounts including the utilization certificate.

Necessity of budget provision for sanction of grants-in-aid.

To make claim for reimbursement as per the prescribed proforma without any deviation.

The facilitator will explain the different acts and rules governing the grants-in-aid.

NB : Reading materials at Chapter – 5

Session – III

2.2 Centre State Financial Relation – Recommendation of the Sarkaria Commission.

Objectives : At the end of this session the participant will be able to :

- 2.2.1 Describe the constitutional Provision about the Centre State financial relation with special reference to management of State Finance.
- 2.2.2 List the recommendation of Sarkaria Commission about the Centre State Financial relation.
- 2.2.3 Describe implementation of Sarkaria Commission recommendation – present status.

Methods :-

Lecture and discussion by using OHP.

Brief for the Session

List out the important Articles of the Constitution of India wherein there is mention about the finances for the nation as well as for the states. Also state what it contains in each of the provision right from imposition of taxes, preparation of budget, maintenance of Accounts, devolution of fund, taking of loan both by Central Government as well as by State Government both from internal as well as from external agencies including the International Monetary Fund, World Bank etc. audit having regard to Central State financial relation. Also list out the important recommendations made by Justice R.S. Sarkaria about the Centre State Financial Relation. Point by point it should be discussed to the participants understand its implications and importance and find out why when everything is narrated in the Constitution a Commission like Sarkaria Commission was found to be necessary to suggest / recommended Government on Centre State financial relation for effective financial management.

Facilitators Note: -

- The facilitator will
- Highlight the nature of the federation as well as federal set up.
- Discussion on legislative, administrative and financial relations between the Centre and the constituent states.
- Part XI and Part – XII of the Constitution of India
- Discussion on Union list, State list and Concurrent list .
- Sarkaria Commission's report of 1987.
- Sarkaria Commission's recommendation about the Centre – State financial relation.

- Art. 280 of the Constitution – Constitution of Finance Commission.
- Sharing of resources between the centre and the state, Calamity Relief Fund.
- Setting up of National Centre for Calamity Management (NCCM). Its importance.
- Fiscal responsibility of the state because of increased transfer of funds from the centre out of the Finance Commission.

NB: Reading materials at Chapter – 16

Session – IV Project Work

Objectives: At the end of this session the participant will be able to :

- 2.4.1 Prepare draft memorandum / financial proposals for the department seeking funds.
- 2.4.2 Present proposals

**Day - 3
Session – I**

3.1 Concept of borrowing, Loans from open market. Treasury Bills, Bonds, Role of Government in acting as Guarantor.

Objectives: At the end of this session the participant will be able to :

- 3.1.1 explain the concept of borrowing and its impact on state.
- 3.1.2 state the methods of public borrowing i.e. from open market, Treasury bills and Bonds
- 3.1.3 describe the Government Guarantee – and role of Government Guarantor.
- 3.1.4 explain Guarantee as a contingent liability of the State Government .

Methods :

Lecture and discussion methods by using OHP/OHP Slide/White Board.

Brief for the session.

The sessions start with deliberation on the concept of borrowing and why borrowing is necessary for the Government. Is borrowing leading the State Government to Debt Trap? Is there a limit to which state Government should borrow? Amount of borrowing of State Government as percentage of GDP, the Constitutional restriction on borrowing by the State Government / state Government. How the State Government are by passing the provisions by borrowing through PSU's . Loan being used for Revenue Expenditure, how Government borrowing affects the availability of money in the market.

A table showing the loan burden of different states enabling the participants to have a picture of the same. Also show the loan burden of the Central Government, discuss how the loan affects the developmental activities of the state, a comparative study of per capita loan burden on the citizen of different state. After the discussion on the above than it will quickly switched over to discussion how the government can go for taking loan from open market, issue of different types of treasury bills, bonds etc. Also talk to participants whether the government can take loan at their own will. If not what are the procedure to be followed while floating such type of loan. How does a Government go bankrupt?

Facilitators Note :

The facilitators will wrap up the session by

- highlighting the impact of loan burden on state government in implementing the developmental schemes, how interest payment affects the state resource position
- associate / Invite the participants for lively discussion session and make aware of them about its impact enabling the policy maker to suggest Government to take up the right type of schemes so as to reduce the loan burden.
- enable the participants to judge properly the viability of the organization as well as their capability of repayment strictly following the Government instruction and that too for developmental oriented works.
- discuss the different debt servicing methods for its effective management
- invite opinion / points from the participants to make the session a livelier discussion one.

NB : Reading materials at Chapter - 10, 11 & 12

Session - II

3.2 Ways and means Advances. Overdraft facilities of Reserve Bank of India, Loans from Reserve Bank of India. Government Guarantee Debt Management.

Objectives :

At the end of this session the participants will be able to

- 3.2.1 Explain the role of Reserve Bank of India in State Finance as banker to the State Government.
- 3.2.1 Explain the necessity of ways and means advance in the management of State
- 3.2.2 Finances and rules governing its administration.
- 3.2.4 Explain the cash flow in government.

3.2.5 Explain the overdraft facility to the State Government.

Methods : Lecture and discussion by using OHP/White Board.

Brief for the Session

It keeps records of states cash inflows and outflows daily and control the transactions of the government. There is constitutional provision whereby the RBI directs the Nationalized Banks to extend loans to state provided they fulfill the condition laid down by them on their behalf.

Section 17 (5) of RBI Act, 1934, the RBI provides the ways and means Advance (WMA) to the state banking with it to help them to tide over temporary mismatches in the cash flow of their receipts and payments. Such advances are under the Act, repayable in each case not later than three months from the date of making that advance. "Types of Ways and means advances Monitoring of WMA overdrafts and enforcement of stoppage of payment all these are clearly outlined in the Reserve Bank of India Act. 1934. There is a difference between WMA and overdrafts. Basis on which WMA is determined. Overdraft facility - suspension of payment by RBI.

Facilitator's Notes:

- The facilitator should highlight that
- The state Government can take loans strictly following the Constitutional provision and also as per the guidelines of the RBI.
 - The state cannot go for loan on their own and that in certain case it requires prior approval from the Central Government.
 - Ways and means advance. Normal and Special ways and Means advances. Difference between ways and means advances and overdraft. Rate of interest payable for ways and means advance and overdraft; Time limit to liquidate overdraft.
 - State wise WMA limits and maximum WMA and overdraft availed during a certain period of time shown through bar diagram and initiate discussion on it and analyze the reasons.
 - R.B.I. always maintains a combined account. They never maintained separate account for Consolidated Fund, Contingency Fund and Public Accounts. It is maintained in the name of the State. As long as there is balance in the State Government Account they will allow cash transaction. But otherwise stop transactions.

- Debt management of the State should be explained citing examples of the affects of huge accumulation i.e. at source deduction.
- Is the at sources deduction

NB: Reading materials at Chapter – 13 & 14

Session – III

3.3 Project Work

Objectives: At the end of this session the participant will be able to :

- 3.3.1 Prepare draft memorandum / financial proposals for the department seeking funds.
- 3.3.2 Present proposals

SESSION – IV

3.3 Preparation of State Budget. Role of Budget in regulating Public Expenditure.

OBJECTIVES :At the end of this session the participant will be able to :

- 3.3.1 Explain the importance of Budget
- 3.3.2 Describe the different stages for preparation of State Budget
- 3.3.3 State the role of Administrative Department / Heads of the Department / Drawing & Disbursing Officer in preparation of State Budget
- 3.3.4 Identify the elements to be taken into accounts by the estimating officer
- 3.3.5 Describe the Coding Pattern and head of account of budget
- 3.3.6 Explain the Plan Budget and Non-Plan Budget – Distinguish between revenue expenditure and capital expenditure
- 3.3.7 Explain the demand for grants, appropriation bill and Appropriation Act
- 3.3.8 State the meaning of re-appropriation and the restrictions for doing re-appropriation
- 3.3.9 Explain the meaning of Supplementary Demand and the Procedure to be followed for moving proposal for Supplementary Demand
- 3.3.10 Explain the budget as a tool of control the expenditure
- 3.3.11 Describe the type of proposal to be initiated for advance from the contingency fund
- 3.3.12 State the different types of budget and their utility i.e. concept of line item budget, Performance budget and Zero based Budget.
- 3.3.13 List different types of budgetary deficits.

METHOD :

Lecture, discussion with OHP / WB / OHP Slide.

Brief for the Session

The Session begins with the introduction of the subject and different stages in preparation of budget in the flip chart. The participants will then initiate discussion on the topic.

There is a difference between the personal budget and Government budget. Everybody has his / her own budget depending upon his / her income. But Government budget is quite different especially in a democratic country where more emphasis is given on welfare activities for the citizen rather than on profit. In a democratic country Government gives much more importance on the welfare of the citizen. It has to be emphasized that making of provision in the budget does not mean sanction; it is a mere provision only. Incurring of any expenditure out of that budget provision requires observation of different financial rules and procedures.

Planning of receipt and expenditure will help Government in achieving its target in a systematic way. Ours is a democratic country and the political party before coming to the power i.e. at the time of election makes promises to the electorate. After the election the party put in power will try to fulfill the promises given to the electorate through the budget. Accordingly, the budget is prepared to achieve that goal. While preparing the budget the principle of welfare state is always taken into account.

Government budgeting has an important bearing on the functioning of an economy. The ideals of welfare state and the process of economic planning have tremendously increased the magnitude of public spending resulting in the emergence of Government as an importance sector of the economy. Government has its own money inflows and outflows. Government collects huge amount of money through taxation, borrowings, sale of treasury bills etc. The manner of collection of these monetary funds and the pattern of their spending influence savings and investment levels, distribution of income and wealth allocation of resources and consumption behavior of the people. Budget is an important instrument to carry out corrective operations. Budget is not merely an accounting exercise but a powerful medium to realise the objective of public policy. Budget is an instrument of the fiscal policy of the government and the road map of the financial schemes of the state. It is necessary for the Government to have a proper appraisal of the sources of earning revenue and of the measures of controlling the channels of spending. The absence of such an exercise may lead to corruption, inefficiency and even bankruptcy. Hence, planned earning and wise spending are the pre requisites for the financial stability of government. The medium for fulfilling these requirement is the budget. Public budgeting is desirable from Government point of view

because it can answer its critics effectively and prove its honesty in financial matters. It is also important for the legislators because they can ensure that all is well with the public money.

Discussion will start objective-wise and also pick up the points noted in the flip chart relevant to that particular objective;

The different aspects to be taken care of at the time of preparation of budget at different stages i.e. Administrative Department level, Heads of the Department level and also at the Drawing and Disbursement Officer's Level;

Talk about the non-plan budget and plan budget and the time of submission of the budget, re-appropriation and its restrictions. Appropriation bill / Act, Vote on Account budget, Budget Estimates, revised estimates etc. Supplementary Demand, Advance from Contingency Fund; circumstances under which advances from C.F. can be taken; procedure for its regularization.

Line item budget, Performance budget and Zero base budgeting.

Facilitator's Note :

The facilitator should

- explain the meaning of budget indicating the difference between the individuals budget and the Government budget. Constitutional Provisions
- relating to Annual Financial Statement.
- who initiates preparation of budget and when ?
- responsibilities of administrative department, heads of department, and DDO's for preparation of budget.
- budget speech and what it contains; difference between budget speech and Governor's address. and who initiates preparation of such speeches and at what time.
- different types of deficits, Revenue deficits, primary deficit, Fiscal deficits and what they indicate about State Finances; estimate, revised estimates
- Coding pattern, major head, sub major head, minor head, sub head, standard object of expenditure.
- Explain receipt head of account and expenditure head of accounts.
- Plan budget and non plan budget.

- Revenue expenditure and capital expenditure.
- Demand for grants, appropriation bill/ act.
- Vote on account.
- Re-appropriation
- Supplementary demand / appropriation.
- Advance from C.F.
- Revenue deposit / civil deposit.

NB : Reading materials at Chapter – 20,21, 22, 34 & 36

**Day - 4
Session – I**

4.1 Sources of the State Finances. Own sources, Central Government Sources, Loans Tax & Non Tax Revenue.

Objectives: At the end of this session the participant will be able to:

- 4.1.1 List the main sources of Fund of the State including sources of Revenue, Loans, and grants-in-aid.
- 4.1.2 List the tax and non-tax revenue of the state in the flip chart.
- 4.1.3 Explain each tax and non-tax revenue along with constitutional provisions.
- 4.1.4 Explain average contribution of each source along with Constitution provision in percentage term to the state exchequer.
- 4.1.5 List the revenues received by the State from Central Government sources.
- 4.1.6 Explain the purpose of loan for raising revenues of the state.

Recap

The 2nd day will begin with summarizing / recapitulating the main features of day – 1. Four participants will be asked to volunteer for the recap. Constitutional Provision for management of State Finance meeting of non plan revenue gap by invoking the provision of art. 275 (I), sources of state revenues, tax and non tax revenues will be taken up. It is seen that finance is the backbone of (administration) government and without this the government activities will come to a halt. Every thing depends upon money, right from performing well fare activities maintenance of law and order and protection of citizen from external aggression and internal disturbance. Therefore, the second day aims at how the finance of the state are important for the government and why more funds are required and what difficulties are faced by the government if the funds are not commensurate with the requirement. When there is

shortage of fund what, course of action is the government required to take when their revenues do not match the expenditure. The purpose of this exercise is to facilitate the participants in recognizing the problem and to enable them to take corrective steps / the context within which they as policy maker and implementers are to function.

Facilitators Notes

The facilitators should consolidate the discussion on the following points:

- Projection of receipt should be done very carefully. No inflated provision is made.
- States own Revenue – Tax and Non Tax Revenue. Explain each tax and non-tax revenue along with Constitutional provisions.
- Share from Central Taxes
- Loans and Grants from Central government – the Constitutional Provisions.
- Whatever provision is made in the projection as revenue receipts be taken for its realization in full.
- While realizing revenue utmost economy should be adopted. Comparative cost of collection.
- Pilferage and leakage in collection
- Loopholes in the rules /acts which affects the revenue collection – and suggest corrective procedure to increase the collection of revenue.
- Importance of monitoring of revenue realization
- Setting up of targets and Review Need for Review meeting. Need for setting up realistic targets.
- Importance of surprise visit by superior officers in the major revenue-earning department.
- Punishment and reward schemes for enhancing revenue collection.
- Whether all revenue collection should be under administrative control of the Finance Department for effective management or should be with line department.
- Concept of royalty on Minerals etc. as Non tax revenue
- Scope for introducing new taxes by states.
- Introduction of service charges as non tax revenue

- Growth rate of different tax and non tax revenue
- Comparative statement showing collection of tax revenue by different states vis-à-vis SDP.

NB : Reading materials at Chapter – 7, 8 & 9

Session – II

4.2 Additional Resource mobilization – Role of Tax Administration in mobilization of State Resources

Objectives : At the end of this session the participant will be able to :

- 4.2.1 Describe the methods / procedure for additional resource mobilization (ARM).
- 4.2.2 Outline different areas where ARM is possible.
- 4.2.3 Explain the role of tax administration in mobilizing resources.

Methods :

Lecture and discussion by using OHP/OHP Slide and White Board.

Brief for the Session

The session begins with the explanation of the different ways by which resources can be mobilized (1) by imposing new taxes (by legislation). (2) by increasing charges for Government Services. (3) by increasing small savings, since 80 % came back to state as loan. (4) by curtailing expenditure.

The discussion citing the recent trend in govt. finances both at the Central and the States – Assam being no exception has shown the emergence of serious fiscal imbalances. An analysis of the Central and State budget documents will show that every year revenue deficit, primary deficit and fiscal deficit have not only been persisting but growing in size and dimension year to year. The reasons are not far to seek. Broadly speaking the chronic mismatch between revenue and expenditure with the former failing to keep pace with the later is the root cause of this crisis. Of late, this has assumed a serious proposition because of Central Government inability to assist the States.

In this context, the role of ARM assumes great significance; ARM does not merely indicate better mobilization of resources through efficient tax administration of resources. Simultaneously it implies the need to generate savings through economy in expenditure. While revenue collection has, no doubt, been growing, the growth has not been commensurate with the growth of revenue expenditure the unabated growth of revenue expenditure is accompanied by a corresponding decline in capital expenditure, which is disastrous for overall economic development. The exponential growth of revenue expenditure have been due to abnormal hike in salary, wage and pension bills,

explosive debt servicing liability, high cost of maintenance of law and order in the context of protracted insurgencies, need to provide budgetary support to non functional PSU's for meeting revenue need, explicit and implicit subsidies to several social and economic services sectors. With a view to mobilizing additional resources, it is imperative to cut down all avoidable expenditure, eliminate subsidies of all kinds, embark on a judicious scheme of public debt and to down size the administration to make it truly need based.

The role of tax administration in augmenting state resources is paramount. The procedure of collection should as far as possible, be simplified so as to insure better compliance by the taxpayers. Collection machinery should be suitably geared up to eliminate all leakage and loop-wholes. Regular training and workshop may be organized to acquaint the staff engaged in collection of tax with the complications of their job and how to solve them. This will help augmenting mobilization of resources through all-round improvement of tax machinery.

Facilitator Note :

- The facilitator will highlight the different ways by which the state can mobilize their resources
- The area in which the imposition of new tax can be taken up if necessary by bringing new legislation. While imposing new taxes the principle of taxes i.e. the ability to pay, equity etc. should be taken care of. This aspect may also be highlighted in detail.
- Responsibilities of the tax collection authorities in realizing revenues for the state as well as to minimize the expenditure.
- The facilitators will highlight the undesirable shift in favour of deficit financing with the help of diagram
- Display separately salaries, wage and pension through bar diagram,
- Indicate percentage shares of major items of expenditure from the Consolidate Fund through pie diagram / datas.
- Inflows into the Consolidated Fund of the state from different sources, through pie diagram to give a clear picture as well as to make understand the participants how much they are expected to get
- Out flows from the Consolidated Fund through pie diagram indicating the percentage of expenditure
- Their duties to point out the loopholes /shortcomings to the higher authorities to check the same.

- Importance of training and workshop to the officials to acquaint themselves about the new concepts to guide them how to solve the problem by way of experience sharing as well as to develop knowledge and skills

NB : Reading materials at Chapter - 15

Session – III

4.3 Finance Commission – Terms of reference. Finance Commission, Constitutional Provision. Share from Divisible Central pool.

Objectives : At the end of this session the participant will be able to :

- 4.3.1 Explain the constitution of Finance Commission, its role, terms of reference, its recommendations and the impact of recommendation on State Finances.
- 4.3.2 Describe the criteria for devolution of fund from divisible central pool.
- 4.3.3 List out the Central Taxes which form part of the divisible pool.
- 4.3.4 Explain in detail the share of Centre and States and also ratio of sharing between the States (as per the latest Finance Commission award)

Method – Lecture, Discussion by using OHP/WB.

Brief for the session

The session begins with a focus on the constitution of Finance Commission and its terms of reference. Detailed discussion about the devolution of fund from the divisible central pool and give data/policies adopted by earlier Finance Commission about the criteria for devolution from this pool i.e. the distribution criteria, relative weights should follow. The trends in devolution of central resources to the states by comparing recommendations of 3 to 4 Finance Commissions.

Facilitators Note :

- Art. 280 of the Constitution should be explained elaborately to impress upon participants that the Finance Commission is a constitutional body and the recommendation made by it is mandatory on the part of the government for implementation.
- President's power at the time of finalization of term of reference
- Describe the criteria – relative weights.
- What the Finance Commission deals with.

NB: Reading materials at Chapter - 16

Session – IV

4.4 Role of Finance Commission in meeting non-plan revenue gap of

states including the assistance for natural calamity - Up-gradation grants – Grants to Urban Local Bodies / Panchayati Raj Institutions .

Objectives : At the end of this session the participant will be able to :

- 4.4.1 Describe the criteria suggesting the Government for bridging the non plan revenue gap.
- 4.4.2 Explain the procedure of constitution of the Calamity relief fund and its administration.
- 4.4.2 Explain the up-gradation grants, special problem grants, grants to urban local bodies and Panchayati Raj Institution.

Methods :

Lecture and discussion through OHP/ White Board.

Brief for the session

There is mismatch between revenue and expenditure and it has happened for most of the states. There is always deficit. Expenditure is at high rate and revenue is at lower rate. This can be shown by using table. That will help the participants to quickly follow / understand the main purpose of seeking from the central Government assistance through the award of the Finance Commission. The State Government presents the cases before the Finance Commission through the memorandum and the Finance Commission will make in-depth study and thereafter they will recommend the assistance to be provided to the states by invoking the provision as laid down in Art. 275 (I). Art. 275 (I) of the Constitution has a important role to play in this regard and that is to be explained to the participants in clear terms.

States face different problems because of natural calamity, flood, drought, earthquake, (riot etc.) and with the limited resources available with them it will not be possible to meet such eventuality and hence assistance from the Centre is a must. To give justice in the matter this has been referred to the Finance Commission to study the matter and suggest / recommend measures to overcome such situation by providing suitable funding provision from the Centre. Finance Commission also suggests the formation of a Calamity Relief Fund at the national level for quicker devolution of fund to needy state at the appropriate time enabling to handle the situation promptly. Accordingly Government agreed to establish a Natural Calamity Relief Fund at the National Level.

Facilitators Note :

The facilitator should keep in mind that the participants be made aware of the assistance that is being provided to the states to meet the non – plan revenue gap by using table projecting the figures of last few years.

- Areas, which are covered for this assistance.
- Art. 275 (I) and its importance in this context specially for extending non – plan assistance to meet the gap.
- Duty of the Central Government to rescue the state at the time of need.
- To discuss the up-gradation grants and the areas covered by the same.
- To discuss the procedure as well as extension of grants to local bodies – urban local bodies / Panchayati Raj Institution.
- Schemes to be covered by the grants awarded by the Finance Commission.

NB : Reading materials at Chapter – 16 & 17

Day - 5

Session - I

5.1 Planning Commission role in formulating and Financing of the Annual Plans and Five Years Plan. Sectoral Allocation Centrally Sponsored Schemes – Funding for Special Category States

Objective : At the end of this session the participant will be able to :

- 5.1.1 State the constitution of Planning Commission and its function relating to devolution of Plan Fund to the states.
- 5.1.2 Different criteria for devolution of assistance under annual and five year plan to the states.
- 5.1.3 Explain how the resources for Annual Plan and Five year plans are arrived at.
- 5.1.4 Distinguish between Earmarked sector, Non earmarked sector.
- 5.1.6 Describe how sectoral allocations are made.
- 5.1.7 Explain the funds for externally aided projects.
- 5.1.8 State the criteria for determining the special category States.
- 5.1.9 Describe how normal central assistance is distributed.
- 5.1.10 Explain the importance of Central Sector Schemes and Centrally Sponsored Schemes.

Method – Lecture, discussion by using OHP/OHP slides/WB

Brief for the session

The Session begin with the discussion of the constitution of Planning Commission. The Planning Commission was constituted by an Executive order of the Government of India as per approval of the Union Cabinet with Prime Minister as the Chairman, one Deputy Chairman and other members. It deals mainly with the devolution of plan funds both for Centre as well as for the states. It deals with formulation and

finalization of five year plans and also finalize the size of the states Annual Plan in consultation with Chief Minister of the state taking in to account the total allocation of five year plan for a particular state. The devolution of funds to states are made on the basis of the Gadgil formula and Mukherjee formula. The allocation is on the basis be 70 : 30 for non special category states and for special category state the basis of devolution is 90 : 10.

Initially the Ministry of Finance, Government of India and the Financial Resource Division of the Planning Commission identify the resources for the country for preparation of the Central Budget as well as / augmentation of resources for formulation of Annual Plans and Five Year Plans for distribution between the Centre and States. First of all they will asses the requirement of the Central Ministry and after making necessary allotment for the Central Government Departments, the left over amounts are kept for the States. This allocation to State is made as per the Gadgil Formula till 1990 at the rate of 70 :30 basis i.e. 70 percent as loans and 30 percent as grants. The amount kept for centre is for running the Centrally Sponsored Schemes and Central Sector Schemes. Funds from Centre devolves through the Central Ministries. At present there are about 400 – 410 numbers of the Centrally Sponsored Schemes and Central Sector Schemes implemented by the centre. The patterns for funding for these schemes are varied in nature depending upon the aims and objectives of the schemes. **Some are grants, some are on the basis of 50.: 50, or 75.25.** There are some schemes which comprise loan component,. Again there are certain schemes, which are reimbursable. Hence it is seen that there is no fix criteria for allocation of fund i.e. the quantum of assistance /share provided by the centre for Centrally Sponsored Schemes and Central Sector Schemes. It depends entirely upon the nature of the schemes. The devolution of plan assistance to special category states is on the basis of 90:10 wherein 90 per cent as grant and 10 per cent as loan.

Facilitators Note :

- He / she will enlighten the feasibility of the implementation of the suggestion made by some of members of the 11th Finance Commission about the amalgamation of the Planning Commission and the Finance Commission and also seek the opinion/views suggestion of the participants to make the Finance Commission a permanent body.

- The facilitator should also discuss in detail the pattern of devolution of plan assistance as per the Gadgil formula.
- Discuss the setting up of Mukherjee Committee 1990 and the recommendations made by the Committee.
- Distinctive feature of Gadgil formula and Mukherjee formula.
- Formulation of annual plan and five year plan
- Prioritization of schemes
- Monitoring of implementation of schemes as well as expenditure.
- Fixing of target and fulfillment of target.
- Besides the facilitator will explain the methodology for augmenting fund for annual plan.
- Basic documents required for finalization of annual plan.
- Methodology for finalization of five-year plan and its relevance to annual plan.
- Criteria for providing assistance to special category states.
- Importance of sectoral allocation and the criteria for making the sectoral allocations and its relevance to budget.
- Action calendar of the department for implementation of the annual plan.
- Importance of centrally sponsored schemes and timely submission of State Government Proposals to Central Government.
- Making of budget provision in the state budget for centrally sponsored schemes.
- Ascertaining of schemes in vogue from the Central Government before submission of any proposal to them, particularly the funding pattern.

NB : Reading materials at Chapter - 18

Session - II

5.2 Control and Management of Expenditure – different types of expenditure. Capital / Revenue, Plan / Non Plan Expenditure.

Objectives : At the end of this session the participant will be able to :

- 5.2.6 explain the methods of control and management of Public Expenditure.
- 5.2.7 List the different types of public expenditure.
- 5.2.8 classify the nature of public expenditure.
- 5.2.9 distinguish between revenue and capital expenditure.
- 5.2.10 differentiate between plan and non plan expenditure.

Method

Lecture, discussion by using OHP/WB.

Brief for the Session:

Control and management of expenditure is one of the basic needs for management of State Finance. It is the duty of the administrator to manage the resources, which are being realized right from a common man to a millionaire. There are various ways of incurring expenditure for the betterment of the societies. But the same is to be incurred very carefully and judiciously. It should be ensured that projects / schemes should be implemented / completed within the time schedule to avoid escalation and over run of the estimated amount. All possible steps should be taken to control unproductive public expenditure.

Facilitators Note :

The session begins with the discussion of the importance of control and management of public expenditure during these hard days of financial crunch faced by most of the state government including the Union Government. As such the participants should be made aware of the different methods of control of public expenditures.

- Importance of monitoring of expenditure
- Communication of Budget allotment
- Issue of sanction
- Issue of ceiling
- Prioritization of schemes
- Ensure timely completion of projects/implementation of schemes.
- Proper utilization of grants and timely submission of utilization certificate.
- To avoid time over run.

NB : Reading materials at Chapter - 20

Session – III

5.3 Local Bodies – its Finances, Role of State Finance Commission for Devolution of Funds to Local bodies 73rd and 74th amendment of the Constitution.

Objectives : At the end of this session the participant will be able to :

- 5.3.1 Explain the provision of Art. 243 – I and Art. 243- of the Constitution including the Assam Finance Commission (Miscellaneous Provision) Act.
- 5.3.2 Describe the importance of State Finance commission for devolution of Fund to local bodies with specific reference to 73rd and 74th amendment of the Constitution.

Brief for the Session

The session will begin with the discussion about the importance of constitution of State Finance Commission for devolution of funds between the state and the Panchyats and Urban local bodies. Special importance is to be given to the terms of reference of the State Finance Commission which governs the function of the Commission, also to dwell on the difference between the Finance Commission at National Level (constituted under the provision of Art. 280 of the Constitution) and the State Finance Commission. Finance Commission (National Commission) too recommend the devolution of fund for the local bodies for better empowerment but does not fulfill the requirement / need of the local bodies and more is required for mobilization of resources and hence there is necessity for constitution of the state Finance Commission.

To empower the Panchayats and Local bodies for proper decentralization of power Government made a historic amendment in the Constitution i.e 73rd and 74th amendment which clearly empower the panchayats and local bodies and provide for women reservation in such bodies for proper representation in the Panchyats and the Urban Local bodies. That will also fulfill the dream of the father of the nation Mahatma Gandhi's *Gram Swaraj and Ram Rajya*.

Facilitators Note :

The facilitator should first talk about the importance of State Finance Commission and effects of its recommendation on State Finances as well as local bodies, also discuss the terms of reference of State Finance Commission and

- Different criteria taken by the Finance Commission for devolution of fund to Panchayats and Local Bodies.
- Discuss the constitutional provisions specially 73rd and 74th amendment.
- Copies of the State Finance Commission may be given to the participants to get their reactions on it.

NB : Reading materials at Chapter - 20

Session – IV

- 5.4 Delegation of Financial Power to subordinate Officers. Preparation of proposal sanction. Fraudulent drawal Mis-appropriation, defalcation and losses.**

Objectives : At the end of this session the participant will be able to :

- 5.4.1 Explain the importance of delegation of financial power in the management of State finances and the Acts/Rules framed for the purpose.
- 5.4.2 State the broad purposes of contingency Manual, Financial rules, Delegation of Financial Power Rules, Treasury Rules.
- 5.4.3 Describe the importance of sanction in the management of State Finances; difference between Administrative Approval and Financial Sanctions.
- 5.4.4 Describe the methods of drawal of fund.
- 5.4.5 Explain the fraudulent drawl, defalcation, misappropriation and its consequences on State Finances.

Method :

Lecture, Discussion through OHP/ White Board & Group Exercise

Brief for the Session

The session begins by initiating discussion on delegation of financial power. A brief out line of the **Book of Financial Power**, 1954 and its subsequent replacement by DFP Rules, 1960 .DFP Rules 1960 which clearly identifies power to be exercised by each authority right from Administrative Department, Heads of Department outlining the delegation in three different schedules. Viz; Schedule – I, Schedule – II and Schedule – III. Which will expedite the execution of task given to each authority mentioned above. DFP Rules clearly narrate the sanctioning power of each authority and one should not cross the limitation of power delegated to them.

For according sanction of proposal there are various formalities to be observed. Proposal for sanction might be for creation of post, sanction of schemes, incurring of contingent expenditure of different nature etc. etc. For creation of post i.e. if the proposal is for creation of a gazetted post the Department is to judge the necessity and if this is at all justified then with the approval of the Minister concerned this is to be initiated in the interest of public services but not to accommodate any particular individual. Thereafter the proposal is to be sent to personnel 'A' Department with the information prescribed by them for their approval and if they agree then this is to be endorsed to the respective control branches of the Finance Department indicating the Head of Account, availability of fund in the budget, pay scale etc. Further, the department is also to mention whether the posts proposed for sanctioned is for a particular period or there is possibility for its continuation for longer duration. While endorsing the file to Finance Department the officer who endorses the file should clearly mention what they actually want from the Finance Department instead of making a short endorsement like "Finance Department for your concurrence please". Similar is the case for other contingent proposal which require proper justification.

Assam Finance Service Officers posted in the Administrative Departments / Heads of the Department should be given sufficient delegation to discharge their duties as representatives of the Finance Department. This will automatically make the Finance Service Officers dedicate themselves to the task of more efficient management of State Finances and also show accountability to the Finance Department. The Finance Department should follow the practice of integrated finance of the Government of India. This will help in streamlining the financial system.

Further, steps may be taken by the Finance Department for posting of State Finance Service officers in the Finance Department to utilize their services properly. Specially they may be posted in the **Control Branches of Finance Department , Finance (Budget) Department, Finance (Establishment – A & B) Department, Finance (Audit and Fund) Department.** The State Finance Service Officers are the only cadre who have got sufficient training and exposure in financial management including the interpretation of Financial Rules etc. **If necessary, change in to that of Under Secretary (Finance Accounts), Deputy Secretary (Finance Accounts) and Joint / Additional Secretary (Finance Accounts)** may also be considered. This will definitely help in toning up financial administration.

Facilitator's Note :

- The facilitator should try to explain the importance of effecting delegation of Financial Power and its impact in financial administration.
- cite practical problems and examples faced by the officers for non-observance of rules strictly
- explain the implications of different delegation under DFP Rules
- make them understand the necessity of observing all financial rules of the State Government, Contingency manual, Treasury Rules
- explain drawal by regular contingency bill/Abstract Contingency bill submission of DCC bills
- different type of Advances given to employees and how they are to be recovered.
- How the loss / theft of the Government fund is regularized.
- how to prepare proposals for sanctions and what are the information is to be incorporated in it to get through the proposal quickly.
- discuss the importance of Rules of Executive Business about the functions in exercising different delegations

- Discuss the implication of fraudulent drawal, mis-appropriation and defalcation losses and how defalcated amounts are to be regularized.

NB : Reading materials at Chapter – 22,23,24 & 25

Day – 6

SESSION – I

6.1 Maintenance of Accounts and its importance on State Finance.

Different kinds of Government Accounts.

OBJECTIVE : At the end of this session the participant will be able to :

- 6.1.2 explain the constitution of Consolidated Fund, Contingency Fund and Public Accounts and the credit of Government money's into those fund.
- 6.1.2 describe / explain the importance of treasuries for drawal of funds
- 6.1.3 describe the maintenance of accounts of the State Government by the treasuries
- 6.1.4 explain the non-treasury accounts.
- 6.1.5 state the role of Comptroller and Auditor General in maintenance of Accounts.

METHOD - Lecture, Discussion by using OHP / WB.

Brief for the Session

The treasuries are the units of fiscal system and the primary points at which the Public Accounts Grants into these treasuries are paid and from these treasuries are disbursed payment on behalf of Government.

All money “received by the Government Servant on behalf of the Government with the proceeds of taxation or yield ordinary revenue, capital receipts, receipts of Loans, grants etc. or any other kind of receipt are required to be credited into the State exchequer through the treasuries in full without delay and all these form the part of the Consolidated Fund of the State.

A State is divided into many districts and Sub-Divisions. At the district hq. there is a treasury known as the District Treasury. Similarly, at Sub-Divisional hq. also there is treasury. Earlier these treasuries were termed as Sub-treasuries and they are to submit the accounts through the District treasuries. Now to simplify the procedure and to expedite submission of accounts most of the sub-treasuries are allowed to submit accounts directly to the AG because of the impending importance of the accounts (receipt and expenditure) in the State finance including the formulation of annual plan. To further accelerate the system of compiling accounts, the Government has introduced

computers in all the district treasuries with a plan of extending the same to all the sub-treasuries. For example, at present there are 25 Nos. of district treasuries in Assam, which includes two independent treasuries i.e., is the Dispur Treasury and the New Guwahati Treasury and 28 Nos. of sub-treasuries. Out of these 28 Nos. of sub – treasuries, 6 Nos. of sub-treasuries are authorized to submit accounts directly to Accountant General (A & E) and rest of the treasuries will have to submit accounts through District treasuries.

The Facilitator’s Note:

The facilitator will try to explain the importance of treasuries in the functioning of the Government, its role in keeping the accounts of the Government and their implications in the management of State Finances.

- Functions of the treasuries including the checking done by Treasury
- Withdrawal of money from the treasury / deposit of money to Government receipt head of account through treasury.
- Compilation of Accounts
- Compilation of monthly accounts at Accountant General’s office
- Submission of monthly accounts to Accountant General /to Government
- Explain (I) Appropriation Accounts, (ii) Finance Accounts
- Explain Public Account – Type of fund placed in Public Account how Government is only a custodian of such fund.
- State the importance of finance accounts and appropriation accounts prepared by Accountant General on State Finances.

NB : Reading materials at Chapter – 6, 27, 28, 29 & 35

SESSION – II

6.2 Importance of Audit and its impact on State Finance. Role of Public Accounts Committee (PAC) in the Management of State Finances.

OBJECTIVES : At the end of this session the participant will be able to :

- 6.2.1 Describe the importance of Audit in the management of State Finance – both CAG’s Audit and internal Audit/Local Audit.
- 6.2.2 Explain the Role of Accountant General in auditing the Government Accounts
- 6.2.3 Describe different stages of Audit leading to inclusion of draft para in CAG’s report.
- 6.2.4 Explain CAG’s report (i) Civil Account (ii) Commercial Accounts (iii) Revenue Receipts.

- 6.2.5 Describe the role of Public Accounts Committee in the management of State Finance.
- 6.2.6 State the reason of excess drawal by the department, its consequences and how they are regularized.

Method : Lecture, Discussion through OHP, White Board & Group Activity for preparation of replies for draft paras, audit objections.

Brief for the Session

Audit forms an indispensable part of the financial system necessary to ensure the sound system of a parliamentary democracy. It is the main instrument to secure accountability of the executive to the legislative. Audit enables Parliament / Legislature exercise financial controls both in-respect of revenue and expenditure. It checks the compliance by various authorities with rules and order issued by the Government.

The primary function of the audit is to verify the accuracy and completeness of accounts and to ensure that all revenue and receipt collected are put under proper heads and disbursement are authorized. The final accounts represent a complete and true statement of financial accounts. The main aim so to safeguard the financial interest of the tax auditorial and administrative function. It is the function/duty of the audit to verify that financial rules and orders satisfy the provision of law and are properly applied. It is not the function of audit to interfere in day-to-day administrative matters if they do not otherwise go against the provisions of prescribed rules and orders.

The institution of Government audit in India has a history of 140 years. Initially audit was confined to tickling and checking of financial statements and regularity of transactions. Over the years with manifold increases in expenditure and receipts it has now been extended to cover financial management and performance as well.

Similarly, Local Fund Audit has its important role in auditing the accounts of the local bodies, provincial institutions, aided colleges, universities, institutes getting grants-in-aid, assistance from the Government. These institutes / organizations are not covered by the audit of the Accountant General. There is difference between the Accountant General's audit and the local fund audit. Accountant General's audit objections are supposed to be replied through Government in certain cases and the serious paras are treated as Draft paras which are examined by the PAC's and required to be placed before the Assembly whereas the objection raised by local fund does not

require such an arrangement. However, the objections raised by the local fund audit should also be treated in the same way like that of the Accountant General's audit. Then only Government can expect effective audit.

Importance of Finance Accounts Appropriations accounts, Draft paras, POS, Audit para notes etc. may be discussed in the session Role of Public Accounts Committee in the management of State Finance.

Facilitator's Note:

- The facilitator will explain the importance of audit concept of audit
- back ground of audit in India citing the constitutional provision
- discuss the Comptroller & Accountant General's duties, powers and condition of service Act, 1971
- P.O.S / Audit Notes / Inspection reports/Draft para.
- audit mandate in Government departments enabling them to understand its importance
- draft para and how to prepare replies for this
- how to face P.A.C. and who is responsible for appearance before the P.A.C. by taking oath.
- discuss the finance accounts, appropriation accounts

NB : Reading materials at Chapter – 30, 31, 32 & 33

Session – III

6.3 Presentation of Project Report.

OBJECTIVES : At the end of this session the participant will be able to :

6.3.1 Present the proposals for funds for the department.

Session – IV

6.4 Presentation of Project Report.

OBJECTIVES : At the end of this session the participant will be able to :

6.4.1 Present the proposals for funds for the department.

VALIDICTION

Reading Materials for the “MANAGEMENT OF STATE FINANCES”

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ON
“MANAGEMENT OF STATE FINANCES”**

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Chapter- 1

NORMATIVE ASPECT OF PUBLIC FINANCE: PUBLIC GOODS AND SERVICES.

**Prof. Dr. R. K. Choudhury,
Retd. Prof. & Head, Eco. Deptt.,
Gauhati University**

1. Introduction: What is Normative theory?

The activities of government and the economic polity or principles that make for efficient conduct of public budget are the concerns of what is called public finance. Here rules and principles have to be framed for an efficient conduct. What it means is that we determine one optimal budget plan on the basis of initially defined conditions and see how it can be achieved. This is what is referred to as normative or optional theory of public finance. From such theory, we know how the market (i.e. private sector) reacts to the budgetary policy i.e. the various tax expenditure policies so that we can choose that policy which would bring optimal results. Such a normative approach could differ from the real world situation, which does not always go by ‘**norms**’ or ideals. We can thus develop a principle for ideal allocation of resources or ideal distribution of income, which the tax expenditure programme of government should strive to achieve. It may not be possible to achieve the ideals or the objective fully, but the nearer to the goal the better it is. Through comparison and contrast, we can know to what extent and why the “norms” are to be realized and suggest corrective actions to remove the defects. Normative model is not designed to be realistic in the sense of describing what really goes on in the capitals of the world, but it is designed to show what would if this could be followed. Thus the normative approach to public finance is essential to the budget planners.

2. Objective of normative budget policy (or public finance): -

It may be noted that the normative ideals as mentioned above have to be achieved through budget plan. Such a budget has three objectives viz.

- a) allocation objective
- b) Distributional objective and
- c) Stabilization objective.

(For developing countries, the fourth may be growth objective; but its realization requires a number of fiscal actions which are automatically pursued in the process of realizing the above noted three objectives).

Now an imaginary budget may be considered to have three fiscal departments concerning the three objectives. The task of allocation is to determine how best resources can be allocated on both sides of taxation and expenditure. The distribution branch of the budget has to determine that fiscal action which the stabilization branch must determine and which could secure full employment and price level stability. Each of these sub budgets while pursuing its own objectives, needs to assume that the other two branches are functioning in the best possible manner. This is essential because malfunctioning in one branch or non-realization of one objective will affect the realization of another objective or proper functioning of other branches of the budget. When these sub budgets are consolidated together, we get a complete normative budget plan.

3. Allocation objective and public goods: -

(a) Allocating of what?

The budget is to determine how to allocate tax burden, i.e. to decide who should pay how much and to allocate public expenditure as between different lines of production to satisfy public wants. Thus allocation of tax burden means the allocation of cost of public services.

It follows the function of the allocation branches is to provide for satisfaction of public wants as distinguished from private wants.

(b) Definition of Public goods: -

To define public wants properly is a difficult task because different types of public wants may arise from different situations. Public wants refer to those wants, which are satisfied collectively for the people and not individually. Such wants like police protection services defense service; national

highway or a flood control measure are all examples of public want. These services cannot be sold in private market because if a person does not volunteer to pay for them, he cannot be prevented from enjoying the benefit of these services has to be covered by budgetary revenues and they have to be supplied free of direct charges. The cost has to be allocated among beneficiaries in the form of tax which is a compulsory contribution. Hence, public wants or public goods are those wants which are satisfied by services that must be consumed in equal amounts by all. Since market mechanism is unable to deal in such services, they have to be supplied through budget if they are to be satisfied at all.

(c) **Collective Consumption as distinguished from Joint Consumption** :-

Though public wants are collective consumption, they should be sharply distinguished from “joint consumption” of private sector. Joint Consumption require price payment as in the case of a cine-goer, for example, though these services are also collectively consumed. Joint consumption services are distinctly different from public wants especially on three important wants.

- (i) They require price payment for their enjoyment.
- (ii) The consumers will be limited in number due to accommodation capacity.
- (iii) Exclusion principle is applicable to joint consumption services.

(d) **Condition for optimum allocation** :-

The condition for optimum allocation of resources is attained at a level of production where price equal marginal cost and this is possible only under conditions of perfect competition. Optimum allocation of resources is achieved only when the factors of production are used in the most efficient manner. This is possible only under perfectly competitive market, characterized by unrestricted sales and purchase of the product, complete knowledge of buyers and sellers about the price of the product and prevalence of only ruling price in the market. There is no producer’s surplus in such a case.

(e) **Market imperfection and government interference: -**

Many areas of free market mechanism are characterized by imperfect completion. In such cases budgetary action will be needed to achieve allocation adjustment. Whenever there is government interference and budgetary action of tax transfer measure, there is an element of public want involved. Thus all the goods and services that come out of budgetary provision may also be defined as public goods or public wants.

(f) Occasions for allocation adjustment: -

(i) One such occasion is given by the imperfect market situation of monopoly control where marginal cost lies below average revenue or price and the monopolist derives supernormal profit through less efficient use of resources and smaller than optimum level of production. Government may either take over the firm or allow some budgetary incentive to enlarge production scale to the level of optimum allocation. In either case an element of public want is involved.

(ii) A second situation necessitating allocation adjustment is given by industries operating under decreasing cost conditions. In such a case also, budgetary action of tax transfer mechanism will be necessary to achieve optimum allocation of resources.

(iii) A third occasion for allocation adjustment arises in case of external economies and external dis-economies. This is because private profit and social benefit may not go hand in hand. Thus, for example, excess of social benefit due to inroad of railway line over and above the profit earned by railways is an external economy. Since this additional benefit has gone beyond the cost calculation of the railroad, and since it is enjoyed by society, the benefit should be charged from people in the form of taxation. Similar will be case with external diseconomy like smoke nuisance of factory chimney in which case the firm should be made to pay for preventive measure or social protection by way of taxation.

There are many such cases where market mechanism cannot achieve efficient resource allocation. It is not possible to take budgetary action in all such situations and in most cases the satisfaction of such wants is left to the market. Depending on seriousness of allocation inefficiency, corrective actions are taken through budgetary action.

Leaving aside these small elements of public want, the major problem of allocation is to determine the size and cost distribution among beneficiaries of those public wants, which the private market mechanism completely fails to provide. These are the social wants the first type of public wants.

(g) **Revelation of preference** :-

(i) The most primary difficulty is that since no one can be excluded from the enjoyment of benefit, people will not voluntarily reveal their preference pattern so that the size of social want or expenditure allocation and that the price, i.e. tax allocation can not be determined. Thus, since exclusion principle is not applicable in case of social wants, people will not voluntarily reveal their preference or choice pattern. Some way must be found to make people do so.

(ii) The second difficulty arises because of the absence of market efficiency of price mechanism whereby different persons purchased different amount at the same price. But, in case of social wants, every one consumes equal amount. And since marginal utility from social goods, i.e. tax payment must be different, a more specific welfare function is necessary to decide optimal allocation.

(h) **Political process of voting and choice pattern:** -

Since a way must be found to make people reveal their preference pattern for public goods, the problem has to be addressed from the political platform and a political process of voting is the ultimate answer.

(i) **It is possible that people can reveal choice pattern in they so want.**

(j) Supply of public goods and pricing policy:-

The government may either produce or purchase from private market or may combine public production and public purchases for the supply to people through budgetary provision.

To meet efficient allocation of resources under normative system, such purchases must follow certain policies:

(i) It is necessary to see that all goods are produced under the condition: marginal cost = price. When government establishes a perfect market, it may pay the market price (=MC) which becomes an efficient price policy for allocation branch of the budget.

(ii) Secondly, when government purchases from privately producing decreasing cost decreasing cost industries, a subsidy would be required to achieve optimum allocation.

(iv) The Government may not regulate private sales and prices but may use its bargaining position as bulk buyer .in some cases ,price control and rationing may also be restored to.

(K) Balancing of Budget of Allocation Branch:

When taxes are raised to meet public wants through budget, these resources will not be available for production of private wants. In this sense of opportunity cost, the budget of the allocation branch must necessarily be balanced.

However, when balancing of budget is interpreted in the sense of equality between tax receipts and public expenditure, the budget need not necessarily be balanced. It will be balanced only when public goods are currently consumed. In case of capital outlays, when borrowing finance expenditure, only the interest charges and depreciated capital value are paid out of tax receipts. The full cost will be recovered during the life span of the projects from tax receipts. In this sense, the budget must be balanced in financial terms. This is what is referred to as principle of balance budget in the allocation branch.

(4) Characteristics of Public Goods :

The following are the most important characteristics of public goods:

- (a) equal consumption by all,
- (b) incapability of exclusion principle,
- (c) absence of revealed preference,
- (d) vertical addition of demand curve,
- (e) externality of benefit or cost
- (f) non-rival consumption, i.e. joint ness in consumption,
- (g) joint ness in production and joint cost,
- (h) marginal cost of supply close to zero,
- (i) subjected to decreasing cost,
- (j) supply determination through political process, and
- (k) supply free of direct charges through budget.

(5) Types of Public Goods.

(a) Public goods may be grouped into three classes :

- (i) Social goods,
- (ii) Merit goods and
- (iii) Mixed goods.

(6) Distribution branch of the budget :

- (i) Several factors determine distribution of income
- (ii) Concept of equality in interpreted in different ways.
- (iii) Society's total income which included both goods and leisure and

which is available for distribution is itself a function of the state of distribution.

- (iv) Most widely accepted view is that distribution of income should be

based on income equality criterion. Here also proper definition of income is difficult. Since income may arise from various sources and is different forms, a proper definition must consider all these sources. Hence, a political process of voting should be resorted to.

(7) Stabilization branch of budget :

(a) Compensatory fiscal policy is the function of stabilization branch.

Thus, the objective here is to maintain high level of resource utilization and stable value of money.

(b) There rules of compensatory finance deal with :-

(i) involuntary unemployment, (ii) inflation and (iii) stability

(c) Role of monetary and debt policy – role of fiscal adjustment in securing economic stabilization is to influence private expenditure. The expansionary or contractionary influence depends on – (i) income effect on consumption, (ii) asset effect on consumption and (iii) Claim effect on investment.

Chapter - 2

Concept of State Finance

Prof. Dr. R.K. Choudhury,

1. Introduction:-

In simple terms, state finance, may be viewed as a subject which concerns, itself with the rules, formulations and practice of public finance as could be applied to a state which derives its political autonomy status from the constitution of a federal country. Thus the concept of state finance emanates from the theoretical framework relating to taxation, public expenditure and public debt on the one hand and centre – state financial relations on the other.

2. Distributions between public finance, central finance and state finance: -

In order to understand the concept of state finance, a proper definition of public finance is necessary and its distinction from public finance and central finance must be very clear.

(a) Public Finance: -

Since the Great Depression of 1930's followed by war time inflation and, more particularly since publication of *J.M. Keynes's "General Theory"*, it was clearly recognized that the discussion on effects of particular taxes and of government expenditure is but a part of the subject matter of public finance and that any complete study must include a full discussion of the influence of fiscal operations in the areas of overall economic activity. The use of taxation, public expenditure and public debt to achieve certain extra budgetary objectives to influence the level of economic activity is certainly an important development in the study of public finance. Thus public finance may be defined as a subject that deals with taxation, public expenditure and public debt not only as revenue raising and revenue spending devices but also as fiscal instruments

to influence production, consumption, investment, exchange and distribution of the total economy.

(b) **Concept of state: -**

The four characteristics of state are population, territory, government and sovereignty. Hence, a sovereign country is a state. The provinces of India are called states for courtesy's sake.

(c) **Central and State finances: -**

Public finance activities of a country are carried out in the context of its federal set up in which there are three tiers of government, viz, the Central government, the State government and the local government. The Constitution of India demarcated the financial areas and financial power as between the centre and the State. Tax sharing as well as a system of grants-in-aid is also provided for in the constitution. The Seventh Schedule of Indian constitution contains three lists of such functional jurisdictions, viz, the union list, the state list and the concurrent list. Thus, state finances will relate to its own taxes, share of central taxes, grants-in-aid, award of Finance Commissions, Central government loans, state government loans and guarantees and its various expenditures.

3) Subject matter of state finances:-

- (a) Revenue mobilization – tax, non-tax and loans.
- (b) Public expenditure – development and non – development (Revenue & Capital).
- (c) Public debt and government guarantee of loans.
- (d) Federal sharing of resources.
- (e) Financial administration and budgeting.
- (f) Control of public expenditure.
- (g) Subsidy system, PSU's and welfare works.
- (h) Fiscal administration – incentive and disincentive structure to influence private economy.

4) Influence of State Finance: -

(a) **Resource allocation: -**

It is important to note that government expenditure is a means of attaining its policy objectives rather than burdens to be financed. The major role of state finance is to provide for public goods in addition to influencing private production. The funds for the

purpose are raised through tax and non-tax revenue besides central transfer of resources and loans

(b) **Dearth of good regional taxes: -**

Whether a tax could be a good local tax or central tax will depend upon a number of criteria. They are the following

(i) **Efficiency:** - capacity or feasibility to administer the tax well, income tax (there will be variation of rates, degree of exemption, competitive reduction of tax rates and difficulty in tracing the origin of income source if it is a local tax).

(ii) **Suitability of Jurisdiction:** - Taxes with narrow jurisdiction will suit state government, such as real estate tax. Thus, the width of the tax base will decide whether the tax should belong to the centre or to the states.

(iii) **Adequacy:-** The tax revenue should be sufficient to carry out the functions assigned to the government.

(iv) **Desired Effect:** - When non-revenue objective is desired, the tax should be able to achieve it, i.e. B.O.P. dis-equilibrium can be dealt with the central tax like customs duty or rate differentials in house tax as per income position will be achieved by a house tax which should be a local tax.

(v) **Economy:** - It means economy of collection.

(vi) **Localized source:** - That there are very few good local taxes and the states have to largely depend upon centre and use the resources with utmost efficiency. Hence, fiscal administration must be very efficient.

5) Importance of state budget :-

Budget preparation and implementation will set the direction of the economy with respect to achievement of objectives.

6) Budget as an instrument of economy policy :-

- (i) Revenue raising devise.
- (ii) Incentive to economic activity and to correct deficiency of private sector.
- (iii) Human capital formation.
- (iv) Building of economic overheads.
- (v) Diversion of resources to more useful production.
- (i) Proper allocation of resources.
- (ii) Balanced development
- (iii) Saving and investment
- (iv) Cost benefit study.

- (v) A check to misuse of funds.

(b) **Modern classification of budget :-**

(i) **Economic classification :-**

Current expenditure	Capital expenditure
<p>(a) Consumption Expenditure : (i) Salaries and wages (ii) Goods and Services (iii) Less out side sales (iv) Net consumption Expenditure (I + ii – iii)</p> <p>(b) Transfer Payment (i) Interest Payment (ii) Grants to local bodies. (iii) Subsidies (iv) income account of households (v) Total Transfer Payment (i + ii + iii + iv)</p>	<p>(a) Gross Capital formulation :- (i) Building and other Construction. (ii) Machinery & Equipments. (iii) net increase in stock Total GCF = (i + ii + iii)</p> <p>(b) Capital transfers :- (i) Grants for capital formation to local bodies. (ii) Other capital transfers Total CT = (i + ii)</p> <p>(c) Loans & Advances :- (i) for capital formation (ii) for current consumption Total = (i + ii).</p>

Chapter – 3

ANALYTICAL REVIEW OF PRESENT STATUS OF STATE FINANCES

Prof. Dr. R.K. Choudhury

I INTRODUCTION

It is widely known that the present condition of State Finances is not at all happy. The deteriorating situation is, however, the product of a number of factors getting germinated and developed over the years perhaps from the very mechanism employed to remove the backwardness characteristic of states. The most important contributory elements of backwardness are low per capita income and unhelpful occupational pattern, heavy population pressure and large scale unemployment, low rate of capital formation and poor quality of human capital, low level of technology, poor health and hygiene and low level of consumption.

In a federation like India where the Constitution makes clear-cut division of powers between the Union and the State Governments, the states are mostly responsible for their growth of well being. Because of the above noted characteristics features, the states had to assume increasing functions and find resources to finance them. The extent of the dearth of funds and pattern of deterioration in the present status of state finances may be read from the following figures.

II PROFILE OF TOTAL REVENUE & TOTAL EXPENDITURE OF STATES

Sl.	Items of States Revenue & Expenditure	Percentage of GDP		Percentage of Total Revenue		Total Expenditure
		1980 - 85	1995 - 2000	1980 - 85	1995 - 2000	

A 1.	Revenue Receipts (a+b)	11.5	12.3	73.7	75.9	
	a) Tax Revenue	5.1	5.8	32.5	36.1	
	i) States' own taxes	2.5	2.8	16.2	17.1	
	ii) Share in Central taxes	3.9	3.7	25.1	22.7	
	b) Non-tax Revenue					
2.	Capital Receipts (a+b+c)	4.1	3.9	26.3	24.1	
	a) Loans from Centre	0.4	0.3	2.4	1.8	
	b) Recovery of loans	1.5	1.6	9.3	9.9	
	c) Other receipts					
3.	Total Revenue	15.6	16.2	100.0	100.0	
B 1.	Revenue Expenditure (a+b+c)	11.1	13.5	68.9	82.7	
	a) Developmental	7.9	8.1	48.9	49.6	
	b) Non-developmental	3.1	5.2	19.1	32.0	
	i) Interest & debt servicing	0.9	2.2	5.3	13.4	
	ii) Pensions	0.3	0.8	2.1	4.8	
	iii) Others	1.9	2.2	11.7	13.7	
	c) Other Expenditure	0.1	0.2	0.9	1.1	

Sl.	Items of States Revenue & Expenditure	Percentage of GDP		Percentage of Total Revenue		Total Expenditure
		1980 - 85	1995 - 2000	1980 - 85	1995 - 2000	
2.	Capital Disbursement (a+b)	5.0	2.8	31.1	17.3	
		2.1	1.6	13.2	9.5	

	a) Capital outlay	2.1	1.5	12.8	9.1	
	i) Developmental	0.1	0.1	0.3	0.4	
	ii) Non- Developmental	2.9	1.3	17.9	7.9	
	b) Others					
3.	Total Expenditure	16.1	16.4	100.0	100.0	

The figures of the above table comprising the period from early 1980s to late 1990s pointers to the deterioration of state finances. The deterioration, in fact started with 1980s. the period shows a galloping rise in revenue expenditure from 11 percent of GDP to 13.5 percent. While its component of development expenditure remained stagnant at around 8 percent of GDP, the non-development expenditure including interest payment and debt servicing rose from 3 percent to 5.2 percent.

Paucity of funds compelled the states to tighten their belts around public expenditure and the easiest option was to curtail capital expenditure on development programmes, diverting, thereby, the capital receipts in a large measure to consumption channels of revenue expenditure. Thus, capital expenditure as proportion to GDP fell from 5 percent in early 1980s to just 2.8 percent in late 1990s and the ratio of revenue to capital expenditure has declined from 70 : 30 to around 83 : 17 which certainly speaks of a significant deterioration in quality of expenditure. The continuous rise in salary bill of employees and other committed expenditures such as debt servicing, pensions etc. have been the major concerns of states.

Interestingly, States appear to have performed better in comparison to the centre in so far their tax efforts are concerned. Their own taxes in the period have increased from 5 percent of GDP to around 6 percent while their share in central taxes remained stable between 2.5 percent and 2.8 percent. Hence, unlike central government, they have not suffered from erosion of tax revenues, though the states should have collected much more in case of sales tax and other service taxes. In contrast, however, non-tax revenues particularly in the areas of user charges and returns from PSUs' in utterly discouraging. The net

result is the growth of revenue deficit of the states in 1996s, which rose from Rs.5,310 crore in 1990-91 to Rs.40,730 crore in 1999-2000.

III DETERIORATION IN PLAN EXPENDITURE OF STATE

Necessarily, the ability of states to sustain their plan expenditure has been badly affected. The following table shows how the share of state' plan expenditure has declined over the years.

Share of states in India total Plan Expenditure

PLAN	SHARE OF CENTRE (%)	SHARE OF STATES (%)	PLAN	SHARE OF (%)	SHARE OF STATES (%)
1 st Plan	36	64	Fifth Plan	48	52
2 nd Plan	54	46	Sixth Plan	53	47
3 rd Plan	49	51	Seventh Plan	59	41
Annual Plans (1966 - 69)	51	49	Eighth Plan	62	38
4 th Plan	50	50	Ninth Plan	58	42

Though the plan expenditure of states till 1970s and particularly upto fifth plan was significantly large and was around half of the country's aggregate plan expenditure in the period between third plan and fifth plan periods, it started coming down since sixth plan (1980 85) from 47 percent in early 1980s to just 38 percent and 42 percent in late 1990s, the rest being the allocation of central plan. As a result, the ability of state governments to undertake investment in both social and physical infrastructure has considerably declined since they were unable to indulge in deficit financing unlike the central government.

IV REASONS FOR GROWING RESOURCE GAP IN STATES

There are a number of reasons why the states have been facing larger and larger resource crunch over the years to finance their expenditure commitments. These reasons may be listed as below :

- i) Responsibility of state governments has increased many fold over the years since 1950s.
- ii) Size of governments have been disproportionate to their management skill.
- iii) Revenue base of states is drastically limited and their dependence on centre is ever-increasing.
- iv) Increase of central finance is much less than that of growth in expenditure commitments of states.
- v) Growing size of unemployment and increasing law and order problems.
- vi) State level PSU's have become too many and are over sized with passage of time and their mismanagement and interference have turned them into white elephants in most cases.
- vii) Liberal recruitment policy (as a measure against unemployment also) led to oversizing of government departments.
- viii) Problems of financing development programmes in states suffering from unfriendly plan finance policy and indulging in populist measures.
- ix) Low level of fiscal discipline in states.
- x) Misuse of public funds, lack of people's confidence in honesty and sincerity of government departments and poor expenditure control by states.

V TREMENDOUS DEBT BURDEN OF STATES

At present the state government borrows from centre on the basis of Planning Commission's Gadgil Formula. Further, the volume of their market borrowings is governed by central government and the RBI borrows on their behalf at the same rate of interest for all states. Thus, the state's borrowings are not related to their credit worthiness.

Secondly, the debt service payments of states both to the centre and to institutional creditors are built into their budgets and not related to success or failure of projects financed with borrowed resources. The debt burden of states surprisingly increased from Rs.2,740 crore in 1960-61 to Rs.4,09,250 crore in 200-01, i.e, by 150 times in the last four decades. The increasing debt service payments have eroded the capacity to either maintain adequate level of current expenditure or to make new investments. On the other hand, if Finance Commission's transfers to the states are enhanced, they would only result in higher fiscal deficit for the centre. The lack of connection between the fiscal health of states and their ability to borrow or receive central assistance has encouraged states to be fiscally irresponsible and has subjected user charges to populist considerations.

Revenue deficit of states has climbed from 7.7 percent of gross fiscal deficit in late 1980s to more than 35 percent in late 1990s. Borrowing by state governments are now being used to finance even revenue expenditure like salary payments of their employees rather than capital expenditures.

VI SUGGESTIONS

In principle, there should be an inbuilt mechanism to establish a guide-post relationship between a state's fiscal health and its ability to borrow or receive subventions from centre. Investment in public goods should result in higher tax revenue and that in private goods should fetch higher returns through user charges on public services. The major portion of state's public expenditure goes to finance generation, transmission and distribution through State Electricity Boards financing of state road transport corporations and urban development authorities to supply public utilities. User charges must be adequate in all such cases.

In view of limits being placed on state government's borrowings, there has been a rising tendency by states to resort to public borrowings through PSU's directly from market and the guarantees are issued by state governments. However, the creditors have now started questioning the credit rating of state governments. Thus, the main instruments for achieving a sustained increase in

overall revenues are -- (a) expansion of the tax base, (b) widespread and bold imposition of user charges on all non-merit goods and (c) widespread and bold privatization through reorganization of PSU's.

On expenditure side, what is most important is to ensure strict fiscal discipline, transferability and accountability on one hand and honesty, sincerity and devotion on the part of every official which should be linked with earnings and spending of government resources on the other.

Chapter - 4

UNION LIST, STATE LIST AND CONCURRENT LIST

DISTRIBUTION OF REVENUES BETWEEN THE CENTRE AND THE STATES

M.U. Ahmed,

The constitution of India provides for distribution of revenues between the Centre and the States as laid down below: -

- Art. 268 : Duties levied by Union but collected and appropriated by the States.
- Art. 269 : Taxes levied and collected by the Union but assigned to the State.
- Art. 270 : Taxes levied and collected by the Union and distributed by Union and the State.
- Art. 271 : Levy of surcharge by Central Government on taxes on Article 269 and 270 for specific purposes.
- Art. 272 : Excise duty on goods other than medicinal and toilet preparations may be distributed between Centre and the States. Central government to decide the list of such items.
- Art. 275 : Grants from Union to States.
- Art. 276 : Taxes on Profession, Trade, Employment etc.
- Art. 280 : Finance Commission – constituted thereof.
- Art. 282 : Grants for any public purpose.

- Art. 293 (2) : Loans to the State by Central Government.
- Art. 293 (3) : Consent of Government of India is necessary for any State to borrow within India.
- Art. 265 : No tax shall be levied or collected except by authority of Law.
- Art. 246 : Union list/State list/Concurrent list.

The Constitutional provision regarding management of State Finance:
The Constitution of India makes a clear division of power between the Union and the State Government. The principle adopted for this clarification is that taxes which have an inter state base are levied by the Union, while those with a local base are levied by the States. The residuary power belongs to the Union.

The Constitution contains provisions for the distribution of revenue from certain union taxes among the State. Taxes within union jurisdiction can, therefore be divided into four classes:

- i) taxes which are levied, collected and wholly retained by the Union,
- ii) taxes which are levied and collected by the union but proceeds are shared with the States ;
- iii) taxes which are levied and collected by the union but the entire proceeds of which are assigned to the states; and
- iv) taxes which are levied by the union but collected and appropriated by the states.

The Union taxes as laid down in list – I, Seventh Schedule of the Constitution are as under :

- 1) Taxes on income other than agriculture income.
- 2) Corporation tax.
- 3) Customs duties.
- 4) Excise duties except on alcoholic liquors and narcotics not contained in the medical or toilet preparations.
- 5) Estate and succession duties other than on agricultural land.
- 6) Rates of stamp duties on financial documents.

- 7) Taxes on capital value of assets, except agricultural land, of individuals and companies
- 8) Taxes other than stamp duties on transactions in Stock exchanges and future markets.
- 9) Taxes on sale or purchase of newspapers and on advertisements therein.
- 10) Taxes on railway freights and fares.
- 11) Terminal taxes on goods or passengers carried by railways sea or air.
- 12) Taxes on the sale or purchase of goods in the course of inter-state trade.

Taxes within the jurisdiction of the states as given in List – II of the Seventh Schedule are as follows :

- 1) Land revenue
- 2) Taxes on the sale and purchase of goods, except newspapers.
- 3) Taxes on agricultural income
- 4) Taxes on land buildings
- 5) Succession and estate duties on agricultural land
- 6) Excise or alcoholic liquors and narcotics
- 7) Taxes on the entry of goods into a local area
- 8) Taxes on mineral rights, subject to any limitations imposed by parliament
- 9) Taxes on consumption and sale of electricity
- 10) Taxes on vehicles, animals and boats
- 11) Stamp duties except those on financial documents
- 12) Taxes on goods and passengers carried by road or inland waterways
- 13) Taxes on luxuries including entertainment, betting and gambling
- 14) Tolls
- 15) Taxes on profession, trades, callings and employment.
- 16) Capitulation taxes

17) Taxes on advertisement other than those contained in newspapers.

The Union Government has exclusive power to impose taxes which are not specifically mentioned in the State or Concurrent lists. The Union and the State Government have concurrent powers to fix the principles on which taxes on motor vehicles shall be levied and to impose stamp duties on non-judicial stamps. The property and income of State are exempt from union taxation. The Parliament may, however, pass legislation for taxation by the Union of any which are not parts of ordinary functions of Government State trading or business activities of a states may delegate part of their taxing power to Central Government as has happened in the case of agricultural land being included in the purview of the Estate duty Act in many States. The Parliament has exclusive power to tax sales or purchase of goods in the course of inter-state trade.

Chapter – 5

GRANTS IN AID: REIMBURSEMENT OF ACCOUNTS AND PROCEDURE FOR CLAIMS

D.K. Gangopadhya, IAS, (Retd)

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Extending financial assistance to deserving persons or institutions for a worthy cause is a well-established practice of every Government. The Centre as well as the State Governments has been giving financial help and assistance to public bodies, autonomous institutions and registered voluntary organizations engaged in various economic and social welfare activities. The raison di entre of such financial help or grants-in-aid, as are commonly called, is that the functions of those organizations supplement the efforts of the Government and promote well being, or further such activities which the Governments would otherwise require to perform.

Grants-in-aid can be given to a person, an Association, or a public body or an institution having legal status of its won. Grants-in-aid are normally given to the following types of institutions:

- a. Organizations established by Government as autonomous bodies or Statutory bodies like Electricity Board, Road Transport Corporation, STATFED, Bhoodan Board, Social Welfare Board, Khadi & Village Industries Board etc.
- b. Institutions registered under Societies Registration Act, 1860.
- c. Registered Co-operative Societies.
- d. Voluntary organizations / NGOs whose activities help the welfare programmes and humanitarian activities like Assam Sahitya Sabha, Shankar Mission, Shankar Nethralaya, Bharat Sevashram Sangha, Ramkrishna Mission etc.
- e. Educational Institutions like schools and colleges for the purpose of supporting their teaching / non teaching staff and / or construction of buildings, libraries, auditoriums etc. This particular grant is often known as “deficit grant”.
- f. Local bodies like Panchayats, Municipal Corporations for upkeep of civil obligation / services.
- g. There is also a practice of supporting groups of Government servants to promote social, cultural and sports activities amongst themselves.

Besides the above, financial grants may be extended for anniversaries like Silver jubilee, diamond jubilee, platinum jubilee, centenary celebrations, special sports events or socio-cultural activities where bonafide and recognized Associations / institutions approach the Government for such purposes.

There is no hard and fast rule for giving financial aid to the above mentioned institutions. Sometimes grants-in-aid may be as much as 100% of the cost of services; and sometimes it is restricted to 25% of the approved expenditure with an upper ceiling. Again, grants may be recurring for year after year in a routine way, and also non recurring for one time only.

Basically, grants-in-aid are extended with a view to help recognized and bonafide institutions doing welfare or public activities.

Procedure for Claims:

Normally, an institution seeking grants-in-aid is required to submit a written application well in advance to the concerned Ministry to enable it make budget provision. It would be pertinent for the institution seeking such help to append testimonials like memorandum of Agreement, Articles of Association, Bye laws, Annual Report, Audited Balance Sheet, Certificate of Registration, etc. together with the welfare schemes / projects for which assistance is sought. In case the institution has already received such grants-in-aid in the past, it is required to submit the Utilization Certificate as well. It is the duty of the administrative department to examine the application, call for further clarifications / particulars as may be necessary, ensure that the organizations does not may have nay irregularity or serious allegations against it of misuse of funds before any financial help is decided upon. If the financial help is of substantial nature, the administrative department may also insist, in the terms and conditions for the grant, inclusion of a Government nominee in the Board of Management. Government representative's duty would be to oversee that the grants-in-aid extended on recurring basis or are utilized as per the terms and conditions.

Grants-in-aid by Central Government to States:

Connected with the above procedure for grants, which covers grants-in-aid to recognized and bonafide institutions, mention must be made of the grants-in-aid given by the Central Government to the State Governments. Central Government has a constitutional responsibility to extend grants-in-aid to the State Government under Article 275 of the Constitution of India for (I) meeting revenue gap, (ii) upgradation of standard of administration and (iii) for the purpose of further development of backward / tribal areas. Often, these grants are made on receipt of the recommendations of the Finance Commission set up by the Central Government every five years. There are many other types of

grants that the Central Government releases to the State Government, as part of the centrally sponsored schemes, Central Sector Schemes, natural calamities relief etc. after observing various formalities. Invariably in such cases the State Government are required to submit audited expenditure along with the Utilization Certificate, before claiming further grants / grants-in-aid for such purposes.

Before winding up this discussion, it would be relevant to point out that the State Government needs to formulate the general principle for extending grants-in-aid to autonomous bodies, recognized organizations, registered societies, voluntary organizations, local bodies, co-operative societies and educational institutions for guidance of the concerned departmental officials. Indiscriminate grants on adhoc basis may invite public criticism.

Chapter – 6

DIFFERENT KINDS OF GOVERNMENT ACCOUNTS

M.U. Ahmed

The Government Accounts are kept in the following three parts :

Part – I Consolidated Fund of the State

Part – II Contingency Fund of the State

Part – III Public Accounts.

In Part – I of the Accounts, there are two main divisions namely,

- 1) revenue consisting of section for “ Receipt Heads (Revenue Accounts) “ and “ Expenditure Heads (Revenue Accounts) “
- 2) Capital, Public Debt Loans etc. Consisting of sections for ‘ Receipt Heads (Capital Accounts) ‘ ‘ Expenditure Heads (Capital Accounts) ‘ and ‘ Public Debt ‘ (Loan and Advances etc.)

The first division deals with the procedure of taxation and other receipt classed as revenue and the expenditure meet there from. The section ‘ Receipt Heads ‘ (Capital Accounts) in the second division deals with receipt of a capital nature which cannot be applied as a set off to capital expenditure.

The section ‘ Expenditure Heads (Capital Accounts) ‘ in the second division deals with expenditure met usually from borrowed funds with the object either of increasing concrete assets of a material and permanent character or of reducing recurring liabilities. It also includes receipts of a capital nature intended to be applied as set off to capital expenditure.

The section ‘ Public Debt ‘ and ‘ Loans and Advances ‘ of the second division comprises loans raised and their repayments by Government and Loans and Advances made (and their recoveries) by Governments. The section also includes certain special types of trade of transactions relating to ‘ Transfer from the Consolidated Fund to the Contingency Fund and Inter-State Settlements.

In Part - II of the Accounts are recorded the transactions connected with the Contingency Fund set up by the Government of India or of a State or Union Territory Government under Art. 267 of the Constitution / Sections 48 of the Government of Union Territories Act. 1963.

In Part – II of the Accounts the transactions relating to Debt (other than those included in Part – I) ‘ Deposits ‘ ‘ Advancers ‘ ‘ Remittances ‘ and ‘ Suspense ‘ are recorded. The transactions under ‘ Debt Deposits and Advances ‘ in this part are such in respect of which Government incurs a liability to repay the moneys received or has a claim to recover the accounts paid together with the repayments of the former (Debt and Deposits) and the recoveries of the latter (Advances). The transactions relating to Remittances and Suspense in the part embrace all merely adjusting heads under which appear such transactions as remittances of cash between treasuries and currency charts, accounts between different accounting circles, etc. The initial debits or credits to these heads are cleared eventually by corresponding receipts or payments either within the same circle of accounts or in another account circle.

Within each of the divisions (Sections, the transactions are grouped into Sector and Sub-Sectors which are function Sub-divided into major heads of Accounts).

- CONSOLIDATED FUND [ART. 266 (I)]
- a] All revenue received by the State
- b] All loans raised by the State Government including loans by way of Treasury Bills or Bonds.
- c] Ways and Means Advance
- d] Money received in repayment of all loans.
- The following are the main sources of revenue credited into the consolidated fund of the State.
- I] Sale Tax.
- II] Land Revenue.
- III] State Excise Duty or Liquor.
- IV] Professional Tax.
- V] Agriculture Income Tax.
- VI] Entertainment Tax.
- VII] Roads Tax, Motor Vehicles Tax.
- VIII] Passenger and Goods Tax.
- IX] Luxury Tax.
- X] Electricity Tax
- XI] Stamps and Registration Duties.
- The above are all Tax Revenue. Besides these there are Non-Tax Revenues also. They are as follows: -
- a] Forest Revenue.
- b] Royalty on Mines and Minerals.
- c] interest receipts.
- d] Other Services (This includes fees realized from various sectors like examination fees, fines, etc.)
- e] Income from Lottery. Earlier Government used to get some revenue from Lotteries but because of ban on Lottery in the State the revenue received by the State from this source has become nil.
- Loans – The State Government mobilize resources through market borrowing against Bonds, Treasury Bills etc.
- Apart from the above sources the State Government used to get some funds from the Central Government. These are as follows:
- A] Share of Divisible Central Taxes like Income Tax, Central Excise, Customs, These are the Taxes collected by the Central Government. But certain percentages out of the total proceeds come to State

Government through devolution as per the award of the relevant Finance Commission of the particular period.

- B] Grants under Art. 275
- C] Loans under Art. 293 (2).
- Subject to the provision of article 293 (2) of the Constitution the executive power of a State Government extends to borrowing within to borrowing the territory of India the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of the State by law and to the giving of guarantees with such limits as may be so fixed.
- The Government of India may subject to such conditions as may be laid down by or under any law made by Parliament, make loans to any or so long limits fixed under Art. 292 are not exceeded; give guarantees in respect of loans resized by any State and any sums required for the purpose of making loans shall be charged on the Consolidated Fund of India.
- D] Loans against net Small Savings Collection.
- E] Funds transferred through centrally sponsored schemes.
- All the above noted revenues are credited into the Consolidated Fund of the State.
- The custody of the Consolidated Fund of the State and the payment of moneys into such fund, the withdrawal of moneys from such account and all other matters connected with shall be regulated by law made by the Legislature of the State. Expenditure from the Consolidated Fund of the State require prior Legislative authorization as required under Art. 266 (3), i.e. without authority under the Appropriation Act not a single penny can be spent from the said fund.
- **CONTINGENCY FUND** : The Contingency Fund is constituted under the provision of Art. 267. This fund is just like an imprest for the State to meet unforeseen and unexpected expenditure as established by law under the provision quoted above. To meet the emergent situation, government can take advance from this fund in the form of advance from Contingency Fund subject to regularization through supplementary demand in the next available session of the legislature. For example, to met the expenditure relating to drought, famine, flood, earthquake, epidemic etc. such advance may be taken.

PUBLIC ACCOUNT : Money held by the State Government in the form of trust are kept in the Public Account and the fund is constituted under the provision of Art 266 (2) of the Constitution of India. The funds realized by the State Government through General Provident Fund, State Government Employees Group Insurance Schemes, mobilization through small savings are credited into this fund. For withdrawal of money or incurring of expenditure from this fund no legislative authorization is required.

Chapter – 7
SOURCE OF STATE REVENUE

M.U. Ahmed

The State Government has two broad sources of revenue from taxes and non-taxes revenue. The revenue from taxes comes from three main sources. They are :--

- 1) taxes on income
- 2) taxes on property and capital transaction, and
- 3) taxes on commodities and service

The non-tax revenue includes administration receipt, net contribution of public enterprise, grants-in-aids from the Centre and other.

Under the head ' taxes on incomes ', the Central Government raise two important taxes, Personal Income Tax and the Corporation Tax.

The modern form of income tax in India dates from 1860 when a slightly graduated income tax at low rates was imposed. The tax was intended to be temporary and was abolished in 1865. But budgetary needs led to its reintroduction in 1869, again on a temporary basis. In 1886, it was made permanent by the Indian Income Tax Act which levied a graduated tax on incomes on a percentage basis. On the basis of the recommendation of the All India Tax Enquiry Committee, the Income Tax Act, 1922 was passed. This Act was amended a number of time, but the important amendment was passed by the Legislature in 1939, which introduced graduated rates on a slab basis and lowered the exemption limit.

There were a number of surcharges on income tax which the Government used to impose to mop up some revenue for a particular cause.

The States have been getting revenue from taxes on income in three ways – share of income tax levied by the Union Government agricultural income tax and the professional tax.

AGRICULTURAL INCOME TAX – Agricultural Income Tax comes within the sources of revenue available to the State. This tax was first levied by Bihar in 1933 and other State then followed. There is a tax on agricultural income in all

States except Bombay, Madhya Pradesh, Punjab and Jammu & Kashmir. The exemption limit and the rates of the tax are different in different States. The tax rates are progressive. In all States, which have imposed the tax the slab system is followed except in Bihar. When the step systems has been adopted. The revenue from this tax is small.

TAX ON PROFESSIONS, TRADES AND CALLING – This tax is levied by the States and also by some local bodies in some States. The tax, in effect is a tax on income. Therefore to prevent competition of the tax with the central income tax, provision is made in the Constitution fixing a limit of this tax per annum for an assess. As the burden of the tax is small it cannot be said or involve double taxation. The total revenue likely to yield from this will be around Rs.5.00 crores.

TAXES ON CAPITAL – Taxes on capital includes the wealth tax, estate duty and the gift tax in the Union list and land revenue and taxes on urban immovable property on the State list. All the central taxes are of recent origin. The urban immovable property tax has also been imposed in certain States only recently. The land revenue is, however, an old tax which has existed for centuries. It has remained stationary in basis and nature for several decades now and it is no longer the most important source of revenue for States that once it was.

WEALTH TAX – The tax on wealth was imposed in 1957, mainly on the recommendation of Prof. Kaldor. It is an annual tax on the net wealth of individuals and Hindu undivided families. The companies were excluded from the scope of the tax in 1960 and the incidence of this tax was added to taxes on profits.

There are certain exemption in respect of certain types of assets. These include –

- 1) Property held for charitable religious purpose;
- 2) The share in the property of a joint Hindu family;
- 3) Anyone building used as official residence by rules of a former princely States;
- 4) Personal effects;
- 5) Professional tools and instruments of a value upto Rs.20,000.00;

- 6) Instruments and apparatus used for scientific research;
- 7) Postal deposits in any form;
- 8) Amount standing to the credit of a provident fund;
- 9) Rights under any patent or copy right or the right to revive a Pension or interest in any policy of insurance;
- 10) Share in banking insurance, shipping and approved financing company;
- 11) House exclusively used for residential purpose.

ESTATE DUTY – The estate duty was levied in 1953. This duty in respect of property other than agricultural land is levied by the Union Government but the procedure of the tax are distributed among the States. Under the Constitution, the duty in response of agricultural is levied by the State Government but a State Government may otherwise the Union Parliament to do so. This has been done by a number of states and for these states, the Centre impose the taxes. There are various other exemptions from estate duty. The value of gifts otherwise exempt from the tax are aggregated with the estate for determining the average rate of duty. Similarly, insurance policies for payment of the duty or on the life of the deceased are also included as part of the estate for calculating the rate.

In addition to the exemptions mentioned above, some other relief are also granted. Exemptions are allowed of immovable property situated outside India; also movable property in foreign countries, provided the deceased was not domiciled in the said country at the time of his death. Relief is also granted to avoid double taxation. The amount whatever realised from estate duty is transferred to States in to 70. Estate duty tax imposed and exempted by the Centre but fully transferred to the State.

THE GIFT TAX – A tax on gift was introduced in April, 1958. The tax was complementary to the estate duty and the wealth tax. The tax was necessary to check the evasion of the expenditure tax, the wealth tax and the estate duty. The liability to estate duty and the wealth tax could be reduced or avoided by making gifts. The tax is charged for every financial year on gifts made during the previous years.

THE EXPENDITURE TAX – The expenditure tax was imposed in April, 1958 under the Expenditure Tax Act. The tax was payable from 1958 – 59 on expenditure incurred in the relevant previous year. The tax yielded only small amount of revenue.

TAXES ON PROPERTY AND CAPITAL TRANSACTION OF STATE – The States have been getting revenue from taxes on capital and capital transactions.

LAND REVENUE – Land revenue was one of the most important source of revenue for the States. It is now only second to the sales tax. The basis of the tax and the rates vary from State to State.

STATE EXCISE DUTIES – State Governments are empowered to levy excise duty on alcoholic liquors, opium, Indian having and other narcotics. The duty is levied by a State where the drugs concerned are produced in the State concerned or enter the State's jurisdiction from another state.

LAND REVENUE - Land revenue was one of the most important sources of revenue of the State. Now, it is only second to the sales tax. The basis of the tax and rates varies from State to State. The land revenue system in a State depends upon the system of land tenure. Land tenure in different States, differed widely in the past, but these different are being gradually removed by various land reforms which are being introduced. The land revenue in different States, therefore has less variations now. Before independence there were different land revenue systems but after independence land reform have been introduced and a uniform system was gradually brought into practice.

The basis of assessment if land revenue is different in different States. The basis of assessment varied from State to State while some States assessed it on the basis of the rate produce others assessed it on gross produce basis.

The rates of tax also differs from State to State. Where the assessment is based on net assets or on net produce, the rates of tax range between 25 to 50 percent.

The receipts of land revenue have been comparatively inelastic. The system of assessment in such as promoters this quality. The total land revenue

released in one year varies in the succeeding year as the same is entirely depends upon the collection machinery.

The land revenue in India is a highly inequitable tax. It falls more heavily on the poorer agriculturists than on the bigger landlords.

STATE EXCISE DUTIES – State Government are empowered to levy excise duties on alcoholic liquors, opium, Indian hump and other narcotics. The duty is levied by a State where the drugs concerned are produced in the State concerned or enter the State's jurisdiction from another State. The taxes are levied at varying rates in all States which have not prohibited their sales. Opium consumption has been rigidly controlled by the Central Government, which has a monopoly of its production. Since, 1959 sales of opium have been prohibited except for medicines and scientific purpose.

Alcoholic liquors are subject to excise duty at fairly high rates, in all those States which have not adopted a policy of prohibition. Prohibition has adversely affected the revenues of the States. At the time where the development and welfare activities of States are expanding they can ill afford to lose revenue from this source. Prohibition has however, a social and human aspect which cannot be completely ignored. The States must however, realise the importance of going slow in this matter as revenue losses must be carefully balanced against social and human gains before decisions are taken.

SALES TAX – The Government of India Act, 1935 assigned the power to levy taxes on sales and purchases of goods to the provinces. Under the Constitution in its present form the States have exclusive power to tax sales and purchase of goods other than newspapers. The Central Government has exclusive power to tax sales and purchases of goods in the course of ' inter-state trade but the procedure of any such tax must be distributed to the States in which they are extended. All the States except Jammu and Kashmir levy general sales tax on transaction inside the State.

The Sales tax have been imposed by States mainly for revenue consideration Prohibition and Zamindaris abolition have led to a decline in the revenue s of States and alternative source had to be found. The sales tax come

as an excellent source. Today, the sales tax is the largest single source of revenue for the States.

TAXES ON MOTOR VEHICLE – Motor vehicles are taxed in all States. The vehicle taxes include buses, lorries, cars, scooters, auto rickshaws and all other vehicles. The rate and basis of taxation differ from State to State.

States also levy certain fall, e.g., for registrations and transfer of ownership of vehicles for driving licenses, for issue of badge to conductors etc.

The proceeds of the tax are used for the development and maintenance of State roads.

ENTERTAINMENT TAX – The entertainment tax is levied on the value of tickets to places of entertainment such as cinema – shows, theatres, circus, sports, charity shows etc. The tax is collected from organizers of entertainment, who then add it to the price of tickets they sell. The tax is usually on a flat rate and the incidence is therefore, proportionate to the prices of the ticket purchased by the consumer. Exemption are granted if the entire proceeds of a show are to be devoted to philanthropic, religious charitable or national purpose or when the show is wholly for the advancement of education, agriculture, industry or public health.

In some states the power to levy these taxes has been delegated to the local authorities. In Delhi, the tax is levied by the Municipal Corporation. In Rajasthan, Panchayat Samiti are empowered to collect entertainment tax. In some States, a part of the proceeds is distributed to local bodies within whose jurisdiction the tax is collected.

ELECTRICITY DUTIES – Bombay was the first State to levy a tax on the consumption of electric energy in 1932. Other States these followed the suit. States are empowered under the Constitution to levy a tax on the consumption of electricity except when it is consumed by the Union Government or any railway.

The duty is collected from electric supply companies, which then is realised it from the consumers. The duty is generally on a flat rate basis, which is not desirable. The burden should fall more heavily on large consumers. Therefore progressive rates are more appropriate.

Chapter – 8

Sources of Revenues for the State Governments

Dr. R. K. Choudhury,

I. Introduction :-

The autonomous character of states in a federal country like India is constitutionally defined and the functional areas of centre and the states are demarcated. From within this demarcated area of state subjects, it is, however, difficult to find many good state sources of revenue to enable them to finance the functional programmes that have been constitutionally assigned to them. To fill the gap, therefore, the state governments have to depend on the central government for resources. These resources are made available to states in the form of outright grants or conditional grants, sharing or total distribution of some central taxes and different types of loans from centre. Before discussing these sources of resource transfer from centre to states, let us first see what rarity and volume of revenue do the states have access to, within their own jurisdictional sources.

II) Types of revenue sources of states :-

A look at the Financial Statement of Receipts under Consolidated Fund of a state government will make it clear that its receipts are of the following forms:

(1) **Revenue Receipts** :

- (a) tax revenues
- (b) non tax revenues
- (c) grants-in-aid and contribution .

(2) **Capital receipts**

- (a) public debt
- (b) loans and advances
- (c) inter-state settlement

Total Receipt = Revenue receipts + Capital receipts.

III) State's own Tax Revenue sources

- (i) Taxes on income :
 - (a) Taxes on Agricultural incomes
 - (b) Hotel receipts tax
 - (c) Taxes on professions, trade, employment etc.Total : State taxes on income
- (2) Taxes on Property and Capital Transactions :-
 - (a) Land revenue
 - (b) Stamps and registration fees
 - (c) Estate duty (taxes on immovable property other than agricultural land)Total ; Taxes on property and capital transactions.
- (2) Taxes on commodities and Services.
 - (a) Sale tax
 - (b) State excise
 - (c) Taxes on vehicles
 - (d) taxes on goods and passengers
 - (e) Taxes on duties on electricity
 - (f) OthersTotal ; taxes on Commodities and Services
- (4) State's own Tax Revenue total (1+2+3)

IV State's own Non-Tax Revenue:-

- (a) Interest receipts, dividends and profits
- (b) General Services:
 - (1) Public service Commission
 - (2) Police
 - (3) Jails
 - (4) Stationery and Printing
 - (5) Public Works
 - (6) State lotteries
 - (7) Others

- (c) Social and community Services:
 - (1) Education, Art and Culture.
 - (2) Medical and Public Health.
 - (3) Housing.
 - (4) Urban development
 - (5) Labour and employment
 - (6) Others
- (d) Economic Services :
 - (1) Co-operation
 - (2) Special and back ward areas
 - (3) Agriculture
 - (4) Minor irrigation, Soil Conservation and Area development
 - (5) Animal husbandry
 - (6) Food and nutrition
 - (7) Dairy development
 - (8) Fisheries
 - (9) Forests
 - (10) Industries, Village & Small Industries
 - (11) Mines & Minerals
 - (12) Irrigation, Navigation, Drainage, etc.
 - (13) Power Project
 - (14) Roads & Bridges, Water Transport, etc.
 - (15) Tourism

States own Non-tax revenue total (a+b+c+d)

V State's Capital Receipts

- (a) Public debt of state government (interest debt)
- (b) Loans and advances from Central government.
- (c) Loans and advances to individuals and institution for various development activities.
- (d) Inter-sate settlement

States Capital receipts Total (a+b+c+d)

VI Transfer of resources from Centre to State (excluding loans)

(a) States share of income tax other than corporation tax.

(b) States share of Union Excise duties

(c) Grants-in-aids from centre.

Total transfer of resources (except loans from centre)

VII State Taxes : Volume, Characteristics and trend :

Receipt of States on Revenue Account :

TABLE – I

Sl.No	Items of Revenue	Amount of Revenue (1980 – 2001) (Rs. Crores)			
		1980 – 81	1990 91	2000 – 01	Growth Times / %
1.	Tax Revenue	10,200 (63.8)	44,590 (67)	1,76,410 (72)	17.2 times
2.	Non-tax Revenue	5,890 (36.2)	21,880 (33)	68,510 (28)	16 percent
	(i) Central grants	2,620 (16.1)	12,640 (19)	36,960 (15.1)	14.1 times
	(ii) States' own Non-tax Revenue	3,270 (20)	9,240 (12.4)	31,550 (12.9)	9.7 times
3.	Total Receipts on Revenue Account	16.290 (100.0)	66,470 (100.0)	2,44,920 (100.0)	15.0 times
4.	Total Revenue Expenditure	14,810 (91.0)	71,790 (108)	2,90,620 (199)	19.6 times
5.	Revenue deficit / surplus	(+)1,480	(-)5,310	(-)45,700	

NB:- Figures in bracket indicate percentage to total receipts on revenue account.

Thus, tax revenues of states have been continuously increasing both absolutely as well as relatively to non-tax revenues. The basic reason for this is the necessity to finance the continuously rising expenditure of states, recording a growth of 20 times in revenue account in the period 1980 – 2001 from Rs.14,810 crore to Rs.2,90,620 crore.

The following points on characteristic trend of revenue receipts are revealed from the table :

- (i) Growth in the volume of tax revenue is substantial. It has gone up by more than 17 times in the period of last 20 years from 1980 – 81 to 2000 – 01 as against 15 times in total revenue receipts.
- (ii) Non-tax revenue has remained almost stagnant in so far as its growth is only 16 percent in 20 years.
- (iii) As proportion of total revenue receipts, while tax revenue has increased from 63.8 percent to 72 percent in the period, the non-tax revenue of states has declined from 36 percent to 28 percent.
- (iv) Though the volume of both central grants and the states own tax revenue has increased by around 14 times and 10 times respectively, their proportionate total revenue receipts declined from 16 percent to 15 percent and from 20 percent to 13 percent respectively in the period.
- (v) Total revenue expenditure increased by around 20 times as against total revenue receipts rising by only 15 times in the period.
- (vi) As proportion to revenue receipts, revenue expenditure rose from 91 percent in 1980 – 81 to 119 percent in 2000 – 01, which means that the budget surplus of Rs. 1480 crore got wiped out in course of time to give place to a revenue deficit of the quantum from Rs. 5,310 crore in 1990 – 91 to 45,700 crore in 2000 – 01.
- (vii) Comparative position of different Taxes :-

The state governments have three different sources of tax revenue. They are shown in following

Table 2

(Rs. Crore)

	Items of Tax	1980 – 81		2000 – 01		Growth times
		Amount	Percentage of total tax revenue	Amount	Percentage of total tax revenue	
1.	Tax on Income	1110	10.7	21,260	12	19.1
	a) Share of Income Tax	1000	9.6	19,390	10.9	
	b) Agriculture Income Tax	50	0.5	1,870	1.1	
	c) Professional Tax	60	0.6	NA		
2.	Taxes on Property	600	5.7	12,250	7	20.4
	(a) Land revenue	1250	1.4	1700	1.0	
	(b) Stamps and Registration	430	4.1	10,470	5.9	
	(c) Urban Property Tax (Immovable)	20	0.2	80	0.1	
3.	Tax on Commodities	8,690	83.6	1,42,900	81	16.4
	(a) Share of Union Excise	2,770	26.6	31,410	17.8	
	(b) State Excise duty	820	7.9	17,680	10.0	
	(c) Sales tax including	3,890	37.4	75,480	42.8	

	central sales tax	410	3.9	N.A.	4.7	
	(d) Motor vehicles tax	250	2.4	8,330		
	(e) Entertainment tax					
4.	Total Tax Revenue	10,400	100	1,76,410	100	17.2

Important conclusions that follow from the above table are as follows :

- (i) the revenue from all the three sources has been raising but that from commodity taxes has increased at the fastest rate. As proportion to total tax revenue, it was 83.6 percent in 1980 – 81 and 81 percent in 2000 – 01. The share of direct taxes i.e. taxes on property in total tax revenue is too small – at less than 11 percent in 1980 – 81 and 12 percent in 2000 – 01.
- (ii) It follows from the above that the tax system of states is becoming highly regressive falling more heavily on lower income groups. The central tax system is also regressive. Hence, the overall impact on the poorer classes is highly burden some.
- (iii) States revenue from taxes on income is presently 12 percent of total tax revenue, out of which almost 11 percent comes from their share of income tax. Agriculture income tax which is a state tax fetches barely one percent of their total tax revenue.
- (iv) With respect to taxes on property, the bulk of revenue is coming from stamps and registration, which is presently fetching around Rs.10,500 crores out of the total collection of Rs.12,250 crores. Out of the 7 percent of total tax revenue which comes from taxes on property, as much as 6 percent is originating from stamps and registration, revenue from their components like land revenue and urban property tax is negligible.

IX States dependence on Centre

- (a) the state's share of income tax has been reduced from 85 percent to 77.5 percent, while their share in Union excise duties, the second largest item of the states' commodity taxation after sales tax, has been raised by successive finance commissions from 20 percent to 45 percent.
- (b) Grants-in-aids from centre presently bring to the states more than 15 percent of their aggregate revenue receipts.
- (c) The states would receive an estimated amount of Rs.87,770 crore in 2000 – 01 on account of central resource transfer (Rs.50,810 crore as share of central taxes and Rs.36,960 crore as central grants-in-aids) which comprises 36 percent of their aggregate revenue receipts. This shows the extent of dependence on centre.
- (d) The states receive their share in taxes – till 1999 – 2000 from personal income tax and excise duty, imposed and collected by the centre but the proceeds shared with the states. But from the year 2000 – 01 onwards, the states would get 28 percent and another 1.5 percent (i.e. 29.5 percent) of all tax collections of the centre.

X Debt Position of States (Capital receipts)\

- (a) Classification of debt :
The earlier classification of states debt into public debt and unfunded debt has now been replaced by the new classification into
 - (i) internal debt comprising (a) current market loans and bonds issued in connection with zamindari abolition, (b) ways and means advances and overhead (respective within 7 days) from RBI and (c) loans from banks and other institutions.
 - (ii) Loans and advances from centre :
These are the loans and advances for both plan and non-plan purposes.
 - (iii) Provident Funds, etc : These include state Provident Funds, insurance and pension funds, trusts and Endowments, etc.
- (b) Debt profile of states :

TABLE – 3

Extent of states debt (1961 – 2001) (Rs. Crore)

Sl. No.	Items of Debt	Quantum at the end of March			Growth Times
		1961	1971	2001	
1.	Internal Debt	590 (21)	1,850 (21)	19,980 (24)	203
2.	Loans & Advances from Centre	2,020 (74)	6,360 (73)	2,85,820 (57)	141
3.	Provident Fund, etc.	130 (5)	540 (6)	93,040 (19)	716
4.	Total Debt (1+2+3)	2,740 (100)	8,750 (100)	4,98,840 (100)	181

NB :- Figures in bracket indicate percentage to total debt.

Though loans and advances from Centre as proportion to total debt of the states has come down from 74 percent at the end of 1961 to 73 percent in 1971 and down to 57 percent in 2001, it has remained the largest component of states total debt. It grew by 141 times in the 40 years period, 1961 – 2001. The interest burden of debt comes to more than Rs.50,000 crore annually.

While internal debt in the period has increased from around one-fifth to one-fourth of the total debt, provident fund, etc has increased from just 5 percent in 1961 to 19 percent in 2001. This speaks of the severe resource crunch the states have been facing with passage of time.

Chapter – 9

NON TAX REVENUE

M.U. Ahmed

(1) **Forest Revenue** :- Although forests have not been fully exploited in India, some revenue is available from this sources. The revenue from forest is derived from sale of trees, fodder grass and some other production such as lak, gums and Mesias and from the medicinal plants etc. Further development of forests will increase forest revenues. The revenue of the state from forests has shown some changes during recent years. It had contributed a good amount to the state exchequer prior to imposition of ban on felling of trees. Even than it has played a pivotal role for the state in mobilizing revenues. Forest also yield a small revenue to the Central government.

(2) **Royalty on Mines and Minerals** :- The State has its own mines and minerals and for that the State used to get some revenues from royalty on mines and minerals. Assam and few other states used to get a good amount from the Centre for extraction of its crude oil in the form of royalty. Similarly for extraction of minerals like stone, granite uranium etc. and the states used to get some revenue from these minerals and the same is credited to the state exchequer.

(3) **Interest Receipt** :- The state Government used to give loans to various organizations including its employees for some definite purpose and against that they used to get some amount of money in the shape of interest and these are credited to the state exchequer.

(4) **Income form Lottery** :- The State Government used to run its lottery and a very good amount was earned from it as profit which enhanced revenue and was credited to its exchequer. But now a days most of the states of the country have stopped the practice of running government lotteries and hence the revenue from this source has become nil for these states.

(5) **Irrigation Cess** :- After independence, the government have taken up irrigation projects with the intention of extending irrigated water to the cultivators to increase the agricultural production and to make the country / state self dependent in food gains. But for providing this irrigation facilities government

used to incur quite a huge amount both for its installation as well as for its maintenance. Since our is a democratic country and it is the prime duty of the government to extend all benefits to its citizen for its betterment rather than earning of profit, just to give a sense of belonging to the project a minimum charge in the form of irrigation cess is imposed and realised from the beneficiaries and that has been credited to the state exchequer.

Non-Tax revenue levied by the Local Bodies

- 1) **Taxes on Property.**
 - a) Taxes on Land and building – imposed by the Municipalities, Panchyats etc.
 - b) Basement charges.
 - c) Stamps duty on transfer of property, imported by state Government.
 - d) Cess on Land are generally/usually imposed by local bodies/ Panchayats
- 2) **Taxes on Professions.**
- 3) **Taxes on vehicles, Animals and Boats.**

Chapter – 10

PUBLIC BORROWING

Dr. R.K. Choudhury

I INTRODUCTION

There was a time when public borrowing (i.e. borrowing by public authorities) and private borrowing both were equally despised. However, since the later decades of 18th century, borrowing came to be regarded as an important method of government financing and financial tool taxation and public expenditure.

II DISTINCTION BETWEEN PUBLIC & PRIVATE BORROWINGS ;

Public borrowing is different from private borrowing in four ways :

- a] while government can borrow both from internal and external sources, private borrowing can be made only internally.
- b] as the government borrowings are spent for the benefit of people, the lender is also benefited from expenditure, but when the private borrower spends, the benefit does not go to lender.
- c] while the government can borrow from others as well as from itself, a private person or agency can borrow from others only, and
- d] when private debt is repaid, the burden is borne by the debtor himself / herself, but when the government repays debt the burden will be borne by the entire community.

III DIFFERENCE BETWEEN THE CONCEPTS OF PUBLIC BORROWING & PUBLIC DEBT

Though these two terms are often used synonymously, one should take note of a difference between the two. The difference can be better understood with reference to their effects. Since borrowing is one of the methods of securing funds for government financing, the effect of borrowing refers to the effect on expenditure programmes of the lenders.

On the other hand, the effect of public debt refers to the economic effect, caused by existence of public debt after it has been incurred, i.e. after the bonds have been issued to lenders.

Like others, we have also used these two terms in this write synonymously.

IV REASONS FOR GROWING PUBLIC BORROWINGS

There are a number of reasons why a growing trend of public borrowing is being noticed in modern times in both the underdeveloped and the developed countries. The following are the main factors responsible for rapid growth in public borrowings the world over in recent times.

- i] war and defence expenditure
- ii] relaxation of rigidity of Balanced Budget principle.
- iii] public debt as anti-depression fiscal device.
- iv] public debt as an anti-inflation fiscal policy.
- v] provision of social and economic overheads.
- vi] growing capital budget of government.
- vii] creation of employment through construction of public projects.
- viii] import of technical know-how and technology in underdeveloped countries.
- ix] import of food grains in underdeveloped countries.

V SOURCES OF PUBLIC BORROWING

There are various sources, i.e. individuals or institutions purchasing government bonds or lending sources of public borrowing :

- i] Private individuals
- ii] Non-banking Financial Institutions (like UTI etc.)
- iii] Commercial banks
- iv] Central banking system
- v] Small savings
- vi] Provident fund of employees
- vii] foreign governments
- viii] Foreign individuals or NRI's
- ix] Foreign banks and other non-financial institution.
- x] International Financial institutions.
- a] Both individuals and non-banking institution prefer government bonds mainly because of security they provide and because they are highly marketable and negotiable.
- b] The commercial banks can purchase government bonds through credit creation unlike individuals and non-banking institutions. (Thus, the purchase of bonds does not reduce their loans and advances).

- c] The most expansionary source of public borrowing is the central banking system because credit creation is much larger.

VI BURDEN OF PUBLIC BORROWING

Whether public borrowings impose a burden on the community or not is a controversial issue. In earlier views, public borrowings were in no way different from private borrowings and, hence, much borrowings would lead to bankruptcy. However, the post-Keynesian economists reject this view and hold that public debt is a fiscal instrument capable of achieving economic benefits instead of harming the society.

A] BURDEN OF INTERNAL BORROWINGS

The true nature of internal debt depends on how the burden is defined. It is, however, defined differently by different quarters.

- i] If the burden is defined as loss of economic resources, then it does not impose any burden because the resources remain within the country.
- ii] If the burden is sought to be measured in terms of economic stresses and strains due to raising of additional tax to service the debt, taxes may tend to dampen incentives to bear risk, to innovate, to invest or to work. Hence, there will be burden.
- iii] If the burden is viewed in terms of reduction of income equality, internal borrowings of government will impose a burden on society. Because bond holders are generally richer classes while tax payers belong to both the rich and the poor groups. Hence, interest payment and repayment will divert resources from the poor to the rich.
- iv] In so far as public debt helps increasing inflationary pressure, it has a definite burden. Again, income effect of bond holders is positive and their excess demand will add to the inflationary pressure.
- v] Prof. E.D. Domar in his "Burden of Debt and the National Income" defines burden of public debt as ratio of total debt to total national income :

$$\text{Burden of debt} = Dt / Yt$$

Where Dt = total public debt held internally

And Yt = total national income.

B] BURDEN OF EXTERNAL BORROWING

External debt burden is very much different from the nature of internal debt. It imposes both burden and real burden on the community. Internal debt does not make a nation bankrupt, but an external debt beyond a limit can do so.

There is no political implication of internal debt but it is there in case of external debt. Ideological influence on debtor country is also not likely.

When external debt is repaid and serviced, payment has to be made in creditor's currency. Hence, goods and services are lost from the nation. This will reduce real income and so welfare level. This is a real burden.

VII REDEMPTION OF PUBLIC DEBT

- a] Repudiation of debt.
- b] Refunding through fresh loans.
- c] Conversion through lengthening the existing debt at lower interest rate by giving option to bond holders.
- d] Sinking fund method through regular saving to create it.
- e] Year - wise partial repayment.
- f] Capital levy (a special type of once-for-all tax).
- g] Buying up loans - when the government has surplus incomes, it can purchase bonds from the lenders or from the money market.
- h] Redemption of external debt.

VIII EFFECTS OF PUBLIC BORROWINGS

Public debt will result in effects of various kinds. Public debt will specifically influence the economic position of lenders on the one hand and the people and the people unfitting from debt-financed expenditure programmes on the other. The following are the most important effects

- a] effect due to lending of funds -- since it is voluntary, it need not curtail current consumption as in the case of taxation. Normally, government bonds are purchased with funds that would have been otherwise invested.
- b] effect due to expenditure of borrowed funds.
- c] effect of public debt on consumption (through both income effect and asset effect)
- d] effect on savings and investment :

There are effected through interest rate. Issue of bonds generally raise interest rate and, since savings are generally interest-elastic, public debt should raise savings. It may not, however be so if savings are fixed. Investment expenditure of bond holder is influenced by public debt through claim effect.

- e] public borrowings and financing of economic development.
- f] anti-cyclical debt and economic stability.
- g] public debt as a means of regulating economy :
not only economic stability through open market operation but that a well managed public debt can regulate the money market through variations in size, composition and yield of public debt to ensure appropriate liquidity position of the market and investment climate with stability.
- h] effect on redistribution of income in society.
- i] effect on allocation of economic resources (through choice pattern of spending the funds borrow).
- j] influence on reduction of tax-income ratio (is public expenditure is to be financed by taxation alone, a heavy strain will be caused to tax payers and, hence, loan finance will ease such hardship through reduction of tax-income ratio.
- k] effect of external public debt.

IX SAFE LIMIT OF PUBLIC DEBT : CAN A COUNTRY BECOME BANKRUPT?

- a] since the burden is to be measured by economic strains due to raising of tax in servicing and repaying debt, the ultimate limit is determined by the economic strains that can be absorbed by the economy.
- b] According to Domar, the safe limit will directly related to national income growth.
- c] It follows that the safe limit will depend on how and for what purpose is the public debt utilised.
- d] Now-a-days, there are a number of self-imposed limitations by government. Thus, purpose is defined -- it is used for building up of assets and also constrained by debt management.
- e] Maximum level of debt can be expressed in terms of the equation :

$D = \frac{Y_t - O}{r}$ where D = maximum sustainable national debt,

r = interest rate on government borrowings,
O = constant expenditure for ordinary government operation,

T = maximum ratio of tax to national income,

Y = national income,

R = interest rate on government borrowings.

Chapter - 11

GOVERNMENT GUARANTEE

M.U. Ahmed,

With a view to develop certain areas / sectors Government have established Public Sector Undertakings in joint ventures including some in Co operative Sectors. The Govt. invests in all those corporations / Boards in the shape of share /equity and for that investment the Government is supposed to get some return but that has not materialized as most of the corporations are incurring losses. At present there are 49 Public Sector Undertakings in the State of Assam. The conditions of the Public Sector Undertakings are not good and most of them are at the dying stage excepting two .The condition of the Public Sector Undertakings is such that not to speak of payment of dividends to state Govt. they cannot even meet the pay and allowances of their staff.

The Public Sector Undertakings cannot take loans directly from the financial institutions and they can only take loans through the State Government. Taking of loans through state government means the state Government is to act as a guarantor. As and when the state will act as the guarantor then the financial institutions will extend loans to that public sector undertaking. But there are certain conditions, which are to be fulfilled by the public sector undertakings before the state government can act as the guarantor.

Accordingly state government adopted policy decisions and issued guidelines in these regard . The state government fixed a maximum ceiling upto which it can act as a guarantor .The maximum ceiling is Rs.1500.00 crores. Further, the state government also decided that the deed of guarantee is to be signed by a authorised representative of the Finance (Economic Affairs) Deptt. as a witness otherwise the guarantee deed will not be valid .While acting as guarantor the following procedure is to be followed:-

PROCEDURE FOR ISSUE OF GOVERNMENT GUARANTEES.

The State Government has long since been providing guarantee against loans, bonds and debentures on behalf of State Public Sector Undertakings, Local Bodies, Statutory Boards, cooperative institutions for commercial as well as non-commercial purposes and other purposes such a as that for infrastructural developments. Reserve Bank of India and the Government of India has been insisting that the State Government put a brake on the unbridled increase of /Government guarantees since the volume of Government guarantees have reached unmanageable

levels and is now threatening the already precarious fiscal imbalance of the State Government. The Technical Committee on State Government guarantees constituted under the Reserve Bank of India has recommended the enactment of legislation in respect of fixing a ceiling on Government guarantees. As present the State Government has been facing a series of invocation of Government guarantees and also court cases from the financial institutions and banks since some of the State Public Under-takings and Cooperative Institutions have failed to discharge the Government guaranteed loans and bonds. The State Government being guarantor has had to honour its commitments and has already cleared defaults of several defaulting undertakings/institutions. This has put immense pressure on the State Government's finances. As of now, there are huge outstanding over dues due to the financial institution and the banks against guaranteed loans and bonds. If all the banks and the financial institutions are to claim their over dues and invoke Government guarantee, the State Government will not be in a position to meet such huge liabilities.

Prohibition : keeping in view the present deteriorating fiscal position of the State Government it is necessary to regulate guarantees on a discriminatory and selective way-

1. No government guarantee shall be given in favour of banks and financial institutions on behalf of private individual or group, private institution or company, Autonomous Council and Co-operative Societies not owned by the Government.
2. No guarantee shall be allowed for working capital.
3. No guarantee shall be provided unless projects are found commercially/economically viable and thereby are capable of generating income to take care of debt servicing.
4. No guarantee shall be provided to the defaulting State Public Undertaking and State run Co-operative Institutions.

Guarantee Commission : The State Government shall charge a minimum 1% (one percent) as guarantee commission which shall not be waived under and circumstances.

Automatic Debit Mechanism : Even if guarantees is agreed to, no automatic debit or the State Government account with Reserve Bank of India shall be allowed under any circumstances.

Procedure for submission of proposal for Government guarantee :- In order to streamline the proposal for Government guarantees and to contain the guarantees within the prescribed ceiling, if it is necessary to adopt the following procedure/guidelines.

1. All proposal for Government guarantees should be submitted to Finance (Economic Affairs) Department, Finance (Economic Affairs) if the nodal department for all proposals relating to the Government guarantees.
2. State Public Undertakings and Government Cooperative Institutions seeking guarantee for projects/schemes should give balance sheet, profit and loss account of Government guaranteed loans showing principal outstanding, interest liability till liquidation and overdue amount (principal plus interest), if any, in case of default.
3. The proposal should contain detailed viability report showing cash flow from the new scheme/project, establishment costs, annual cost of debt servicing including new proposal along with recommendation of Administrative Department with justification.
4. Proposal for Government guarantees must obtain prior approval of Public investment Board and for that, proposal should first be submitted to the Public Enterprise Department.
5. After approval of Public Investment Board, the Administrative Department is to move Finance (Economic Affairs) Department along with draft Cabinet Memorandum and guarantee deed for views on the proposal.
6. The Administrative Department will then move the Cabinet for approval with the Cabinet Memorandum based on the proposal duly approved by the Public Investment Board and incorporating views of the Finance Department.
7. On receipt of the approval of the Cabinet to the proposal, the Administrative Department will issue the Government's sanction to the guarantee for loan/bond to be raised from the Finance Institutions and Banks for the project/scheme. A copy of sanction is to be sent to Finance (Economic Affairs) Department.

Chapter – 12

GOVERNMENT GUARANTEE

Prof. Dr. R.K. Choudhury,

1. Introduction :-

There are many Public Sector undertakings, municipal institutions and local bodies, Statutory Boards, Co-operative institutions like primary Agricultural Co-operative Societies, State Co-operative Banks etc. which require borrowed funds for commercial as well as non commercial purposes in addition to some other purposes of basic economic nature like infrastructural development. The state government has long been providing guarantee against loans, bonds and debentures on behalf of these organizations.

2 Huge overdue and non-repayment. :-

However, the distressing fact is that such loans and bonds have remained overdue in huge amounts and a substantial amount has turned into bad debt due to non-repayment. For Co-operative credit institutions alone, the over dues in the country now accounts for more than Rs. 10,000 Crore. Lack of will and discipline among the cultivators to repay loans, effective lending policy, the apathy of management in taking concessions of various forms towards repayment, etc. have been the prime reasons for the huge over dues.

3. Court Cases an invocation of guarantees :-

Presently the state government of Assam, like other states, has been facing a series of invocation of guarantees and also court cases from the financial institutions and banks since many state PSU's and co-operative institutions have failed to discharge the government guaranteed loans and bonds. The state government being guarantor has had to honour its commitments and has already cleared defaults of several defaulting undertakings and institutions. This has put immense pressure on the State Government's finances.

Things have come to such a pass now that if, all the banks and Financial Institutions are to claim their over dues and invoke government guarantee, the state government will simply be unable to meet the liability. The State of Assam is already burdened with a debt liability of around **Rs. 12,000 crore**. Government guarantees have added to the anxiety of the state already suffering from a huge fiscal imbalance.

4. Insistance from the Centre and the Reserve Bank of India :-

The Reserve Bank of India and the government of India have asked the state government to put a brake on the unreasonable increase of government guarantees which are now threatening the already precarious financial situation of the state. Keeping these problems in view, the state government has decided to regulate such guarantee obligations in a selective and discriminatory manner as an emergent measure to rationalise the system of government guarantee and make it relevant to ground – realities.

5 Prohibitory Guide Posts :-

The weapons to be applied to drastically limit the ongoing rise in government guarantee quantum that the state government has decided to apply are the following :

(a) **No guarantee for non – government debtor :-**

No government guarantee shall be given in favour of individual and financial institutions on behalf of private banks and financial institutions on behalf of private individual or groups. Private institution or company, Autonomous Councils and co-operative societies not owned by government.

(b) **Working Capital :-**

No guarantee shall be allowed against loans to be used to build up working capital.

(c) **Economic Viability of Project :-**

No guarantee shall be provided unless the projects are found commercially or economically viable and thereby are capable of generating income to take care of debt servicing.

(d) **Defaulting PSU's and Co-operatives :-**

No guarantee shall be provided to the defaulting state public undertakings and the state run co-operative institutions.

(e) **Guarantee Commission :-**

The state government shall charge a minimum of 1.0 percent as a guarantee commission in cases of eligibility for government guarantee. The guarantee commission shall not be waived under any circumstances.

(f) **Automatic debit mechanism :-**

Even if guarantee is agreed to, no automatic debit of the state government account with Reserve Bank of India shall be allowed under any circumstances.

6. Terms for Proposal submission :-

In order to streamline the proposal for government guarantees and to contain them within the prescribed limit, the state government has adopted one following procedure to be applied to proposal submission :-

(i) All proposals for government guarantees should be submitted to Finance Department (Economic Affairs), the nodal department for all proposals relating to the guarantees.

(ii) The state PSU's and government cooperative institutions seeking guarantee for projects must give their balance sheet, profit and loss account of latest three years, functional status and detailed account of government guaranteed loans showing principal, outstanding, interest, liability till liquidation of loans and overdue amount (principal plus interest), if any, in case of default.

(iii) The proposal should contain detailed viability report showing cash flow from the new project, establishment cost, annual cost on debt servicing including new proposal along with recommendation of Administrative Department with justification.

(iv) Proposal for government guarantees must obtain prior approval of Public Investment Board (PIB) and, for that matter, proposal should first be submitted to the Public Enterprise Department of the government of Assam.

(v) After approval of Public Investment Board, the Administrative Department is to move Finance (Economic Affairs) Department along with the draft Cabinet Memorandum and guarantee deed for views on the proposal.

(vi) The Administrative Department will then move the Cabinet for approval with the Cabinet Memorandum based on the proposal duly approved by the Public Investment Board and incorporating views of the Finance Department.

(vii) On receipt of the approval of the Cabinet to the proposal, the Administrative Department will issue the government's sanction to the guarantee for loans, bonds, etc. to be raised from the financial institutions and banks for the project. A copy of such sanction letter shall be sent the Finance Department (Economic Affairs).

Chapter -13

DEBT MANAGEMENT AND INTEREST PAYMENT

Dr. R.K. Choudhury,

1. Introduction :-

Public debt now has come to be regarded as important method of financing government expenditure. In the developing countries, due to low level of current budget revenues, public debt has an important role to play. The deficit budgets are financed as anti – cyclical device in advanced countries. The emergence of large volume and variety of public debt in the spheres of its structure, maturity pattern, servicing, repayment etc, requires a proper debt management policy.

2. Low interest obligation :-

High rates of interest will necessitate large taxes for interest payment, while heavy taxation involves strains on the economy. Here debt management should plan the debt issues, maturity structure, interest rates, tax mobilization and debt redemption in such a way that it subjects the economy to minimum strains.

3. Preference Pattern of Investors

To keep low interest obligation, a given volume of debt with different maturity structure, show that it also satisfies the preference pattern of investors. The bond holders will like a proper mix of maturity structure so that a balance is struck between the highest possible interest income and liquidity (giving solvency)

- a) Conflict between interest income and liquidity because the shorter maturity will bring about longer liquidity, interest income will bring low. On the other hand, reverse will be the case with longer maturity of debt.
- b) Since bond holders are interested in both liquidity and interest income, the debt management has to place the maturity structure in such a way that a balance is struck between the both desires of bond holders.

- c) The management has to strike a judicious balance among these conflicting considerations.

1. **Monetization of debt** :

- a) In the investors are free to magnetize their bonds, the repayment obligation at a point of time might be as high as disrupting the spending programmes of government.
- b) Public debt management therefore, imposes some restrictions on monetisation in some cases:
- i) rising interest – bearing debt : The interest incomes to investors gradually rise as the maturity period is lengthened.
- ii) Non-marketable debt :- in such debt, off course period in Lengthened.
- iii) Combination of the above two devices : non – marketability restriction is imposed upon a certain period tether with provision for prograssive interest rates for longer maturity periods.

6. **Maintenance of Interest Rate** :-

(a) Assurance on interest income :

One problem for management is that investors will have to be assured of not losing interest income by preferring to invest in government securities

(b) Bond issue and serving for private fund :

Since investible funds in society is limited, flotation of public debt will reduce one funds available to private sector. This will raise interest rate and the bond holders will lose. Hence the management must ensure the investors that there would not be a post floatation rise in interest rate.

(c) Co-operation of monetary policy :

Debt management can be successful only with the co-operation of monetary policy. Since government has wide

powers over the central banking system, this co-operation is easily available

(d) residual buyer at par

If interest rate in private market rises, people will sell bonds, the value of which will fall. The central bank will check this value being residual buyer of these bonds at par.

(e) Bond Seller at Bar :

when there is scarcity of supply of government bonds so that the price of bonds rises about face value, the central bank will be ready to sell them at par from its stock to keep the value stable.

7. Complementarily of Fiscal policy :-

a) Financing of budget deficit and

b) Disposing of budget surplus

To secure stabilisation which invites complementarily of fiscal policy

(i) Income effect on Consumption.

(ii) Asset effect on Consumption.

(iii) Claim effect on investment.

Chapter – 14

EXISTING SYSTEM OF WAYS AND MEANS ADVANCES AND OVERDRAFT – ANALYSIS OF THE TRENDS IN WMA AND OVERDRAFTS

M.U. Ahmed

Agreement with States : Main Provisions

A state entrusts its banking business to the Reserve Bank of India by voluntarily entering into an agreement under Section 21A of the Reserve Bank of India Act, 1934. Twenty-three States entered into such agreements with the Reserve Bank of India to undertake general banking business in India, including payments, receipts, collection, remittance of money, management of public debt and issue of new loans. Two States – Jammu & Kashmir and Sikkim – have agreements with the Reserve Bank of India only for the limited purpose of managing their public debt. The Reserve Bank of India is not entitled to any remuneration for the conduct of ordinary banking business other than the advantages which may accrue to it from the holding of their cash balances free of and are subject to periodic agreements between the States and the Reserve Bank of India. The Reserve Bank of India advises the States about their daily cash at the close of each working day.

Ways and Means Advances:

Under Section 17(5) of RBI Act, 1934 the Reserve Bank of India provides Ways and Means Advances (WMA) to the States banking with it to help them to tide over temporary mismatches in the cash flow to their receipts and payments. Such advances, are under the Act, 'repayable in each cash not later than three months from the date of making that advance'. There are two types of WMA – normal and special. While normal WMA are clean advances, special WMA are secured advances provided against the pledge of Government of India dated securities. The operative limit for special WMA for a state is subject to its holdings of Central Government dated securities upto a maximum of limit sanctioned. In addition, the Reserve Bank of India has predetermined limits for normal and special WMA for each state as multiples of the prescribed minimum balance required to be maintained with the Reserve Bank of India by that State. These limits have been revised periodically. The present limits, effective from August 1, 1996 and work out to an aggregate of Rs.3,085.60 crore – Rs.2,234.40 crore (normal WMA) and Rs.851.20 crore (special WMA). At the time of the last revision

in 1996, the ceilings for normal and special WMA were fixed at 168 times and 64 times of the minimum balance of Rs.13.30 crore respectively.

The minimum balance of limits for WMA (at amounts equal to their respective minimum balances) of States were fixed for the first time on April 1, 1937. The limits were fixed on the basis of the ratio of their total revenue and expenditure to the corresponding total of the Centre prior to the introduction of provincial autonomy. The limits became effective from April 1, 1938 when the then provincial Government became responsible for managing their own ways and means position. After the formation of the Part – B States, in 1953, the minimum balance were revised in line with the growth in revenue receipts and expenditure in the intervening period. In the same year, the WMA limits were liberalized to twice the revised balances, and a special WMA facility against the pledge of Central Government securities was introduced for the first time. The special WMA was subject to a uniform Rs.2 crore limit for each time. After 1953, in the two successive revisions in 1967 and 1972, the minimum balances were revised upwards as a multiple of the minimum balances were revised upwards as a multiple of the minimum balance fixed in 1953 and WMA limits were liberalized by increasing the multiples of the revised minimum balances. From 1976 onwards, the minimum balances were not changed but the WMA limits were increased by increasing the multiple in successive revisions.

Overdraft Regulation Scheme:

Any amount drawn by a State in excess is an overdraft. As per the Overdraft Regulation Scheme, in force from October 2, 1985, no State was allowed to run an overdraft with the Reserve Bank of India for more than seven continuous working days. As and when an overdraft appeared in the State's account and remained beyond seven continuous working days, the Reserve Bank of India and its agencies stopped payments on behalf of the state. On a further review of the Overdraft Regulation Scheme in 1993, the time limit for clearance of overdraft was increased from seven consecutive working days to ten consecutive working days with effect from November 1, 1993. This position continues.

At the instance of Government of Assam and Manipur, Reserve bank of India has agreed to a ceiling on their overdraft at Rs.252 crore and Rs.10 crore, respectively. If this ceiling is exceeded even within a time frame of ten consecutive working days as stipulated under the Overdraft Regulation Scheme, the Reserve Bank of India suspends payments on behalf of these State Governments.

Monitoring of WMA Overdrafts and Enforcement of Stoppage of Payments

The position of WMA actually utilized and overdrafts of various States is closely monitored in the Internal Debt Management Cell (IDM Cell), Reserve Bank of India on a daily basis on receipt of the position from Central Accounts Section (CAS), Reserve Bank of India, Nagpur. When a state avails of WMA in excess of 75 percent of the aggregate limit (aggregate = normal plus operative limit for special WMA), the state is cautioned to take remedial measures to avoid emergence of overdraft in its account. Whenever a State, after availing of normal and special WMA Emerges in overdraft, the IDM Cell conveys, by facsimile message, the position of its overdraft to the concerned State on a daily basis, with a request to clear it within a period not exceeding ten consecutive working day. If the account of a State continue to be overdrawn on the eleventh continuous working day, the Reserve Bank of India suspends payments on behalf of the State until the overdraft is cleared.

Interest rate on WMA and Overdraft

The interest rate charged on WMA and overdrafts at present are the Bank Rate (19 percent) and the Bank Rate plus two percentage points (11 per cent), respectively.

ANALYSIS OF THE TRENDS IN WMA AND OVERDRAFTS

Growing Fiscal Stress

The use of WMA facility and emerged of overdrafts by States have become more frequent over time reflecting a persistent stress on liquidity management and the underlying structural imbalance in their finances. The continuing problems in the budgetary operations of the State Governments for 1988 – 99 have been described in the RBI Annual Report for 1997 – 98 (Paragraph 4.23, pp63 – 66) as follows.

“A preliminary analysis of the consolidated budgetary position of twenty three State Governments reveals a rise in almost all the major deficit indicators. The deterioration in the State finances emanates from a lower growth of 14.6 percent in revenue receipts in 1998 – 99 than that of 16.8 percent in the previous year, and a sharp rise of 16.2 percent in revenue expenditure on top of an increase of 17.4 percent in 1997 – 98. As a consequence, there would be a marked rise in the revenue deficit to Rs.24,861 crore (1.5 percent of GDP) in 1998 – 99 from Rs.19053 crore (1.3 percent of GDP) in the previous year. The widening of the revenue deficit would in turn, cause the gross fiscal deficit (GFD) to go up sharply to Rs.56.660 crore (3.5 percent) of GDP in 1998 – 99 from Rs.49,708 crore (3.5 percent of GDP) in 1997 – 98. The sharp rise in

revenue expenditure in 1998 – 99 would be mainly on account of the additional burden emanating from the implementation of the Fifth Pay Commission awards and the rising interest and the rising interest burden.”

During 1997 – 98 among sixteen States that resorted to overdrafts, there were ten states which frequently resorted to overdrafts. Out of these ten states five (Assam, Himachal Pradesh, Manipur, Mizoram and Nagaland) belonged to the special category while the other five (Andhra Pradesh, Madhya Pradesh, Orissa, Punjab and Rajasthan) were in non-special category states in three states (Assam, Manipur and Mizoram), payments were stopped as they could not clear their overdrafts with the Reserve Bank of India within the stipulated time limit of ten consecutive working days. The problem was quite severe in Assam, with payments being stopped on as many eight occasions.

Under the existing system of WMA and overdraft, there is no requirement to vacate the WMA drawn / overdrafts at the end of the financial year. This has encouraged some States to use WMA and overdrafts as a resource and has also led to difficulties in distinguishing between a temporary mismatch between cash receipts and cash expenditure and a manifestation of the underlying structural deficit. In the above context, the amounts held by the States in the public receive public account funds in a role as a banker. It is, therefore, important that these funds are not used for financing a fiscal deficit. The public account funds do, however, provide a cushion to tide over temporary liquidity mismatches.

Liquidity mismatch vis-à-vis the underlying structural deficit

A liquidity mismatch is by definition an **ex ante** concept and hence, difficult to estimate. A Government can only spend as much cash as it has. Thus, even when the **desired** expenditure is in excess of the available funds, the outflow will only be equal to the cash revenues, including loan proceeds. In the WMA context, when a State is not in overdraft and has fully utilized its WMA limit, the mismatch between inflows and outflows will appear to exactly equal to the limit. The observed mismatches are not, therefore, indicators of true mismatches.

Cash flow problems are inevitable in day-to-day budgetary transactions. States without any deficit can and do face liquidity problems during the year. However, in the case of States with deficits, the problems get aggravated because it is difficult to distinguish between a genuine temporary mismatch and one arising out of a deficit. A

deficit implies that receipts fall short of expenditure at the end of the year more often than not, this year end shortfall reveals itself during the course of the year.

If a State has shown in its budget a year ending revenue deficit this has to be covered by borrowings so that there is no overall budgetary deficit. States like the special category ones have a revenue surplus arising out of the fact that 85.90 percent on Central Assistance is by way of grants. Yet both types of States have run into overdrafts. Furthermore, with borrowings financing revenue deficits, no distinction remains between revenue and capital receipts. With no capital asset generating income even to meet its interest liability, the distinction between revenue and capital expenditure has also disappeared. In such a situation the States have become insensitive to the costs of overdrafts. When a State remains in overdraft for such long periods as 200 days in a year, WMA becomes a resource and overdraft becomes the WMA. The only difference is that the constraint is no longer a financial limit but a time limit. The peak level is no longer determined as a financial limit that can be brought down within the WMA limit within ten consecutive working days. The WMA, which was expected to be the safety net to bridge the gap between the timing of receipts. The crux of the matter is therefore, not WMA, but the elimination of overdrafts. With the progressive deterioration in the fiscal balances of the States over the years, there is a concern that the WMA limit, which is to meet temporary liquidity mismatches, is being used as resource. This problem gets exacerbated by the growing differences between the Budget Estimates, Revised Estimates and Accounts in the Budget.

Asymmetry between Central and State Government

The problem of liquidity managements of the Centre and State is similar. Both of them maintain minimum balances with the Reserve Bank of India and avail of WMA from the Reserve Bank of India to tide over the mismatches between their receipts and expenditure. The State Finance Secretaries pointed out that there are two important asymmetries in system of minimum balances. WMA and overdrafts operative by the Reserve Bank of India with Centre on the one hand and the States on the other. First, until March 1997, Reserve Bank of India did not have any formalized system of WMA for the Centre. The issue of **ad hoc** treasury bills and their placement with the Reserve Bank of India automatically made up any shortfall in the Centre's minimum balance although limits were placed on the net creation of **ad hocs** during the fiscal years 1994 – 95 treasury bills from April 1, 1997 and the announcement of specific WMA limits for the Centre for the two halves of the fiscal year. Second, the WMA limits for the Centre and

higher than those for the States taken together although the size of their budgets are roughly the same.

A straightforward comparison of the WMA of the Centre and the States, however, can be misleading. Almost as much as forty percent of total Central Government revenues are passed on the States as shared revenues, grants and loans through devolution and transfers under the dispensations of the Finance and Planning Commissions. Furthermore, the Central Government also provides ad hoc grants as well as temporary WMA to States. The nature of complete similarity of the Centre are not exactly similar to those of States. Therefore, a complete similarity of treatment is not possible.

Limiting Overdrafts

The problem of unauthorized overdrafts has gradually worsened over time. During 1997 – 98, as many as sixteen States got into such overdrawn position, and the average peak level of overdraft alone was Rs.474 crores. In the current year upto October 1998, the same number of States, i.e. sixteen had overdrawn and the average peak level was Rs.784 crores.

The WMA itself is an overdraft facility designed to help the States to tide over temporary mismatch between revenue and expenditure. With the objective of freeing States which were prudent, from the problems of overdrafts WMA limits were repeatedly enhanced in the past. But, the problem of overdrafts has persisted. The success achieved has been limited on account of deterioration in the state finances and worsening financial management. A mere revision of WMA limits alone, therefore, is no remedy to the problem of overdrafts. With effect from November 1, 1993, the increase in time limit for clearing overdrafts from seven to ten working days as against fourteen days recommended by the Sarkaria Commission was granted to allow for delays in reporting transactions and arrange for funds for clearing overdrafts. This however, resulted in some States being encouraged to remain in overdrafts for longer period. In this context what is required are improvements in the information system, smooth release of Central assistance to States and enhanced efficiency of the banking and payments system. Furthermore, what is of paramount importance is that the States ensure good financial management and discipline.

Monetary implications of WMA and overdrafts to States

It is important to recognize that enhancement of WMA limits increases the potential for their utilization. Furthermore, utilization of WMA – both normal and special –

and overdrafts has monetary implications. WMA, where overdrafts represent RBI credit to Governments. Even the special WMA, where the RBI provides money to States against their holdings of Central Government securities, signifies an inter-Government loan which gets replaced by RBI credit WMA or overdraft should only provide intra – year liquidity support without making any resources available for financing a deficit at the end of the year. Nevertheless, informal Advisory Committee on WMA would like to underscore that the average level of then money stock or reserve money has its impact on prices and output in an economy, and persistent use of WMA or overdrafts during the year has a monetary impact.

In the above context, it may, however, be observed that all the States combined together have not contributed much to monetary expansion in the economy. According to the available information, at the end-March 1998 RBI credit to Government (both Centre and States) amounted to Rs.1,35,160 crores with credit to Central Government at Rs.1,33,617 crores and States accounted for only the residual Rs.1,543 crores. The latest data indicate that net RBI credit to States as on October 30, 1998 amounted to Rs.766 crores. Furthermore, during the past five years, the monetised deficit (i.e. loans given to the States by the RBI net of their deposits with RBI) of States has varied between Rs.16 crore (1995 – 96) and Rs.898 crores (1996 – 97). In aggregate the States did not have any monetised deficit in 1997 – 98.

*(Resort of the Informal Advisory Committee on Ways and Means Advances to State Governments – RBI, November, 1998)

Chapter – 15

ADDITIONAL RESOURCE MOBILISATION (ARM) & THE RULE OF TAX ADMINISTRATION IN MOBILISING STATE RESOURCES

Shri S.K. Dutta,
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The recent trend in Government finances, both at the Centre and the States – Assam being no exception, has shown an overwhelming and undesirable shift in favour of deficit financing. An analysis of Central and State budget documents will show that over the years revenue deficit, primary deficit and fiscal deficit have not only been persisting but growing in size and dimension year to year. The reasons are not far to seek. Broadly speaking, the chronic mismatch between revenue and expenditure with the former failing to keep pace with the later is the root cause of this crisis. Of late, this has assumed a serious proportion because of Central Government's apathy or inability to assist the States.

In this context, the role of ARM assumes a great significance ARM does not merely indicate better mobilisation of resources through efficient tax administration, simultaneously it implies the need to generate savings through economy in expenditure. While revenue collection has, no doubt, been growing,

the growth has not been commensurate with the growth of revenue expenditure. The unabated growth of revenue expenditure is accompanied by a corresponding decline in capital expenditure which is disastrous for overall economic development. The exponential growth of revenue expenditure have been due to abnormal hike in wage and pension bills, explosive debt serving liability, high cost of maintenance of law and order in the context of protracted insurgencies, need to provide budgeting support to non-functional PSUs for meeting revenue need, explicit and implicit subsidies to several social and economic services sectors. With a view to mobilising additional resources, it is imperative to cut down all avoidable expenditure, eliminate subsidies of all kind, embark on a judicious scheme of public debt and to down size the administration to make it truly need based.

In the matter of ARM, both tax and non-tax revenues play a vital role. But in the Indian context, the allocation of Taxes and Duties between the Centre and the States is determined by the Indian Constitution. Under the constitutional framework, the sharing of resources is heavily listed in favour of the Centre since highly elastic sources of revenue like Income Tax, Corporation Tax, Union Excise Duty and Custom Duty vest with the Centre. As per the Constitution, the States are entitled to a share in the net proceeds of Income Tax and Union Excise Duty only. The quantum of transfer and its distribution among the States are recommended by the Successive Finance Commissions. However, this lop-sidedness in the Constitutional provision has somewhat been rectified by the Constitution (Eightieth) Amendment Act, which provides for sharing of all Union taxes and duties with the States. But the Eleventh Finance Commission by stipulating the rate of transfer at 28% of all Central taxes and duties has virtually retained the transfer to States at pre-amendment level when only two taxes were shared. Anyway, the initiative for ARM under this category of taxes and duties lies with the Central Government alone. The States can simply persuade the Centre by putting forward their views and suggestions.

While the duties and responsibilities entrusted to the States under the constitution are enormous, the taxes and duties allocated to them are of

comparatively inadequate growth potential. A part from Sales Tax all other taxes and duties allocated to the State are of meagre growth potential. The following taxes and duties are collected by the State : (1) Sales Tax, (2) Profession etc Tax, (3) Agricultural Income Tax, (4) Land Revenue (including Cess on Green Tea Leaf), (5) State Excise Duty, (6) Taxes on Motor Vehicles, (7) Passengers & Goods Tax, (8) Stamps & Registration & (9) Electricity Duty.

Proposals for ARM are not likely to provide enough succour to the State exchequer if it simply tinkers with existing rates. For this purpose bold and innovative fresh measures are needed to bring in more and more people under the tax net without adverse affect on trade and commerce. Side by side, tax machinery need to be revamped making the procedures simple, if necessary by suitable legislation, plugging all existing looped-holes and leakage and a vigorous drive for collection of arrear.

In regard to Sales Tax, currently legislation has been enacted to ensure uniform rates of tax for all the States. But pending implementation of this, there remains the scope of evasion and trade diversion. In the existing scenario any hike in tax rate become counter-productive due to trade diversion in low tax zones. Moreover, the Government has a tendency to grant frequent exemption not only to provide incentives to attract investment but also on variety of consumption goods as well. This tendency needs to be curbed and the policy of exemption reviewed periodically.

The maximum limit of tax under the Profession etc. Tax has been laid down in the Constitution. By appropriate amendment of the Constitution, periodically the rates of tax may be enhanced from time to time. There is vast scope for widening the ambit of this tax through better enforcement and bringing all professionals within the dragnet of this tax who otherwise evade the tax by manipulating their real income.

The rates of Agricultural Income Tax has been gradually reduced by the State Government in several stages beginnings from 1990 - 91 onwards. As a result the yield from AIT has gradually been declining from 1992 – 93 onwards.

The decline was so steep that even the cess on green tea leaf imposed in 1993 could not arrest this loss. This calls for a review of the rates of AIT along with the cess on green tea leaf.

Despite manifold increase in the rate recently, the yield from Land revenue is not very substantial. This is so because the base (excluding cess on green tea leaf which is collected with Land revenue) was too small. The Settlement of prime land in Guwahati metropolis and other important cities of the State might bring in substantial revenue to the State.

In spite of merger of Sales Tax with Excise Duty and generous issue of licenses to run liquor shop, the yield from State Excise is not substantial compared to the collection of States like Punjab, Haryana etc. This needs to be examined in the light of the experiences in other States.

Despite manifold increases in real estate transactions, the yield from Stamps & Registration is not at all impressive. This is due to gross under valuation of properties which needs to be curbed forth with.

The contribution of non-tax revenue in budgeting resources of the State of Assam is generally negligible. The royalty on crude oil is the only major source of non-tax revenue for the State. The initiative for revision of the rate of royalty rests with the Centre and the State is very often deprived of its legitimate share of income that should accrue from the exploitation of its most valuable fossil fuel asset. While finalising the rate of royalty, the Ministry of Petroleum links the rate with the price of internal crude which is much lower compared to import parity price. Again, the rate is never finalised within the date on which it falls due and the inordinate delay in finalisation is not compensated. Moreover, some discrepancy always persists between the production figure of crude on which payment of royalty is made by the Ministry and the production figure as reported by the oil companies. Thus, the State Government is deprived of its legitimate dues. All these loop holes need to be plugged to safeguard the interest of the State.

Apart from oil royalty, forest is the other major source of non-tax revenue for the State. But forest is no longer seen as a source of revenue rather its

preservation and extension is considered essential for the purpose of upgrading environment and ecology. With the ban on felling of trees, the yield from forest revenue has come down substantially. Now, the emphasis should be laid on collection of revenue from other forest produce like bamboo, cane, sand, stone etc.

As regards other non-tax revenue, where services are provided by the Government, the service charges, in general are either too low or not levied at all, allowing the user the benefit of such services virtually free of cost. In order to mobilize additional resources from non-tax measures the following may be considered : levy / increase in rates of irrigated water, piped water supply, milk supply and other diary products including fisheries, water transport services, toll on bridge and flyovers, rents of Government buildings, registration fees of shops and factories, tuition and examination fees in schools and colleges, charges of treatment of patient in hospital and dispensaries. The ultimate objectives should be to realise, as nearly as possible, the cost of providing such services.

Interests / dividend constitute an important of non-tax revenue. But the collection from this source is negligible. Interest on loan issued to Government servants is, no doubt, realised regularly. But in case of loan to individual or bodies, proper account is not maintained and realisation of interest goes by default. It is essential to maintain loan ledger, update account and realise the interest along with accumulated arrears. In regard to dividend, the various PSUs in which investment is made by the Government is running on losses, hence the question of dividend is a far cry. The financial performance of the concerned undertakings may be reviewed and the prospect of earning dividend analysed.

The role of tax administration in augmenting State resources is paramount. The procedure of collection should, as far as possible, be simplified so as to ensure better compliance by the tax payers. Collection machinery should be suitably geared up to eliminate all leakages and loop wholes. Regular training and workshop may be held to acquaint the staff engaged in collection of taxes with the complicacies of their job and how to solve them. This will help

augmenting mobilisation of resources through all round improvement of tax machinery.

Chapter - 16 **CENTRE STATE FINANCIAL RELATION**

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India is a federation. In a federal set up, the legislative, administrative and financial relations between the centre and the constituent states will have to be cordial and Co-operative or else the fabric of national unity and integrity will come under great strain. The need for maintaining such relations has become all the more important since 1977 when the political landscape in India underwent a momentous change. Till then, with Kerala as the exception, it was on the whole, the same political party in power both at the Centre and the States. But since then it has not been so. This is precisely the reason why the constitutional provisions that guide the relations between the centre and the state are so sacrosanct and significant. Just as the centralization of legislature, administrative and financial powers with the centre will put the Centre – State relations to great stress and strain so also granting of autonomy to the states, beyond a certain point, may well pose a threat to the unity and integrity of the Country. The better part of the wisdom lies both in avoiding ‘ blood pressure at the Centre’ and ‘anaemia’ at the periphery.

It is also noteworthy that while the creation of smaller states out of the bigger state may accelerate the growth rate of the smaller states, the size of the newly created state should be reasonable and its revenue raising capacity adequate enough to justify its creation.

Part IX of the Constitution of India is about relations between the Union and the States. While chapter I of the Part is about legislative relations, chapter II deals with the administrative relations. Part XII of the Constitution enshrines Articles on Finance, Property, Contracts and Suits. While Chapter I deals with Finance (taxes, duties, grants, Finance Commission etc), Chapter II covers borrowings by the Centre and the States,

The Seventh Schedule of the Constitution of India enshrines list I, the Union List, List II, the State List and List III, the Concurrent List, indicating the subjects where the centre and the states derive the authority from the Constitution with each being sovereign within the field assigned. There are 97 subjects in the union List empowering the Parliament to legislate on the subject. It includes subjects like defence, foreign affairs, currency, atomic energy, citizenship, inter – state trade and commerce, insurance, patent, census, taxes on income other than agricultural income and so on. The state list empowers the State Legislature to legislate on 66 subjects like health, sanitation, agriculture, local government, agriculture, land revenue, taxes on agricultural income, taxes on vehicles and so on. The Concurrent List contains 47 subjects on which both the Parliament and the State Legislatures have the right to legislate. This list includes subject like criminal laws, forests, education, population control and family planning, electricity, newspapers etc.

Legislature power on subjects not included in any of the three lists is residuary power. The residuary power rests with the Union government. On the strength of a resolution passed in the Rajya Sabha with two – third majority, the parliament can legislate on a state subject in national interest. During a Constitutional crisis or emergency or in the face of joint appeal from two or more states, the Parliament may legislate on state subjects.

In the wake of the concerted move of the states for more autonomy, the Central government constituted a Commission under the chairmanship of Justice Sarkaria. The Commission did not recommend any change in the list of subjects. However, a process of consultation between the union and States on the concurrent subject was recommended. With regard to Union – State financial relation, the Commission recommended that (a) the sharing of certain taxes between the Union and the states should be amended (Corporation tax and levy of Consignment tax); (b) the division of functions between the Planning Commission and the Finance Commission be

continued and (c) the terms of reference of the Finance Commission should be formulated on the basis of consultation with the state governments.

Article 280 of the Constitution lays down that “The President shall, within two years from the commencement of the Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a chairman and four other members to be appointed by the President”.

It further states “ It shall be the duty of the Commission to make recommendation to the President as to

(a) the distribution between the Union and the states of the net proceeds of taxes which are to be, or may be, divided between them under this chapter and the allocation between the States of the respective shares of such proceeds;

(b) the principle which should govern the grant-in-aid of the revenues of the States out of the Consolidated Fund of India.

(c) Any other matter referred to the commission by the President in the interest of sound finance.”

On the basis of the recommendations of the Finance Commission, sharing of funds between the Centre and the State (vertical sharing) and among the various states (horizontal sharing) takes place out of the divisible pool. The divisible pool consisted of income tax, excise duties and grant-in-aid. The Tenth Finance Commission recommended that 29 percent of the total revenue collected by the Centre should be shared with the States. The Central government has more or less accepted this recommendation. The eleventh Finance Commission has recommended that 28 percent of the net proceeds of all shareable central taxes and duties will be shared by the states.

The horizontal sharing of funds is governed by a set of criteria formulated by the Finance Commission. The set of criteria is not fixed for all the Finance Commissions. In the Eleventh finance Commission (2000 – 2005), the criteria and relative weight for determining the interest share of the states are I) population 10% weightage). li) income distance (62.5% weightage), iii) area (7.5% weightge) iv) index of infrastructure (7.5% weightage) v) tax effort (5% weightage and vi) fiscal discipline (7.5% wiighatage).

As recommended by the Eleventh Finance Commission, the inter se share of states in the net proceeds of all sharable union taxes and duties except the expenditure tax and service tax is shown in the following table.

Sl	States	Share (per cent)
01	Andhra Pradesh	7.701
02	Arunachal Pradesh	0.244
03	Assam	3.285
04	Bihar	14,597
05	Goa	0.206
06	Gujarat	2.821
07	Haryana	0.944
08	Himachal Pradesh	0.683
09	Jammu and Kashmir	1.290
10	Karnataka	4.930
11	Kerala	3.057
12	Madhya Pradesh	8.838
13	Maharashtra	4.632
14	Manipur	0.366
15	Meghalaya	0.342
16	Mizoram	0.198
17	Nagaland	0.220
19	Orissa	5.056
20	Punjab	1.147
21	Rajasthan	5.473
22	Sikkim	0.184
23	Tamil Nadu	5.385
24	Tripura	0.487
25	Uttar Pradesh	19.798
26	West Bengal	8.116
	All States	100.000

The continuation of the Calamity Relief Fund (CRF) has been recommended by the Eleventh Finance Commission with contribution from the Centre and the States in the ratio of 75 : 25. The amount fixed for the period 2000 – 2005 is Rs 11007.59 Crore. The Commission has identified 6 low income calamity prone or states

i.e. Assam, Bihar, Orissa, Madhya Pradesh, Uttar Pradesh and West Bengal and has recommended that the size of the CRF of these states be raised by additional 10 per cent of the aggregate size of the CRF. The pattern of investment of CRF has been a bone of contention among the states. States have argued against keeping the fund in a bank or investing it on securities and bonds carrying lower rates of interest. The Commission recommends that the fund should not be kept in the Public account of the State and should be invested with approval from the centre. In exceptional cases, the fund can be kept in the Public Account but the state will have to pay the market rate of interest. Against it calamity related capital expenditure should be met from the plan fund unless it is "intrinsically related to relief operations. The balance that remains with the state at the end of the period may be used by the state for the next period. The Ministry of Agriculture, Government of India, will be the nodal agency for coordination relief works in the Calamity hit State. With responsibilities from the state, a Committee of Experts is to be set up to review the approved items of expenditure from the CRF. The release of funds by the centre to the CRF of each state will be in two installments with the release of the second installment contingent upon the submission of utilisation report of the first. The Commission recommends that the National Fund for Calamity Relief (NFCR) should be discontinued as the definition of 'a calamity of rare severity' is difficult to evolve and also the fund required to meet such situations cannot be anticipated. The Commission recommends the setting up of a National Centre for Calamity Management (NCCM) under the Ministry of Agriculture to monitor such calamities. The Centre will also provide training to state personnel on a regular basis.

With the rise in the amount of funds transferred from the centre to the States under the Finance Commission awards, the fiscal responsibilities of the states have also increased considerably.

The devise to meet additional expenditure resulting from Pay Committee Reports and subsidies is to be closely scrutinized and monitored. Another issue that needs to be resolved is how to make the awards of the Finance Commissions coterminous with the Five Year Plans so as to ensure a more meaningful correspondence between the plan priorities and the availability of fund for the states and the centre during the same five year period.

For the sake of the healthy growth of federation, it is important to look into certain specific areas of controversy created by the Eleventh Finance Commission (EFC). The grouse of the riche states is that they have been punished, and not re-

warded, for their fiscal prudence. The reshuffling of the weight-age to different criteria in the devolution formula is the cause of this grumbling. The weight-age to the income distance criterion has gone up from 60 per cent in the Tenth Finance Commission to 62 % in the Eleventh Finance Commission. The income distance criterion has swamped two other criteria of the EFC – first, states own tax effort i.e. states having a higher ratio of own tax revenue to state income getting additional grants and fiscal discipline i.e. states effectively tracking down public expenditure getting more funds. The following table shows how the better governed states have, in fact been penalized by the EFC.

The gainers	TFC share (Percentage)	EFC Share (Percentage)	Percentage charge	Gain / Loss (-) (Rs. Crore)
Bihar, Haryana, Himachal Pradesh, Rajasthan, Uttar prades	46.455	50.333	8.3	2,019
North East. Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim & Tripura.	4.353	5.326	22.4	507
The losers Souther States Andhra Pradesh, Karnataka, Kerala, Tamilnadu,	24.316	21.073	-13.3	-1,688
Gujarat & Maharastra	10.172	7.453	-26.7	-1,416

The seems to be a need to go deepen into the implementation aspects of the two otherwise time – honored principles of equity and efficiency which the EFC has emphasized. The moot question is: is the poor resource base of the state the only cause of backwardness? Isn't incompetent governance the other factor of backwardness?.

It has also become necessary to undertake case studies to find out whether the tax effort of the states is inversely related to large share of Central transfers in state government expenditure. It has also been pointed out that the “gap filling approach” will not do in the face of overspending by state governments fuelled as it is, by the lack of a formalized “notion of effectiveness of public expenditure”.

Another conceptual issue is the equalization role of fiscal transfers. It is being increasingly felt that it is difficult to meet the non – plan revenue gap through grant-in-aid in view of the ‘inflexibility of the share of the states in total tax proceeds.’ The limit prescribed for total transfer from the centre to the states is around 37.5 per cent of gross revenue receipts of the central government. Clearly, no individual tax is shareable. Also gross revenue receipts will also include non – tax revenues.

Yet another controversial issue centres around the State List. Land and Agriculture are state subjects. Can a mechanism be evolved to enable all the states to tax farm income and raise land revenues?

The post – reforms realities are also to be accepted. Poor states have not been able to attract much of private capital. On the other hand, Central loans as a percentage of long term debt of the states have declined from 72 per cent in 1978 – 79 to 59 per cent in 1999 – 2000. Also, the plan and non – plan Central loans presently carry a 12.5 per cent interest against 7.5 per cent interest in the mid – eighties.

Chapter - 17

GRANTS UNDER ART. 275 OF THE CONSTITUTION

M.U. Ahmed,

Under the provision of Art. 275(1) of the Constitution laid down the procedure for making grants-in-aid to States to meet the Non-Plan Revenue gap. The primary responsibility has been given to Parliament under Art. 275 (1) of the Constitution to make provision for grants-in-aid by law every year. However, till this is done the powers of Parliament are exercisable by the President subject to any provision that the Parliament may make subsequently. The Finance Commission has to recommend the principle for determining the needs of each State which may be the basis for giving grants-in-aids to the States.

The principles for grants-in-aids to the revenues of the States have evolved over the course of last half a century through recommendations of the various Finance Commission. What comes to be accepted is that the grants-in-aids may be given to the State to cover the assessed deficit on non-plan revenue account, after devolution of taxes and duties. The deficits are worked out after excluding any unusual or non-recurrent item of revenue or expenditure. The idea is that the expenditure and revenue of the States should be comparable so that no State is allowed to take advantage of the provisions of Art. 275(1) by inflating the expenditure or underestimating the revenues. Secondly, grants-in-aid may be recommended for the upgradation of the standard of administration of the States.

The idea is to correct the disparities in the availability of administrative and social services between the developed and the less of developed States so that a citizen, irrespective of the State boundary where he / she lives, is provided with certain basic minimum standards of such services.

And lastly, grants-in-aid may be recommended by the Finance Commission to provide assistance to a State to meet expenditure on account of any special problems peculiar to that State.

Chapter – 18

PLANNING COMMISSION

M.U. Ahmed,

Several decades' back the Planning Commission was constituted by an Executive order of the Government of India as per approval of the Union Cabinet with Prime Minister as the chairman, one Deputy Chairman and other member. It deals mainly with the devolution of plan funds both for Centre as well as for the states. It deals with formulation and finalization of five year plans and also finalize the size of the states Annual Plan in consultation with Chief Minister of the state by the Deputy Chairman taking in to account the total allocation of five year plan for a particular state. And since then the concept of grants-in-aid got bifurcated into plan and Non-Plan grants. But these apparently were distortions and digression. The founding fathers had not contemplated the existence of Planning Commission at the time of drafting and pursuing the Constitution and it was under executive resolution that the Planning Commission was set up, probably with the aid of article 73, which envisages that the executive powers of the Union shall extended to the matters with respect to which Parliament has powers to make laws. Thus it has a legal status though constitutional status was never given to it contrary to its provisions of the Constitution Planning Commission started dealing with devolution of huge funds for investment of a capital nature.

Though the recommendations of the Planning Commission are not mandatory for the Government normally what we have seen is that none has denied the propriety of the same. The Planning Commission plays pivotal role in the implementation of the developmental schemes and the funds for those schemes. All these are taken up on the basis of the proposal submitted by the state in the shape of

the draft annual plan and five year plan. The draft annual plan and draft five year plan are submitted by the state on the basis of the guidelines issued by the Planning Commission. The instructions and guidelines are strictly adhered to.

Planning is a dynamic process and as such its continuous appraisal and adjustments are essential. A static Five Year Plan frame would not meet the requirement of planning. The Planning Commission revises annually the resources and plan needs of the States and recommends plan assistance. In a dynamic situation, net resources available for transfer from Union to the States towards Plan assistance will also be known only on a yearly basis.

There is a difference between the Finance Commission and Planning Commission. Finance Commission deals with devolution of Non-plan fund where as Planning Commission deals with devolution of Plan fund. Planning commission transfers funds for four main sectors.

- (a) United "block assistance" from a **pre-determined** national plan kitty on the basis of the Gadgil formula.
- (b) Tied transfer against externally aided projects with the resources flowing consequent upon disbursement by the external financing agency,
- (c) Tied transfers for Centrally Sponsored and Central Sector Schemes and
- (d) Assistance to cover gaps (Advance plan assistance), and assistance for special programmes, such as Hill Areas, SC/ST component plans etc.

There is already state plan schemes. In addition to that the Central Government implements certain schemes through the state which has national importance and the funds for those schemes are provided by the Centre and these are known as the Central Sector Schemes and Centrally Sponsored Schemes.

Initially the Ministry of Finance, Government of India and the Financial Resource Division of the Planning Commission identify the resources for the country for preparation of the Central Budget as well as / augmentation of resources for formulation of Annual Plans and Five Year Plans for distribution between the Centre and States. First of all they will assess the requirement of the Central Ministry and after making necessary allotment for the Central Government Departments, the left over amounts are kept for the States. This allocation to State is made as per the Gadgil Formula till 1990 at the rate of 70 :30 basis i.e. 70 percent as loans and 30 percent as grants. The amount kept for centre is for running the Centrally Sponsored Schemes and Central Sector Schemes. Funds from Centre devolves through the Central Ministries. At present there are about 400 – 410

numbers of the Centrally Sponsored Schemes and Central Sector Schemes implemented by the centre. The pattern for funding for these schemes is varied in nature depending upon the aims and objectives of the schemes. **Some are grants, some are on the basis of 50.: 50, or 75.25** matching grants. There are some schemes which comprises loan component,. Again there are certain schemes which are reimbursable. Hence it is seen that there is no fix criteria for allocation of fund i.e. the quantum of assistance /share provided by the centre for Centrally Sponsored Schemes and Central Sector Schemes. It depends entirely upon the nature of the schemes.

In 1990 the government set-up a Committee headed by Shri Pranab Mukherjee to go into the details about the devolution of plan funds. Mukherjee Committee suggested that the assessed revenue should be analyzed for the central budget which are to be spent by the central Ministries and the left over amount be made available to the states. **Out of this assessed revenues made available to the states, 70 percent is for the non Special Category States and the rest 30 percent for the Special Category states.** Allocation to non special category states are made by applying the Gadgil Formula and Mukherjee Formula. The allocation of 30 percent to special category states neither Gadgil formula nor Mukherjee Formula is applied. Their special problems will be taken into account at the time of allocation on priorities. The allocation is made on the basis of 90 percent as grant and 10 percent as loan

Founding father of our Constitution felt that each and every citizen should be provided with equal rights and opportunities. So none should be deprived of the due share. Similar is the case for the states also. Each state should prosper equally. Deprivation is not the intention of the government. To be at par with other developed state the backward states need special attention for its uplift. Hence such type of states are termed as Special Category States enabling the Government to provide some consideration in matters of getting special plan assistance. Presently the special category states are getting 90 % as assistance in the shape of grants and 10 % as loan. There are other factors which determines the Special Category State.

After finalisation of Annual Plan, sectoral allocation is made by the Planning and Development Department for general areas and Development Commissioner for Hills for Sixth Schedule Areas with the approval of the Planning Commission, On the basis of that approval the departments prepare their budget.

Chapter – 19

73RD AND 74TH CONSTITUTIONAL AMENDMENT **AND LOCAL SELF GOVERNMENT**

Dr. R.K. Choudhury,

Introduction :-

The 73rd and 74th constitutional amendment Acts, 1992, relate to reformulation of the decentralised planning system of India. While the 73rd amendment deals with decentralisation of power and self – governance by people of their socio economic development in rural areas, the 74th amendment deals with local self government of urban areas of the country including those that are

Panchyati Raj in Rural Areas **(73rd Constitutional amendment, 1992.)**

1. **A 3 tier system and panchayat composition :-**

According to the amendment, the panchyati raj will be a 3 – tier system at the village, intermediate and district level provided that intermediate level panchayats shall not be constituted in states with population of 20 lakhs or less.

The legislature of a state will make provisions with respect to composition of panchyat so that all seats in panchyat shall be filled by persons chosen by direct election from territorial constituencies comprising wholly or partially a panchyat area.

The chair person of a panchayat at the village level shall be elected as per provision of the legislature of the state, while the chairperson at

the intermediate or district level shall be elected by, and, from amongst, the elected members thereof.

2. **Empowerment of Weaker Section :-**
3. **SC and ST** : In every panchayat, reservation will be made for SC & ST population in equal proportion to population – elected seat ratio.
 - (a) **Reservation for women (Within SC/ST) quota** : Not less than 1/3 of reserved seats on account of SC & ST shall remain reserved for women.
 - (b) **Reservation women as Weaker Sex** :- Not less than 1/3 of total number of elected seats in every Panchayat shall remain reserved for women including those reserved under SC/ST quota.
 - (c) **Allotment of seat by rotation** : The reserved seats for women may be allotted by rotation to different constituencies in a panchayat so that no part of the panchayat may have dissatisfaction with respect to women reservation.
4. **Duration of Panchayats and Election time ;**
 - (a) **Duration** : Every Panchayat, unless sooner dissolved under any law force, shall continue for five years from the date of appropriate first meeting.
 - (b) **Election time** :- an election to constitute a Panchayat shall be completed before the expiry of its duration
4. **Elections to Panchayats (Procedure) :**
 - (a) **Election Commission** : The Superintendence, direction and control of electoral roll preparation and the conduct of elections will be vested in a State Election Commission to be appointed by Governor.
 - (b) **Necessary Staff** :- The Governor of a State, when requested by State Election commission, shall make available to it such staff as may be necessary to discharge the functions entrusted to it.

- (c) **Legislative decision on election matters** : The legislature of state within the purview of constitution will make provision with respect to all matters relating to elections to the Panchayats.

5. **Non applicability of Panchyat system** :-

The Panchayati raj system as discussed above will not apply to the scheduled areas and schedule tribes, in states like Nagaland, Meghalaya and Mizoram, the hill areas of Manipur and the Darjeeling district of West Bengal.

The Parliament may by law, extend the previous of panchayati raj system to scheduled areas and tribal areas if it so desired with required majority votes.

6. **Powers and reposnsibilities of Panchayts** :

The legislature of a state, by law will vest in panchyats such powers as may be necessary to enable them to function as self governing institutions. Such laws will contain provisions for devolution of power and responsibilities upon panchyats at the appropriate level subject to such conditions as may be specified therein with respect to :-

- (a) the preparation of plans for economic development and social justice; and
- (b) the implementation of schemes for the same as may be entrusted to them including those in relation to subjects mentioned in Eleventh Schedule such as
 - (i) agriculture
 - (ii) land improvement
 - (iii) minor irrigation
 - (iv) allied agriculture
 - (v) small scale industries
 - (vi) K.V and cottage industries.
 - (vii) rural housing
 - (viii) drinking water
 - (ix) roads
 - (x) poverty alleviation

- (xi) education and culture
- (xii) health and family welfare
- (xiii) market and fair and
- (xiv) Social welfare.

7. **Panchayat Taxes and Funds.**

The state legislature will

- (a) authorise the panchayat to levy, collect and appropriate such taxes, duties, tolls and fees as are decided by legislature;
- (b) assign to a panchayat such taxes, duties, tolls and fees and levied and collected by one state government for such purpose and subject to such conditions and limits;
- (c) provide for making such grants-in-aid to panchayats from the Consolidated Fund of the state and
- (d) provide for constitution of such fund for crediting all money received, respectively by or behalf of panchayats and also for withdrawal of such moneys therefrom.

8. **Constitution of Finance Commission :**

The Governor of a state at the expiry of every fifth year shall constitute a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor with respect to ;-

- a) the principles which should govern –
 - i) the distribution between the State and the Panchayats of the net proceeds of taxes ,duties ,etc. leviable by the State ,which may be divided between them and the allocation between the panchayats at all levels of their respective shares such proceeds ;
 - ii) the determination of taxes , duties ,tolls and fees which may be assigned to , or appropriated by the Panchayats ;
 - iii) the grants –in-aid to the Panchayats from the Consolidated Fund of the State.
- b) the measures needed to improve the financial position of the Panchayats;

c) any other matter referred to the Finance Commission in the interest of sound finance of the Panchayats.

9) Audit of Accounts:-

The Legislature of a state ,by law ,shall make provisions with respect to maintenance of accounts by the panchayats and the auditing of such accounts.

B. Local- Self Government in Urban Areas

(74th Constitutional amendment, 1992)

1. **Constitution of Municipalities** :-

(a) The democratic institution of self – government in urban areas of the country is referred to as Municipality.

(b) **Typed differential based on urban ara sizes :**

There shall be constituted in every state

- i) a Nagar Panchayat (or whatever named called) for a transitional areas, i.e. an area in transition from a rural area to an urban area.
- ii) a Municipal Council for a smaller urban area ; and
- iii) a Municipal Corporation for a large urban area.

Provided that the Governor may not allow a municipality in an industrial town ship when it undertakes to perform all municipal services in that area of the city.

2. **Composition of Municipalities** :

(a) **Election wards** :- All the seats in a Municipality shall be filled by persons chosen by direct election from the territorial constituencies in the Municipal area and for this purpose, each municipal area shall be divided into territorial constituencies to be known as wards.

(b) **Legislature to decide representation** :-The state legislature, by law, may provide for representation in a municipality of

- i) Persons having expertise in municipal administration,

- ii) MP's and MLA's representing constituencies which comprise wholly or partly the Municipal area.
 - iii) The chairpersons of the committees constituted such as Ward committees and any other committees as the legislature might deem necessary.
- (c) The expertise representative in the municipality will not have right to vote in the meetings of the Municipality.
- (d) The state legislature, by law may decide the manner of election of the chairperson of Municipality.

3. **Constitution and composition of Ward Committees :**

- (a) Ward Committees will be constituted, consisting of one or more wards within the Municipality having a population of 3 lakhs or more,
- (b) The state legislature, by law, will provide for –
- (i) The composition and territorial area of a ward committee;
 - (ii) The manner in which ward committee seats will be filled
- (c) A number of Municipality representing a Ward within the territorial area of ward committee shall be a member of that committee.
- (d) Where a ward committee consists of one ward, the member representing that ward or where the ward Committee consists of two or more ward one of the members of such wards elected by the members of the wards committee shall be the chairperson of that committee.

4. **Reservation Seats in Municipality**

- (a) The number of seats in a municipality shall remain reserved for SC and ST in proportion population to total population.
- (b) Not less that 1/3 of the reserved seats shall have to be filled by SC or ST women have to be filled by SC or ST women.
- (c) Not less that 1/3 of the total number of seats shall be kept reserved for women (inclusive SC/ST women in in their reserved seats)

5. **Duration of municipalities**
- (a) Every municipality, unless sooner desolved, shall continue for five years form the date appointed for its fo1st meeting
 - (b) An election to constitute a municipality shall be completed before the expiry of its duration.

1. **Powers and authority of municipality :**

(a) The State Legislature will vest in Municipality the powers and authority to: -

enable it to function as an institution of self government and such and such law may containing provision for devotion of powers and responsibilities upon it subject to such conditions as may be specified with respect to plan preparation for economic development and social justice.

(b) The State Legislature will vest in the Committees such powers and authority as may be necessary enable them to carry out the responsibilities conferred upon.

2. **Municipal Taxes and Funds :**

The Legislature of a state may by law :

- (i) authorise a Municipality to levy, collect and appropriate such taxes, duties, tools and fees as may be deemed necessary.
- (ii) assign to a Municipality such taxes, duties, tools and fees as should believed and collected by the state Government and
- (iii) Provide for making grants – in – aid to the Municipalities from the Consolidated Fund of the state.

8 **Finance Commission.**

The Finance Commission constituted as provided for in the 73rd amendment, shall also review the financial position of Municipalities and make recommendations to the Governor the measures needed to improve financial position of Municipalities and the principles which should govern –

- (i) distribution between the state and the Municipalities of the net proceed of duties tolls and fees leviable by the State.

- (ii) The determination of taxes etc which may be assigned to or appropriated by the Municipalities and
- (iii) the grants – in – aid to Municipalities from the Consolidated Fund of the State.

9. **Audit of Accounts of Municipalities :**

The Legislature of a state may by law, make provisions with respect to maintenance of accounts and the Municipalities and the auditing of such accounts.

10. **Elections to Municipalities :**

The superintendence, direction and control of the preparation of electoral rolls for and the conduct of all elections to the Municipalities shall be vested in the state Election Commission.

11. **Committees for District Planning**

- (a) At the district level of every state, District Planning Committee will be constituted to consolidate the plans prepared by the panchayat and the Municipalities in the district and to prepare a draft development plan for the district as a whole.
- (b) The state legislature shall make provision with respect to
 - (i) the composition of the District Planning Committees
 - (ii) the manner in which the seats in such committees shall be filled
Provided that not less than 4/5 of total members of such committee shall be elected by and from amongst the elected members of the Panchayat at the district level and of the Municipalities in the district in proportion to the ratio between the population of the rural areas and of the urban areas in the district
 - (iii) The State legislature shall make provision with respect to the manner in which chairperson of such committees shall be chosen.
- (C) Every district Planning Committee shall have to agree to
 - (i) Matters of common interest between the panchayats and the Municipalities including special planning, sharing of water and

other physical and natural resources, the integrated development of infrastructure and conservation

(ii) The extend and of if available resources whether financial or otherwise

(D) The Chairperson of every district Planning Committee shall forward the development plan as recommended by such committee to the Governor of the state.

12. Committees for Metropolitan Planning :

In every metropolitan area a Metropolitan Planning Committee to prepare its draft development plan will be constituted. Not less than 2/3 of the members of the committee shall be elected by and from amongst, the elected members of the Municipalities and chairpersons of the panchayats in the Metropolitan area in proportion to the ratio between the population of the Municipalities and of the Panchayats in that area.

13. Continuance of Existing Laws and Municipalities ;

All Municipalities and any law relating to Municipalities remaining in force immediately before the 74th amendment Act. 1992 shall continue to be in force until the expiry of one year.

TYPES OF PUBLIC EXPENDITURE AND ITS CONTROL AND MANAGEMENT

Prof. Dr. R.K. Choudhury,

1. Types of Government Expenditure :-

Government expenditure or public expenditure is generally divided into two broad categories viz, revenue expenditure and capital expenditure. Each of them is, however, grouped under (a) development expenditure and (b) non development expenditure. In 1972 – 73, government introduce a classification, according to which public expenditure is classified under

- | | | |
|--|---|------------------------------------|
| (i) Social and Community Services | } | Development expenditure |
| (ii) Economic Services and | | |
| (iii) Geeneral Services | ▶ | Non Development expenditure |

Again with effect from 1987 – 88 budget, the centre adopted a new classification, according to which, all public expenditure are classified into (i) Non plan expenditure and (ii) Plan expenditure.

1) Revenue Expenditure on :

(a) General Services :

- (i) Organs of State (i.e. state executive and judiciary)
- (ii) Fiscal Services (like collection of taxes).
- (iii) Interest payment and servicing of debt.
- (iv) Administrative services
- (v) Pensions and Miscellaneous.

(b) Social and community Services :

- (i) Education, Art, and Culture
- (ii) Medical and Public Health Services,
- (iii) Housing,
- (iv) Urban development,
- (v) Information and publicity,
- (vi) Social security and welfare
- (vii) Relief and natural calamities.

(c) **Economic Services** :

- (i) General economic services (like secretariat eco services, co-operation, weight and measures, land ceiling etc.)
- (ii) Agriculture and allied Services, including minor irrigation , social conservation, area devt. Food and nutrition, forest fishery etc.
- (iii) Industry and minerals
- (iv) Water and Power development
- (v) Transport and Communication
- (vi) Tourism

(d) **Grants – in – aid and contribution** :

- (i) Compensation and assignment to local bodies and Panchayati Raj institute's

Total : Expenditure from Revenue Account.

2. **Capital expenditure** :

(a) **Capital accounts of General Services** :

- (i) Capital outlay on public works.

(b) **Capital accounts on Social and Government Services** :

- (i) Capital outlay on education, art and culture,
- (ii) Capital outlay on medical services,
- (iii) Capital outlay on public health,
- (iv) Capital outlay on family welfare,
- (v) Capital outlay on housing,
- (vi) Capital outlay on urban development
- (vii) Capital outlay on social security.

(c) **Capital accounts on Economic Services.**

- (vi) Capital outlay on general economic services.
- (vii) Capital outlay on agriculture and allied services
- (viii) Capital outlay on industry and minerals
- (ix) Capital outlay on water and power development
- (x) Capital outlay on Transport and communication
- (xi) Capital outlay on tourism

(d) **Grants-in-aid and contribution** : to local bodies and Panchayati Raj Institution's on capital account.

(e) **Public debt** :

- (i) on account of internal debt.
- (ii) on account of loans and services from Centre.

(f) **Loans and Advances ;**

- (i) Loans and advances for education, art and culture,
- (ii) Loans and advances for public health, sanitation, and water supply,
- (iii) Loans and advances for housing,
- (iv) Loans and advances for urban development
- (v) Loans and advances for Social security and welfare,
- (vi) Loans and advances to co-operative societies,
- (vii) Loans and advances agriculture and allied sectors,
- (viii) Loans and advances for village and small scale industries,
- (ix) Loans and advances to Government servants.

(f) **Inter-State settlement**

- (g) Transfer to Contingency Fund

Total capital Expenditure (a+b+c+d+e+f+g+h)

Total Expenditure from Consolidated Fund : (2 +3).

4. Development and Non –development Expenditure :

Revenue and Capital expenditure both are individually grouped under development and non development expenditure.

(a) Development expenditure on Revenue Accounts

- (i) relating to Social and Community Services, and
- (ii) relating to Economic Services

(b) Development expenditure on Capital Accounts

- (i) relating to Social and Community Services, and
- (ii) relating to Economic Services

(c) Non-development expenditure on Revenue Accounts :

only related to general services.

5. Plan and Non-Plan expenditure :

Each expenditure head on both revenue and Capital accounts is divided between plan and non-plan expenditure. Thus, total public expenditure is composed of

- (a) Revenue account plan expenditure
- (b) Capital account plan expenditure
- (c) Revenue account non-plan expenditure

(d) Capital account non-plan expenditure

Hence, total public Expenditure = (a+b+c+d)

6. **Control and Management of Public Expenditure** :

Control of public expenditure : is sought to be ensured multi-dimensionally at a number of stages. The most important means of control are :-

- (i) **Budgetary Control** : Budget preparation is the most primary stage of expenditure control. Budget is a well thought-out action plan of government activities with specified functions and objective targets fixed for each department against specified amounts of expenditure. Budget also gives a comparable picture of the outgoing year. The practice of breaking up of public expenditure into major heads, minor heads and sub heads is an added means of control.
- (ii) **Legislative Control** : The budget is presented in the legislature or Parliament for its approval. A critical study is made through debates. This is an important stage of control.
- (iii) **Administrative Control**: The rules and regulation ensure that no amount is spent without sanction or diverted to unsanctioned purposes. There is elaborate body of rules to fix responsibility and prevent fraud, misuse or misappropriation during execution of expenditure programmes.
- (iv) **Audit Control** : The next stage of scrutiny is accounts and audit control. There is a system of both internal and external audit. Every department has its accounts section which scrutinizes all accounts and ensure that fund are spent according to rules of propriety, economy and efficient utilization. The external audit is done by the Comptroller and Auditor General who has a large net-work of audit expertise to go into careful scrutiny to ensure that all technicalities, rules and regulations are observed.
- (v) **Parliamentary/Legislative Control** : There are two Committees constituted by Parliament or Legislature to go into scrutiny of any specific item of expenditure. They are :- (a) Public Accounts Committee and (b) Estimates Committee. The Public Accounts Committee(PAC) is entrusted with the responsibility of examining audit report and appropriation accounts. They also examine profit and loss accounts of PSU's and autonomous bodies. They follow up case of impropriety, unauthorized and illegal expenditure and go into further investigation if needed.

Estimates Committee looks into the financial operation of the executive and suggest measures to achieve maximum economy consistent with maximum

efficiency. These Committees (PAC and EC) pinpoint the erring officials, examine through and suggest follow-up measures for suitable punishment.

(VI) **Modern classification and budgeting** : Audit control has short comings. To remove this, Economic and functional classification of public expenditure on the one hand and performance and programme budgeting as also zero based budgeting are practised in modern times. This is shown below: -

(Table)

Chapter - 21

BUDGET – PROCEDURE FOR PREPARATION OF BUDGET

M.U. Ahmed,

By budgeting we mean matching of income with that of expenditure. In our day today life also we plan out our budget. The personnel budget planning is purely on the basis of one's own income. In the case of Government budget, however, this is quite different especially in a democratic country wherein more emphasis will be given on welfare activities rather than on profit. It has to be emphasized that making of provision in the budget does not mean sanction but a mere provision only. Incurring of any expenditure out of that budget provision requires observance of different financial rules and procedures.

Planning of receipt and expenditure will help Government in achieving its target in a systematic way. Ours is a democratic country and the political parties before coming into power i.e., at the time of election give some promises to the electorate. After the election the political party which comes to power try to fulfil the promises given to the electorate through the budget and accordingly the budget is directed to be prepared to achieve that goal. While preparing the budget the principle of Welfare State is always taken into account.

IMPORTANCE OF BUDGET

Government budgeting has an important bearing on the functioning of an economy. The ideals of welfare states and the process of economic planning have tremendously increased the magnitude of public spending resulting in the emergence of Government as an important sector of the economy. Government has its own money inflows. Government collects huge amounts of money through taxation, borrowing, sale of treasury bills etc. The manner of collection of these monetary funds and the pattern of there spending influence savings and investment levels, distribution of income and wealth, allocation of resources and consumption behavior of the people. Budget is an important instrument to carry out corrective operations. Budget is not merely an exercise in matching expenditure to income but a powerful medium to realise the objective of public

policy. Budget is an instrument both for the fiscal policy of the Government and the financial plans corresponding to them. It is necessary for the Government to have a planned appraisal of the earning of money and a proper means of controlling the channels of spending these. The absence of such an exercise may lead to corruption, in-efficiency and even bankruptcy. Hence, planned earning and wise spending are pre-requisites for stability of Government. The medium for fulfilling these requirement is the budget.. public budgeting is desirable from government points of view because it can answer its critics adequately and prove its honesty in financial matters. It is also important for the legislators because they can ensure that all is well with the public money.

PROCESS OF PREPARTION OF BUDGET

- The Finance (Budget) Department initiates preparation of budget for the State for the succeeding year in the month of July as laid in the budget calendar of the Budget Manual. The Finance Department calls for the budget estimates after obtaining approval from the Minister Finance about the quantum of increase to be allowed to each and every department in respect of salary expenses and then call for the estimates from the Administrative Department i.e. the controlling Department as per the prescribed proforma and in turn the Administrative Department calls for the budget estimate from the Heads of Departments and the Heads of the Departments call for the budget estimates from the Drawing and Disbursing Officers whom for the purpose of the preparation of budget are designated as the Estimating Officers. The estimating officers take special care for preparation of the budget.
- Normally the budget estimates for Non-Plan should be submitted by the Administrative Department within 15th October of the previous year as per the prescribed proforma including all necessary details and for Plan budget within seven days after finalisation of annual plan and after making sectoral allocations by the Planning and Development Department, for general areas and the Development Commissioner for Hills & Barak Valley for the 6th Schedule areas.
- While the preparing the budget estimates for Non-Plan the estimating officer will follow the guide lines issued by the Finance Department. The Drawing and Disbursing Officers are responsible for drawing money and incurring expenditure on purposes and functions entrusted to them. The Estimating Officers who are entrusted with the preparation of the budget estimates both for receipts and for expenditure, for the coming year do so well in advance in so far as the functions are concerned and submit it to the concerned Departmental Heads who are generally designated for this purpose as “Controlling Officer”. While preparing the receipt estimates the Estimating Officers should take utmost care for the projection of a realistic picture. There should not be over estimation nor underestimation of revenues as the same will create lot of complications for the Government as has been explained earlier. Where there is sharp increase or fall in the revenue a detailed note about the projection should always accompany the estimate. Regarding estimates for expenditure the estimating officer should prepare the budget estimate for all the staff holding posts grade wise supported by ‘L’ statement. The Controlling Officer consolidates these estimates received from the Estimating Officers, modified them where necessary after making thorough scrutiny with the datas and records available with him / her and whenever he / she feels that the budget estimates needs clarifications, then the same should be called for from his / her subordinate Estimating Officer. On satisfactory receipt of the budget estimates the Controlling Officer after consolidation of the estimates will submit the same to the Finance (Budget) Department and also to Administrative Department for incorporation in the budget for the succeeding year. The Administrative Department should also carry out similar exercise for scrutiny of the budget estimates received from subordinate officers and if these are not in conformity with the Finance Department’s guidelines ask for of re-submission the budget estimate accordingly.

After satisfactory receipt the Administrative Department should forward the budget estimates to the Finance (Budget) Department for inclusion in the budget.

- While preparing the budget the following should be kept in mind: -
- a] Actuals of the last year.
- b] Actuals for the same period of the past and previous year.
- c] Actuals of the 12 months of past and previous year.
- REVISED ESTIMATES
- The revised estimates should not be a repetitive one of what has been already included in the budget estimates but should be a genuine re-estimation of requirements in the light of the knowledge upto date. Before making estimate the following factors should be ascertained :
 - i] the real position in regard to outstanding liabilities;
 - ii] intention of creditors in respect of the presentation of their claims;
 - iii] the usual adjustments which take place during and after the close of the year.
- The preparation of a revised estimate for the current year should always precede the making of a budget estimate for the next year. A revised estimate should be framed in the light of :-
 - a] the actual so far recorded in the current year;
 - b] the actual for the same period of the past and previous year;
 - c] the 12 months actual of the past and previous years
 - d] order already issued or contemplated for appropriation, re-appropriation or sanction to expenditure ; and
 - e] any other relevant facts.
- While preparing the revised estimates, special care should be taken to enter what seems to be the most probable figure on the information available, irrespective of government Order or sanction and without leaving any margin on either side. In preparing the revised estimates the following instructions should be borne in mind :-
 - 1] There should be no confusion of the fact actually known and already recorded with the residue, which alone remains to be estimated. The comparison to be made is of the estimates reduced during the last four, three or two months of the current year with the accounts recorded during the actuals of the corresponding months of the previous year

viii] Where the salary is met out of the provision under Grants-in-aid break up the proposed provision showing the salary component should be supported by 'L' statement. In the absence of details of salary provision under grant-in-aid, the Finance Department will not allow any drawal of fund for salary out of the 'Grants-in-aid' provision.

ix] If the proposed budget estimate for any item under Non-Plan is significantly different in the succeeding year budget estimate viz; if difference is more than **55** from the budget provision on the same item for current year, full details should be furnished in justification of the same by appending explanatory notes to the budget estimates of the coming year.

x] The provision, which is proposed to be given as Grants-in-aid to Autonomous Council to be shown under the Sub-Head Assistance to the BAC / MAC / RHAC / LAC Grants in-aid" under respective service head. Accordingly, in-respect of the Divisible Plan Schemes entrusted to the Autonomous Council, only the non-

salary provision viz, the provision other than that for basic pay, DA, MA, Medical Reimbursement, LTC, Festival Advance, other allowances such as House Rent Allowances and TA / DA of the Field Officer and Staff (including the work charged employees / Muster Roll Workers) whose head quarter are located within the geographical boundary of the BAC area should be properly estimated and shown under the above mentioned Sub-Head under Plan under each Service Head..

As regards the provision for the Autonomous council Secretariats, which is to be given as Grants to the respective Autonomous Councils noted above, this provision is to be made by the W.P.T & B.C. Department in the Non-Plan Budget under the Sub-Head, "Assistance to the Autonomous Councils (name of the Council) - 9 - Grants-in-aid under the Major Head "2225 Welfare of the SC / ST and OBC etc". The W.P.T & B.C. Department will obtain budget estimates from the Principal Secretary of the respective Autonomous Councils and furnish to the Finance (Budget) Department with all relevant details in the proper form including **the details under the 'L'** form in-respect of each Autonomous Secretariat to Finance (Budget) Department.

After receipt of the Budget Estimates by the Finance (Budget) Department from the Controlling Officer, the Finance Department will consolidate the budget estimates according to the Demands of the Department after examining its reasonableness, past actual, level of standard, general forms and principles followed, availability of resource etc.. Consolidation and preparation of budget by Finance Department is made under the prescribed budgetary and accounts structure as prescribed by the Comptroller and Auditor General of India with the approval of the President of India. While submitting the estimate for the next year, the actual position of last year and upto date position of the current year are also shown by the Estimating Officer / Controlling Officer which serves as a guide to the Finance (Budget) Department in preparing the budget.

PLAN BUDGET

In addition to the division of the budget into Revenue and Capital Accounts, the Plan budget is also prepared with outlay approved by the Planning

Commission. Planning Commission is a non-statutory body, with a mandate rooted in the pursuit of a centrally planned development strategy, a task to which it continues to be devoted. State five-year plan and Annual plans are coordinated through lengthy negotiations involving sequentially. --

- ◆ State Planning Department and Finance Department with Development Departments,
- ◆ State Finance Department with Planning Commission,
- ◆ State Development Departments and Planning Department with Planning Commission.

The Plan Budget is a document, which shows the budgetary provisions for important projects, programs and schemes submitted by the State and accepted by the Planning Commission. After discussion with the State Chief Minister, the States Annual Plan is finalised by the Planning Commission. The Planning & Development Department will make sectoral allocation for all the development departments of the general areas and the Development Commissioner for Hills and Barak Valley will make the sectoral allocation in respect of the development departments falling within the Sixth Schedule Areas. After receipt of this sectoral allocation the department used to submit budget estimates within that allocated amount. The physical targets wherever possible are shown against proposed outlays. With the advent of economic planning, the Planning Commission has emerged as another **major vehicle** of transfer of resources from the Center to the States. Such assistance is provided to the States in the shape loan and grant. In case of Assam, the pattern of central assistance was 70% loan and 30% grant up to 1989 – 90 but from 1990 – 91 the pattern has been changed to 10% loan and 90% grant.

NEED FOR PLAN BUDGETING –

Usually Government budgeting is an annual exercise because it enables the legislature to exercise a closer control over the activities of the Government. This control is not possible if the budget is voted and passed for many years. It is however, contended that a country's needs for a single year cannot be intelligently budgeted for without consideration of its long term needs. Many of the improvements needed, as for example strengthening of defences, extension of communication, economic and industrial development, etc are costly and

cannot be effected within a single year. Long term planning is therefore essential to make suitable provision for these. Long term budgets or plan do not involve actual voting and appropriation for the entire period of plan by the legislature. The expenditure of the approved plan is phased out so that, those long-term objectives are achieved.

STEPS IN FORMULATING PLAN BUDGET –

The steps in formulating a long-term budget are the following –

1. To determine and forecast the need of the State as objectively as possible over a period of years
2. To arrange various improvement projects in order of their priority
3. To explore the possible sources – taxation, savings, borrowings etc – of raising the resource
4. To prepare the balanced program for the entire period
5. To permit modifications according to necessity
6. To incorporate in each year's budget a portion of the long term budget according to time schedule
7. To revise the future years programme on the light of prevailing circumstances and mid term appraisal.

RESOURCES FOR STATE PLAN :-

The size of the state plan is consistent with the resources available for them. It comprises

The state's surplus on current account i.e. Balance of Current revenues (BCR)

Central assistance for state plan

Additional central assistance for externally aided projects

Loan from center against small savings

Provident Funds

Miscellaneous capital receipts

Contributions of State PSUs

Additional resource mobilization during plan period

Domestic Borrowings

Open Market Borrowings (OMB)

Negotiated Market Borrowings (NMB)

Borrowing power of the States are governed by Articles 292 and 293 of the Constitution. The States can resort to internal borrowing but external borrowing is prohibited. Internal borrowing is, in practice effectively regulated by the Center, since no State may borrow, except with the consent of the Center, as long as it is in debt to the Center.

ESTIMATING OFFICER --

The departmental officers made responsible under the Rules of the Budget Manual for preparing any part of the departmental estimate are called the Estimating Officer. Generally the Drawing & Disbursing Officers (DDO) under the Heads of Department act as the Estimating Officer for his / her establishment.

DUTIES OF THE ESTIMATING OFFICER –

The tasks of preparing preliminary estimates rest with the estimating officer. The task is very important. Because it is not a simple arithmetical exercise in striking out averages of the previous years and putting in a safe figure. Behind figures lay insistent realities of administration. The circumstances of one year are not exactly similar to those of the previous year and yet they are not quite dissimilar. One has therefore to use his judgement and rationally in estimating the similarities and dissimilarities and making due allowances for each. While preparing estimates the estimating officers are to fill in four columns of the prescribed forms :

- i. Actual of the year immediately past
- ii. Original sanctioned estimate of the current year
- iii. Revised estimates of the current year
- iv. Proposed estimate of the current year

The estimating officer will fill in the forms and send two copies to the controlling officer. The figure under column ' Actual of the year immediately past ' and the ' Revised estimate of the current year ' is to be shown by sub-head of appropriation only. The figure under the column ' original sanctioned estimate of the current year ' and ' proposed estimate of the current year are to be shown in

the detailed head of appropriation only. The justification of the rationally of the estimate prepared should be fully explained.

THE DUTIES OF CONTROLLING OFFICER –

On receipt of estimates the controlling officer will scrutinize and consolidate them together with his own estimates for items for which he was concerned into a self contained budget for each major head which he operates. In the course of consolidation, the Controlling Officer has to judge the relative importance of the proposals received from various branches of the department for new expenditure in the light of possible grant for the department as a whole. The consolidation is done in the form having the following columns –

- i. Actual of the year immediately past
- ii. Original sanctioned estimate of the current year
- iii. Actual for five months of the current year
- iv. Actual of the seven months of the last year
- v. Revised estimate of the current year
- vi. Budget figure proposed for the coming year
- vii. Budget figure proposed by the Administrative Department
- viii. Budget figure proposed by the Finance Department

For the purpose of the column i, ii, iv and v noted above the Controlling Officer would exhibit the figures under sub-head of appropriations only. For ii and vi under detail heads of account after consolidation of the budget Controlling Officer has to prepare one Explanatory Memorandum where he is required to explain the reasons for differences between the proposed figure of the coming year and the sanctioned estimate of the current financial year. Consolidated budget together with explanatory memorandum are then sent to the Administrative Department and a duplicate copy is sent to the Finance Department.

DUTIES OF THE ADMINISTRATIVE DEPARTMENTS –

The Administrative Departments scrutinizes the budget in the light of its general policy and finally sends it to Finance Department with their recommendations.

DUTIES AND RESPONSIBILITIES OF FINANCE DEPARTMENT –

The estimates received from the various departments are finally scrutinized by the Finance Department and after modification or revision as may be necessary are consolidated together into the budget of the Government as a whole. The scrutiny of the estimates by the Finance Department is from the financial point of view, i.e., economy and availability of fund. It does not question the policy underlying the proposals of the administrative departments for which they themselves are responsible. The nature of scrutiny for a new expenditure or the extension of an existing activity may be of following nature –

Is the proposed expenditure really necessary?

If so, how have we so long done without it? Why now?

What is done elsewhere?

What will it cost and where from the money come?

Who will go short as a consequence of it?

Are new developments likely to render it unnecessary?

PRESENTATION OF BUDGET BY THE FINANCE MINISTER

Annual Financial Statement under the provision of Art. 202 of the Constitution is laid before the Legislature by the Finance Minister for consideration of the August House, followed by Rule – 139 of Rules of Procedure and Conduct of Business in Assam Legislative Assembly for presentation of budget.

Every year the Governor on the advice of the Government invite the Budget Session of the Assembly. Generally, the Budget Session starts in the month of February with the interior that all formalities for passing the budget should be completed within 31st March of every year. Our financial year is from the 1st April to the 31st March of the next year. The Budget Session of the Assembly always begins with the Governor's Speech wherein all the activities, programmes achievements, etc. of the Government are highlighted. After that the motion of thanks for the Governor's Speech is moved and discussion starts. During the course of the Budget Session the Finance Minister will lay the Budget for the State for the succeeding year before the August House for their consideration. The Finance Minister lays the Annual Financial Statement before the house along with a separate note, highlighting the State's financial position

for the convenience and the easy understanding of the Hon'ble Members. Normally after presentation of the Budget, the Hon'ble Speaker, Legislative Assembly will give some days (three days) minimum for study of the budget by the Members to make the discussion more meaningful in the House as provided in the Rules of Procedures and Conduct of Business of the Assembly.

DISCUSSION IN THE HOUSE – CUT MOTION

After the period as stipulated by the Speaker, expire the General Discussion on the budget starts, grant wise and departments – wise. During the course of the discussion if any Member is not satisfied with the activities of the Department he / she may move a cut motion for reducing the grants by serving proper notice for the purpose through the Speaker as per the Rules of Executive Business of the Assembly. The notice of Cut Motion for reduction of the amount of demand is, admissible subject to fulfillment of the following conditions –

- i. it shall relate to one demand only;
- ii. it shall be clearly expressed and shall not contain arguments, inferences, ironical expressions, imputations, innuendoes or defamatory statements;
- iii. it shall be confined to one specific matter which shall be stated in precise terms;
- iv. it shall not reflect on the character or conduct of any person whose conduct can only be challenged on a substantive motion;
- v. it shall not relate to expenditure charged on the Consolidated Fund of the State;
- vi. it shall not raise a question of Privilege.

Allowing of Cut Motion is the discretion of the Speaker after examining the pros and cons of the motion. The notice for such motion should be served at-least three clear days previous to the days on which the demand is under consideration, any member may object to the moving of motion and such to the. Once the motion is accepted by the Speaker the discussion starts. If the Member who initiates the motion is not satisfied with the replies furnished by the concerned departmental minister he may not withdraw the motion. Then the motion is put up for voting. If the motion is lost in the voting than the grant is said to have been passed. If the motion is carried by the House then the Ministry may have to resign.

DEMANDS FOR GRANTS, APPROPRIATION BILL AND APPROPRIATION ACT

After completion of discussion of all the grants the concerned Minister, on the advice of the Governor, moves for the entire budgeted amount of the department in the form of Demands for grants and seek the approval of the House for the same. If the House approves then the grants is said to have been passed. Sometimes 2 or 3 Departments are clubbed together in moving for grants. After passing of the grants the Finance Minister, with the advice of the Governor, move the Appropriation Bill covering the entire amount of different grants for consideration of the House. After passing of the Appropriation Bill by the House the same is to be sent to the Governor for his assent. On receipt of assent of the Governor, the bill becomes the Appropriation Act and then the budget is said to have been passed. After that the Finance Department communicates to all the Departments concerned about the Passing of the budget and then expenditure can be incurred by them as provided in the Budget after observing all necessary formalities for the purpose.

MEANING OF RE-APPROPRIATION

Re-appropriation means the transfer of funds from one Sub-Head of appropriation to another such Sub-Head. Sub-Head of appropriation means the portion of the grants or appropriation allotted to a prescribed Sub-Division of the head as representing one of the primary objects on which expenditure may be incurred. It is also called as a unit of appropriation.

RE-APPROPRIATION

By re-appropriation generally we mean transfer of funds from one sub-head of appropriation to another such sub-head. While preparing budget, provision is made for each scheme, after analysing the same. At the time of actual implementation some changes are required to be made or in some case the provision which have already been made become surplus. But in some areas provision made appears to be less and need augmentation of additional fund. In that case we may transfer funds from the surplus areas to the shortfall areas. This process of transfer of funds is known as the re-appropriation.

This transfer of fund cannot be done without following the set procedure laid down in the budget manual. Proposals for re-appropriation are to be drawn up as per paragraph 107 to 111 and 113 to 115 of the Budget manual of the Government of Assam, Vol. I and also the Delegation of Financial Power Rules, 1960 as per the power delegated to the Finance Department under the provision of Rules 35 of the Rule of Executive Business.

Proposals for re-appropriation might be –

- a. from voted head to another voted head within a grant.
- b. from a charged head to another charged head.
- c. from a charged head to a voted head.
- d. from a voted head to a charged head.
- e. from any head under revenue account to a head under capital account or vice-versa within the grant.
- i. As regards (a) re-appropriation from one major head to another can be sanctioned by the Finance Department. Administrative Departments of the Government can sanction re-appropriation between minor heads with certain limitations and the subordinate authorities can sanction re-appropriation between heads subordinate to minor heads with some limitations.
- ii. No authority not even the legislature, has power to re-appropriation from one grant to another grant.
- iii. Re-appropriation from one charged head to another charged head within the grant can be sanctioned by the Finance Department.
- iv. No re-appropriation in respect of c & d above can be done as a voted grant cannot be decreased even by the Legislative Assembly and can only be increased by means of a Supplementary Demand.
- v. None of the above mentioned permissible re-appropriation can be sanctioned if this involves re-appropriation from revenue account to capital account or vice-versa even within the same grant.
- vi. No re-appropriation can be made from the plan budget to the normal budget.

- vii. No re-appropriation can be made from a head to accommodate a centrally sponsored scheme.
- viii. No re-appropriation will be allowed to in-house provision under a works project or under a separate head only to purchase materials unless such materials are required for use during the year.
- ix. No re-appropriation will be sanctioned from the provision made for sixth schedule areas to general and vice-versa.
- x. No re-appropriation will be sanctioned out of the provision obtained through supplementary demands for specific purposes.
- xi. No re-appropriation will be sanctioned to increase the provision under secret service beyond a limit of 25% of the original provision.
- xii. No re-appropriation can be made to recoup an item in a grant if the appropriation for that item has been reduced by the Legislative Assembly under Article 203 of the Constitution on a motion for reduction whether that motion was for a real cut in the appropriation or only a token cut designed to enable the Assembly to discuss some matter of the policy or criticizes some action of the executive. In cases of necessity the Assembly must be approached for sanction to a supplementary grant.

RE-APPROPRIATIONS TO THE PUBLIC WORKS DEPARTMENT BUDGET

The following instructions apply to re-appropriation in the **Public Works Department Budget** –

1. The provision for original works in each department forms a separate minor head under the major heads. Under Rule 35 of the Assam Rules of Executive Business the Minister-in-charge of the Public Works Department can re-appropriate between items included in any one of these minor heads, whilst the Finance Department can re-appropriate from one such minor head to another.
2. Savings under the “ original works “ minor heads are not regarded as earmarked for the administrative concerned but may be freely re-

appropriated by the Finance Department to meet urgent demands under another such minor head.

3. Ordinarily re-appropriation may be made from savings on works only for –
 - a. Works in progress.
 - b. Works (not amounting to schemes of new expenditure in the primary sense of the term) which can be completed within the year.

Exceptions to this rule may be made in certain cases, e.g., where a building has been burnt down and obviously must be rebuilt without delay. In such cases re-appropriation from savings may be allowed even though the work cannot be completed within the year.

4. The general reserve should be utilised for –
 - i. incomplete works of the previous year;
 - ii. works to progress, when more than the appropriation for the work can be spent during the year;
 - iii. unforeseen works of every kind provided for a new service is not involved;
 - iv. additions to the repairs grant for the year.

Copies of orders sanctioning any re-appropriation must be communicated to the Accountant General and the Finance Department as soon as orders are passed. In all cases of re-appropriation sanctioned either by the Controlling Officers or by the Government a re-appropriation statement in Form ' K ' should invariably be used. In cases where Government sanction is required, the statement should be submitted in triplicate. The Finance Department will not sanction re-appropriation statement received by them after the 15th March.

Re-appropriation proposal is to be submitted as per the prescribe proforma i.e., Assam Schedule – III (Sec. – I) Form – 62.

MEANING OF SUPPLEMENTARY DEMAND

By Supplementary or additional appropriation generally we mean additional provision made in the budget over the existing provision (to meet the shortfall) previously made by law for the year. The additional or enhanced provision can be made before but not after the expiry of the year. The making of

provision through Supplementary Demand is the same as that of seeking of fund through budget estimates. But the prime difference is that prior to moving for additional fund the concerned Department will have to obtain Finance Department approval by giving proper explanatory note. The proposal for additional fund through supplementary demand is initiated when it is found that the expenditure is inevitable and there is no possibility of meeting the expenditure from the overall savings within the grant by re-appropriation. If the above exercise fails than the Secretary of the Administrative Department move the Finance Department for additional fund either through Supplementary Demand or advance from the contingency Fund stating the reasons for seeking that fund, and also stating that the amount now sought for has been agreed to by the Finance Department earlier. No proposal for supplementary or additional grant or re-appropriation will ordinarily be accepted by the Finance Department for expenditure which the Finance Department have not previously agreed to.

SUPPLEMENTARY DEMAND – WHEN IT CAN BE TAKEN

A proposal for supplementary or additional grant may be initiated in cases where some provision have been made before the expiry of the year to meet the expenditure on the following :

1. Expenditure on schemes of new expenditure to be taken up within the year.
2. Inadequacy of provision.
3. Fresh expenditure but not technically ‘ schemes of new expenditure ‘.
4. Omissions of provision.

The proposal for supplementary or additional grant or appropriation should be in the form prescribed for the purpose in the annexure - of the package. The Explanatory note in the form should be brief but comprehensive and should mention the amount of advance from the Contingency Fund, if any, against each Sub-Head concerned. A detailed explanatory note should also accompany the form showing therein the break up of Sub-Head concerned by detailed heads.

No expenditure under a particular head (Major, Minor or Sub-Head) against which no provision exists in the budget as passed by the legislature can

be incurred and the provision under a grant can never be exceeded. No expenditure can therefore be incurred in anticipation of supplementary or additional grant or appropriation and no expenditure under a head (Minor or Sub-Head) against which no provision exists, can be incurred prior to provision of funds by re-appropriation where it is admissible and possible, sanctioned by a competent authority.

All proposals for additional grant or appropriation for schemes of new expenditure should be appended with a schedule of new schemes in Form – H and should show that the expenditure could not be foreseen in due time either due to –

- a. the expenditure having been newly imposed by statute or by the order of court of law or by competent authority; or
- b. urgent necessity having arisen for the proposed expenditure and the postponement of which would cause serious loss to the Public Service or Government Revenue.

All proposals for supplementary grants or appropriation to cover items (2), (3) or (4) as noted above should explain the reasons for the inadequacy or omission of provision or why the need for the larger provision could not be foreseen when the Department estimates were prepared and show that in the absence of the extra provision asked for various inconvenience or loss to public service will result.

RESTRICTION ON AN ITEM REDUCED OR REFUND BY THE ASSEMBLY

If the Assembly reduces a particular item in grant, a fresh demand must be made to the Assembly before expenditure in excess of the amount originally voted by them is incurred, but in making the demand the altered circumstances in which the additional expenditure under the same item becomes necessary, within the meaning of Art. 205 of the Constitution, should be clearly set forth.

Similarly, no re-appropriation can be made to recoup an item in a grant if the appropriation for that item has been reduced by the Legislative Assembly under Art. 203 of the Constitution on a motion for reduction whether that motion was for a real cut in appropriation or only a token cut designed to enable the

Assembly to discuss some matters of policy or criticise some action of the Executive.

ADVANCE FROM THE CONTINGENCY FUND

The purpose of constitution of contingency fund. In deserving cases which are unforeseen and which cannot wait for provision by supplementary or additional grant an appropriation advance from the contingency fund may be sanctioned in accordance with the provisions made in the constitution and the relevant rules. The advance so sanctioned will have to be regularised by a supplementary appropriation or grant in the next available session of the Assembly.

PROCEDURE REGARDING SUPPLEMENTARY DEMAND OR ADDITIONAL GRANT

The Finance Department will advise whether a Supplementary or Additional Demand shall be presented to the Assembly, where the expenditure requiring provision is obligatory i.e., against commitment already made under orders of competent authority. A Supplementary grant or appropriation may be taken towards the end of the year provided that the total provision made by the legislature under the grants concerned is not exceeded before the Supplementary Demand is obtained. Where, however the expenditure required is not against previously made commitment the demand or the additional grant or appropriation should be laid before the Assembly as early as possible and prior to incurring any expenditure.

The object of this distinction is –

- i. to avoid, as far as possible, asking the Assembly early in the year, for Supplementary grants which may later on turn to be unnecessary there being adequate saving within the grants to cover the extra expenditure, and
- ii. to avoid incurring which is optional i.e., expenditure on object not contemplated in the budget, and has not been voted for by the Assembly.

The decision to present a supplementary or an additional demand, will ordinarily be reached at a meeting of the Council of Ministers before presentation

of the demand to the Assembly. It will then be included by the Finance Department in a statement to be laid before the Legislature under Article 205 of the Constitution and the provision made in paragraph 3 of the Manual will apply.

MEANING OF SURRENDER SAVINGS

By savings generally we mean the surplus money which is left over after meeting all the committed expenses. But in Government this is a bit different. Savings means the amount of money left over after implementation of a Project / Schemes at a lesser cost or due to abandonment of the Schemes / Project that are provided in the budget.

SURRENDER OF SAVINGS

Explicit concurrence of the Legislature shall be obtained through the process of a resolution for all re-appropriation for saving under any new sub-head containing provision of funds made through Schedule of new schemes or under any existing sub-head accommodation provision made through such Schedule. The resolution to be moved in the Assembly should indicate in brief the reason for the savings and the excesses anticipated. When it is required at a stage after the enactment of the Appropriation Act to incur expenditure on a new form of service which come within the category of schemes of new expenditure (as defined in paragraph 53 supra) a demand for the full amount of the expenditure will be presented irrespective of the fact that savings may be available from the amounts included in the Appropriation Act from which the new expenditure could be met, such saving being dealt only by surrender to the Finance Department. If however, the expenditure is to be incurred on an existing or recognised service, the submission of a demand for additional grants is not compulsory when it can be met from the savings anticipated. When, however, the explicit concurrence of the Legislature to such an item of expenditure is considered necessary on account of its extent, importance or any other reason, it may be obtained through the process of a resolution. Previous advice of the Finance Department should be obtained in all cases.

For example – The word “ Savings “ denotes actual resulting by the completion of a project or projects at a lesser cost than provided for in the

budget. If a work estimated to cost Rs.1 lakh is completed at an actual expenditure of Rs.85,000, it is then that a saving of Rs.15,000 occurs. If, however, only a sum of Rs.60,000 is spent on that particular project out of a provision of Rs.1 lakh leaving Rs.40,000 to be spent in the next year there is no savings but transferring the liability to subsequent year. Proper sense of the word should therefore, be borne in mind while submitting proposals for financing new schemes from 'savings'.

COMMUNICATION TO ACCOUNTANT GENERAL

The Finance Department will report to the Accountant General cases in which Government have specially authorised the incurring of expenditure from savings within the grant in anticipation of the explicit concurrence of the Assembly.

Hence, from the above it is seen that where savings are anticipated in the Budget provision for expenditure from the Consolidated Fund, voted or charged, the Controlling Officers are required to surrender all savings to Finance Department after ascertaining their requirements and in any case by the 15th of March or the latest known savings in the budget should not be left unsurrendered in time.

LINE ITEM BUDGET

The practice of budget was introduced in India in the year 1860 by Sir James Wilson the first Finance Member of the Viceroy's Executive Council. The budget, which was introduced by Sir Wilson in India, was a line item budget just to have tight central control over expenditures such as salary, wage, travel expenses, machinery and equipment and tools and plants etc. The main intention of the Britishers was not to provide welfare service to the people but to earn money for their exchequer. Without budget nobody knew how much money the Government had earned in a year and how much they spent towards implementation of their activities. Due to this draw back they introduced the budget system in India, this practice was continued till 1969, and thereafter the from time to time the procedure has been modified.

PERFORMANCE BUDGETING

Performance budgeting is essentially a process which by an organized pattern of display and exhibition, brings out the total governmental operations through a classification by functions programmes and activities. Though suitable narrative statements and work load data that form an integral part of the presentation, it indicates the work done, proposed to be done and the cost of carrying them out. The main purposes of performance budgeting are :

- a) to correlate the physical and financial aspects of programmes and activities
- b) to improve budget formulation, review and decision making at all levels of management in the government machinery.
- c) To facilitate better appreciation and review by the legislature;
- d) To make possible more effective performance audit;
- e) To measure progress towards long-term objectives as envisaged in the plan; and
- f) To bring annual budgets and developmental plans closely together through a common language.

The performance budget has certain vital ingredients that need to be constantly kept in view :

- i] programme and activity classification that represents the range of work of each organisation;
- ii) a framework of specified objectives for each programme;
- iii) a stipulation of the targets of work or achievements; and,
- iv) suitable work load factors, productivity and performance ration that justify the financial requirement of each programme.

STEPS IN PERFORMANCE BUDGETING

Three basis steps are envisaged in the introduction of performance budgeting. These are :

- a] establishing a meaningful functional, programme and activity classification of governmental operations;

- b] bringing the system of accounting and financial management into accord with this classification; and,
- c] evolving suitable norms, yardsticks, work units of performance and unit costs, wherever possible, under each programme and activity to facilitate better estimating of financial requirements and taxes appraisal and evaluation .

ZERO BASED BUDGETING

Zero Based Budgeting is a management tool which provides a systematic method for evaluating all operations and programmes current or new, allows for budget reductions and expansions in all a rational manner and allows reallocation of resources from low to high priority programmes.

In the preparation of budget by using Zero Based Budgeting techniques an agency centers into three phases of management – planning, budgeting and review (PRR). In the process of Zero Based Budgeting all these three stages of management are linked into one system. Zero Based Budgeting is a management concept linking planning, budgeting and review (PBR) and operational decision making into a single process. Zero Based Budgeting is not only a management technique but it will develop other techniques. Management by objectives (MBO), works measurement, cost benefit analysis and programme evaluation are some of the techniques that supplement the new PBR. Thus ZBB techniques should not replace management systems but build upon those in existence.

The principle features of ZBB are given below. The idea is to :

- involve managers who have discretion over direction at all levels in the budget and operational process.
- Justify the resource requirements for various levels of existing activities as well as for the new activities.

- Focus justification on the evaluation of actionable programmes, activities or other functions of each division unit.
- Establish (for management levels in an agency) objectives against which accomplishments can be identified and measured.
- Assets alternative methods of accomplishing the objectives.
- Analyses the probable effects of different budget amounts or performance levels on the achievements of objectives.
- Use division package as the major tool for budgeting, review, analysis and division making.
- Rank programmes, activity, finding levels and reallocation or resources in order of priority.

Chapter - 22 TERM OF CODING PATTERN

M.U. Ahmed,

- 1] Major Head – A four code of the first digit is –
- 2] Sub – Major Head –
- 3] Minor Head –
- 4] Sub Head
- 5] Object Head/Detailed Head

STRUCTURE OF CLASSIFICATION

SECTOR	MAJOR <u>HEAD</u>	MINOR <u>HEAD</u>	SUB- <u>HEAD</u>	DETAILED <u>HEAD</u>
Service	Functions	Programme activities	Schemes inputs	of Systematic
1. General	1. Agriculture			
2. Economics	2. Education			
3. Social	3. Health & Family welfare			

MAJOR HEADS :- A four digit code has been allotted to the Major Heads. The first digit indicates whether the Major Head is a Receipt Head or a Revenue Expenditure Head or a Capital Expenditure Head or a Loan Head. Adding 2 to the first digit of the Receipt Head will give the number allotted to the corresponding revenue Expenditure Head. Adding another 2 – will give the

Capital Expenditure Head and another 2 - the Loan Head of account. For example :-

0401 - represents the receipt Head for Crop Husbandry

2401 - the Revenue Expenditure Head for Crop Husbandry

4401 - Capital outlay on Crop Husbandry

- 6401 - Loans for Crop Husbandry
- But there are certain exceptions. Where Receipt/Expenditure is not heavy certain Major Heads have been combined under a single number, the Major Heads themselves forming Sub-Major Heads under that number.
- **SUB MAJOR HEADS:** A two-digit code has been allotted, the code starting from "01" under each Major Head. Where no Sub-Major Head exists it is allotted a code of "00". Nomenclature "General" has been allotted code "80" so that even after further Sub-Major Heads are introduced the code for "General" will continue to remain the last one.
- **MINOR HEADS:** This have been allotted a three-digit code. The codes start from "001" under each Sub-Major Head / Major Head (where there is no Sub-Major Head). Codes from "001" to "100" and a few codes from "750" to "900" have been reserved for certain standard Minor Heads. For example, code "001" always represents "Direction" and Administration". Non-Standard Minor Heads have been allotted codes from "101" in the Revenue Expenditure series and "201" in the capital and Loans series. Where the description under Capital and Loan Series. Where the description under Capital / Loan is the same as in the Revenue Expenditure Section. Code number from "009" are always reserved for Deduct receipt of Deduct Expenditure Heads.
- Where code for other expenditure is "008" which is the code for other Grants / other Schemes etc. where the Minor Head "Other Expenditure" also exists kept as "006". This has been done to ensure that the order in which the Minor Heads are codified is not disturbed when new Minor Head are introduced.
- **SUB HEAD AND DETAILED HEAD OR OBJECT HEAD**
- At the centre the Sub Head represents the schemes, the Detailed Head the sub schemes and the Object Head, the Object e.g. Pay, DA, HRA, Rewards Gratuity, Office Expenses, Travel Expenses etc. on which the expenditure is incurred (each of these levels have been represented by two digit code). Where it is not possible to indicate pay, DA, HRA, CCA, etc separately the code for salaries may be used for representing the aggregate these items.

STANDARD OF OBJECTS AND EXPENDITURE

1. Salaries.
2. Wages.
3. Travel Expenses.
4. Office Expenses.
5. Payments for professional and special services.
6. Rents, Rates and Taxes / Royalty.
7. Publications.
8. Advertising Sales and Publicity Expenses.
9. Grants-in-Aid / Contributing / Subsidies.
10. Scholarships and Stipends

11. Hospitality Expenses / Sumptuary Allowances etc.
12. Secret Service Expenditure.
13. Major Works.
14. Minor Works.
15. Machinery and Equipment / Tools and Plant.
16. Motor Vehicles.
17. Maintenance
18. Investment / Loans.
19. Materials and Supplies.
20. Interest / Dividend.
21. Pensions / Gratuities.
22. Depreciation.
23. Inter Account Transfers.
24. Writes – off / Losses.
25. Suspense.
26. Other Charges.

NOTES

- 1 **Salaries** will include pay, allowances in all forms of officers and staff except travel expenses (other than Leave Travel Concession). This object of classifications will also be utilised for recording expenditure on emoluments and allowances of Heads of States and other High Dignitaries.
- 2 **Wages** will include wages of labourers and of staff at present paid out of contingencies.
- 3 **Travel Expenses** Will cover expenses on account at present paid out of contingencies.
- 4 **Office Expenses** Will include all contingent expenditure for running an office such as furniture, postage, purchase and maintenance of office machines and equipment, liveries, hot and cold weather charges (including wages of staff paid from contingencies) telephones, electricity and water charges, stationery, printing

- of forms, purchase and maintenance of staff and other vehicles for office use, as distinct from vehicles for functional purposes like Ambulance Vans etc. (Vide 16).
- 5 **Payment for professional and special services** Will include charges for legal services, consultancy fees, and remuneration to examiners. Invigilators etc. for conducting examinations, remuneration to casual artists by the All India Radio and all other types of remuneration for professional services. It will also include payment for services rendered, supplies made by other departments such as Railway Police etc. a distinction being made in respect of supplies made, services rendered for the running of an office in which case the expenditure will be recorded under " Office Expenses ".
 - 6 **Rent, Rates & Taxes/Royalty** will include payment of rent for hired building Municipal rates and taxes etc. It will also include lease charges for land.
 - 7 **Publications** Will include expenditure on printing of office Codes and manuals and other documents, whether priced or non-priced but will exclude expenditure on printing of publicity material. This will also include discount to agents on sales.
 - 8 **Advertising, Sales & Publicity / Expenses** will include commission to Agents and printing of publicity materials.
 - 11 **Hospitality Expenses/ Sumptuary Allowances, etc** Hospitality expenses will include entertainment allowance of high dignitaries etc. Expenditure on refreshments served in Inter-departmental meetings, Conference etc. will, however, be recorded under " Office Expenses ".
 - 13 **Major Works &**
 - 14 **Minor Works** will be classified with reference on the classification of Major Minor, Works in C.P.W.A. Code. This will also include cost of acquisition of land and structure.
 - 15 **Machinery & Equipment/ Tools & Plant** will include machinery, equipment, apparatus etc. other than those required for the running of an office (Vide 4) and special tools and plant acquired for specific works.

- 16 **Motor Vehicles** will include purchase and maintenance of transport vehicles used for functional activities as distinction from those used for running an office, e.g. Ambulance Vans.
- 17 **Maintenance** will record expenditure on maintenance of works machinery and equipment (covered under items 13,14 and 15). It will also include repairs incidental to maintenance.
- 20 **Interest/ Dividend** will include interest on capital, discount on loans.
- 21 **Pension/ Gratuities** will include donations to Service Funds and contributions to Contributory Provident Funds.
- 23 **Inter Account Transfers** will include transfer to and from Reserve Funds etc., writes back from Capital to Revenues.
- 24 **Writes-off / Losses** will include writes-off of irrecoverable loans, Losses will include trading losses.
- 26 **Other Charges** A residuary head. This will also include rewards and prizes.

Chapter - 23

A BRIEF NOTE ON DELEGATION OF FINANCIAL POWER

N.K. Dey
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Financial power is so great a power and its impact on the society is so big that every body wants to have such power, at least to some extent, in order to dominate over the others. That is why we notice that in the society there is craziness amongst the power having people to have more and more financial power.

During the pre-civilization period on even at the dawn of civilization all powers were concentrated in other hand and this authority was supreme and final. As the society at that time was in rudimentary state, such concentration of the power such as administrative judicial and financial power was necessary to have proper control over their own people which subsequently gave birth to the system of chiefman-ship” of a clan; “Headman-ship” of village and ultimately the “king-ship” of a country.

With the passage of time, people began to think of better system of society with decentralization of administrative power, judicial power and financial power. Such thinking ultimately has given rise to the modern system of democracy where political administrative, judicial and financial powers have been decentralized and well-defined for overall benefit of the society.

For the purpose of administration of a country powers are broadly divided into :-

- i) Administrative Power
- ii) Judicial Power and
- iii) Financial Power.

In ancient times all powers administrative, judicial and financial powers were concentrated in the king. On progress of civilization gradually demands were made from various quarters for decentralization of powers.

In England in the year 1215 AD, the famous Charter of Magna Carta was signed which showed the world the path of formal decentralization of power from the highest Authority to its subordinates. In India we find that financial powers were gradually decentralized or delegated to power levels. The most important steps in this regard can be traced in the “*Artha Shastra*” of Chanakya. Further leap in this direction is seen in the “*Ainp-e-Akbari*” during the Mughal

period. During British Rule, in India delegation of financial power was formally codified and financial power was delegated to different levels of the Administrative authorities for better financial administration of the country.

After independence of the country in 1947 particularly after adoption of the Constitution of India in 1950 it was felt necessary that more financial powers are required to be delegated to the lower level of the administration for socio-economic development of the country. Accordingly to keep pace with the tempo of economic development, the Government of Assam also accordingly framed rules on this subject. “**Book of Financial Power – 1954**” was a genuine attempt of Govt. of Assam in the field of delegation of financial powers. In 1960 this has been replaced by “Delegation of Financial Power Rules – 1960” in a better-classified manner with more delegation of financial power to different levels of Administration. Thereafter, further delegation was made from time to time according to the need of the society. Such delegation will continue in future also.

The present scheme of delegation of financial power in Assam is a three tier system. Generally speaking, the financial powers are delegated to :-

- i) Administrative Departments of Government.
- ii) Heads of Departments of Government.
- iii) Authorities Subordinate to Heads of Departments.

Powers which have not been delegated under the present scheme vest with the Finance Department.

In the present scheme powers have been delegated as follows in the state of Assam: -

- | | | | |
|-----|---------------|-----|---|
| (a) | Schedule – I | --- | Shows the financial powers delegated to the Administrative Department |
| (b) | Schedule – II | --- | Shows the financial powers delegated to the Heads of Departments. |
| (c) | Schedule- III | --- | Shows the financial powers |

delegated to the specific
authorities and officers
subordinate to Heads of
Departments

It may be specifically mentioned that all financial power is vested with Finance Department of the Government of Assam, delegates this power to various levels of the Administration accordingly to the scheme of delegation. The power so delegated by the Finance Department cannot be re-delegated by the delegated authority. However, it is interesting to note that the financial powers delegated to the subordinate authority can also be exercised by the higher authority in relating to such subordinate authority.

As mentioned earlier, there is craziness for financial power in different levels of administration. Such craziness for financial was there in the past, is there in the present and will be there in future se long us the present civilization exists.

The authority in the Finance Department is very much shy rather unwilling to part with the financial power rested with them. The pre-dominant factors that actively work on such a non-progressive attitude in nothing but “The Love For Power” Reasons for non-delegation of adequate or appropriate financial powers to the Administrative Departments and authorities sub-ordinate to Administrative Departments can be summarized as follows: -

- (i) Fear of misuse of delegated power.
- (ii) To keep other Administrative Departments and authorities subordinate to them under proper fiscal control
- (iii) Love for power.

Chapter – 24

PREPARATION OF PROPOSAL FOR SANCTION

N.K. Dey

1. Before starting of any work or before implementation of a scheme some preliminary but essential formalities are required to be done. These are:- (1) to prepare a scheme with detailed plan and estimate (2) to get it administrative approved by the competent authority (3) to arrange the required fund through budget provision (4) to get the scheme financially sanctioned.

Besides these, (5) in case of construction of buildings, bridges, culverts, roads and other projects it is essential to decide the location and to get the possession of required land, (6) in case of construction of residential buildings, office buildings or project of commercial importance due attention should be given regarding availability of communication facilities, water supply and electricity (7) Assam being a flood prone state it is essential to ascertain HFL (Highest Flood Level) of the project site before preparing the scheme with detail plan and estimate (8) in case of an industrial project clearance of Pollution Control Board should be obtained.

2. Preparation of proposal may be for various purposes. It depends upon the necessity. For example, proposals may be:-

- (i) for sanction of new posts
- (ii) for further retention of existing temporary posts
- (iii) for purchase of office equipment and office furniture
- (iv) for purchase of machinery
- (v) for establishment of new office with required posts, office furniture and equipments
- (vi) for construction of buildings, roads, bridges, flood control measures etc.
- (VII) for construction of commercial projects like livestock farm, sericulture farm, agricultural farm etc.
- (VIII) for preparation of schemes for social welfare such as educational scheme, medical scheme, scheme for removal of poverty from the society etc.

3. Imagination and constructive approach is the essence of a good beneficial scheme. Such imagination and product approach will level to the success of the scheme and can achieve the desired result.

Preparation of schemes for different purposes requires different approaches accordingly to the necessity of the schemes. The ultimate aim should be to derive maximum benefit for the tax-payers.

A proposal for sanction of competent authority shall contain, besides other things, the following points:-

(i) **For posts:** - Proper justification for creation of new posts, requirement of fund for one full financial year, how to meet the additional fund, the plan allocation of fund for such new posts required to be mentioned. Plan fund so allocated is meant for one full financial year. By reducing the period of appointment in the financial year the number of posts cannot be increased or multiplied.

(ii) **For schemes:** - The schemes should clearly specify the purpose for which is produced. It is to be ensured that the desired result will be achieved on implementation of the scheme. It should be clearly stated how to meet the required fund. Whether there is budget provision for this purpose. If it is financed out of loan sanctioned by HUDCO, NABARD, WORLD BANK or other financial institutions, then it should be specifically mentioned how to refund the loan and interest within the specified time limit. This should be supported by required data.

(iii) **For projects:** - A project report with required technical and financial data should be prepared. The project report should specifically mention the purpose and benefit to be derived including employment opportunity. It should also contain – (a) feasibility report, (b) technical and economic viability report, (c) estimated cost in details, (d) capital investment, (e) annual recurring expenditure, (f) estimated income, (g) annual net profit, (h) break – even-point, (i) source of fund, (j) budget provision for this purpose, (k) if the project is financed out if loan sanctioned by HUDCO, NABARD, WORLD BANK or other financial institutions, then how to refund the loan and interest within the specified time limit. This should be supported by required data (l) the site plow, (m) the building plan, (n)

availability of land, (o) electricity, (p) water supply, (q) communication facility and [r] marketing facility etc.

4. The proposal so prepared should be submitted to the competent authority for sanction i.e. for administrative approval and financial sanction.

5. The competent authority will examine the proposal particularly the objective, feasibility the scheme / project, the benefit to be derived. Soundness of the scheme / project, its technical side and financial side besides other points. If the competent authority is satisfied with the proposal, necessary approval will be accorded by him. This approval is termed as administrative approval and is normally accorded by the Administrative Department (and where necessary with concurrence of Finance Department) as per delegation of financial power. In case of construction works this administrative approval is in effect and order to the Public Works Department or such other department of Government to execute certain specified work at a stated sum to meet the administrative needs of the Department requiring to works, this is in effect a financial sanction.

6. In case of proposals other than construction works, the proposal or the scheme is required to be financially sanctioned by the competent authority i.e. by the Heads of the Department or by the Administrative Department (when necessary with the concurrence of Finance Department) as per delegation of financial power.

The financial sanction is necessary to have proper control of expenditure and will ensure proper management of state finance so far as control of expenditure is concerned.

Chapter - 25
FRAUDULENT DRAWAL, DEFALCATION,
MISAPPROPRIATION AND LOSSES

N. K. Dey,

1. (a) Fraudulent drawal:- Fraudulent drawal means drawal of fund from the Treasury by using deceptive means with intention to deceive and cheat the government and to unlawfully appropriate such fund for self interest.

(b) Defalcation:-Defalcation means embezzlement of fund kept with one in trust.

(c) Misappropriation of fund:- Misappropriation of fund means that the fund is not appropriated for the purpose for which it was drawn, but appropriated in dubious manner or unlawfully appropriated for self interest.

2. Fraudulent drawal, defalcation and misappropriation of fund is a serious financial offence. It is also serious a serious criminal offence under India Penal Code.

Such cases are required to be dealt with very strictly without showing any mercy as the consequence of such offence destroys the basic economy of the country. It has a serious damaging effect on the state finance and ultimately may ruin the entire economy of the state.

3. Defalcation and embezzlement of government money

(a) Any defalcation of Government money, departmental revenue or receipts, stamp, stores or other property discovered in a Government Treasury or other office or department should immediately be reported to the Accountant General even when such loss has been made good by the person responsible from it. It will be sufficient if the officer reporting the defalcation or loss to higher authority sends a copy of his report to the Accountant General or such relevant expert from it as are sufficient to explain the exact nature of defalcation or loss and the circumstances which made it possible. When the matter has been fully investigated, a further and complete should be submitted specifying the nature and extent of loss, errors or neglect of rules by which such loss was rendered possible. The report should be also indicates the possibility and prospect of effecting recovery. Submission of such report does not debar the local authority from taking and further action, which may be deemed necessary.

Exception:- Petty cases, that is cases involving losses not exceeding Rs.200/- each need not be reported to the Accountant General unless there are important features which merits detailed investigation by the Accountant General.

(b) Where money due to government has actually reached a government servant and is then embezzled, stolen or lost even though it may not have reached the Treasury and thus have passed into the Government account. It should be brought into the Government account as a receipt and there shown as the expenditure side under a separate head as a loss irrespective of any money limit.

If after investigation it is ordered to recover the amount from the person responsible for loss, the amount so recovered shall be credited to revenue or receipt of the department. If order has been passed by the competent authority to write off the loss, a bill for the amount of loss to be written off shall be prepare quoting the sanction No. and Date and shall be presented to the Treasury where the bill shall be paid by transfer credit to the Revenue or receipt of the Department concerned.

4. Enforcement of responsibility for loss due to defalcation and embezzlement:

(i) Every government servant should realise fully and clearly that he will be personally responsible for any loss sustained by Government through fraud or negligence on his part, and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government servant to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The cardinal principle governing the assessment of responsibility in such is that every public officer should be exert the same vigilance in respect of public expenditure and public fund generally as person of ordinary prudence would exercise in respect of expenditure and the custody of his own money.

(ii) It is of great importance to avoid delay in the investigation of any loss due to fraud, negligence, financial irregularity etc. The administrative authority will be personally responsible for expeditious conduct of the enquiry.

(iii) In any case in which it appears that recourse to judicial proceedings is likely to be involved, competent legal advice should be taken as soon as the possibility emerges. In the case of losses involving a reasonable suspicion of fraud or other criminal offence, a prosecution should be attempted unless the legal adviser considers that the evidence available is not such as will secure a conviction. The reasons for not attempting a prosecution should be placed on record in all such cases.

(iv) In cases where loss is due to delinquencies of subordinate officials and where it appears that this has facilitated by laxity of supervision on the part of superior officers, the latter should also be called strictly to account for and his personal liability in the matter carefully assessed.

(v) The question of enforcing pecuniary liability should always be considered as well as other forms of disciplinary action.

In deciding the degree of the officer's pecuniary liability it will be necessary to look not only into the circumstances of the case but also to the financial circumstance of the officer, since it is recognized that the penalty should not be such as to impair the Government servant's future efficiency.

In particular, if the loss is due to fraud, every endeavor should be made to recover the which amount of loss from the guilty person, and if laxity of supervision has facilitated the fraud, the supervising officer at fault may properly be penalised either directly by requiring him to make good in money a sufficient proportion of loss, or indirectly by reduction of his pay or by stoppage of his increments.

It should always be considered whether the value of Government property or equipment lost, damaged or destroyed by the carelessness of individuals entrusted with their care (e.g. policeman's rifle, a touring officers tent, a factory motor lorry and engineers instrument) should not be recovered in full but up to the limit of the officer's capacity to pay.

(vi) When an officer is about to retire and is involved in a loss caused to government due to fraud, embezzlement or negligence, care should be taken to ensure that his pension and other retirement benefits are not sanctioned till

finalisation of his case. If during the period of investigation or before finalisation of departmental proceedings drawn up against him, the officer concerned attains the age of superannuation and finally retires from service, special care should be taken to see that pending departmental proceedings against him is converted into departmental proceedings after final retirement under provision of Rule – 21 (a) of Assam Services (Pension) Rules – 1969 or if departmental proceedings was not instituted while the officer was in service, departmental – proceedings should be instituted against him after observing the required formalities as per provision or Rule – 21 (b) of Assam Services (Pension) Rules – 1969.

On finalisation of the proceedings if the officer is found guilty of grave misconduct or negligence of duty the period of his service including the service rendered upon re-employment after retirement, if any, steps should be taken to recover the full amount of loss caused to Government from the Death Cum-Retirement Gratuity (DCRG) admissible to him. If necessary, he may be penalised by way of sanctioning pension less than the amount admissible to him or by totally withholding or not sanctioning the pension under provision of Rule – 106 and Rule – 21 of Assam Service (Pension) Rules – 1969.

Chapter - 26

STATE FINANCE COMMISSION

Prof . D.K. Barua

The Seventh Third and the Seventy Fourth amendment of the Constitution of India provide that under Article – “243 – I (1) The Governor of a State

shall, as soon as may be within one year from the commencement of the Constitution (Seventy Third Amendment) Act, 1992 and thereafter at the expiration of every fifth year, constitute a Finance Commission to reviews the financial position of the Panchyats and to make recommendation to the Governor as to :-

- (a) The principles which should govern.
 - (i) the distribution between the State and the Panchyats of the net proceeds of the taxes, duties, tools and fees leviable by the State, which may be divided between then under this part and the allocation between the Panchayats at all levels of their respective shares of such proceeds;
 - (ii) the determination of the taxes, duties, tools and fees which may be assigned to, or appropriated by the Panchayats;
 - (iii) grants – in – aid to the Panchayats from the Consolidated Fund of the State;
- (b) the measures needed to improve the financial position of the of the Panchayats;
- (c) any other matter referred to the Finance Commission by the Governor in the interest of sound finance of the Panchayats.

“243 – Y (I) the Finance Commission constituted under art. 243 –1 shall also review the financial position of the Municipalities and make recommendations to the Governor as to :

- (a) The principles which should govern -
 - (i) the distribution between the State and Municipalities of the net proceeds of the taxes, duties tolls and fees leviable by the State, which may be divided between them under thil part and the allocation between the Municipalities at all levels of their respective shares of such proceeds;
 - (ii) the determination of the taxes, duties, tools and fees which may be assigned to, or appropriated by, the Municipalities;
 - (ii) the grants – in – aid to the Municipalities from the Consolidated fund of the State;
- (b) the measures needed to improve the financial position of the Municipalities;
- (c0 Any other matter referred to the Finance Commission by the Governor in the interests of sound of finance of the Municipalities “. In pursuance of these

Constitutional Amendments, the Eleventh and Twelfth Schedules have been added to the Constitution.

The Eleventh Finance Commission (EFC) is the first Finance Commission which was required to make, under the Presidential Order, recommendations on the measures needed to augment the Consolidated fund of the States to supplement the resources of the panchayats and the municipalities 'on the basis of the recommendation of the State Finance Commissions (SFC). In memorandum submitted to the Eleventh Finance Commission, the ministry of Rural Department points out that the States will find it difficult the devotion of powers and function to the rural bodies unless sufficient funds accrue to the states. The memorandum suggests that (a) the Comptroller and Auditor general (C & AG) of India should supervise and control the maintenance of accounts and audit of the rural bodies; (b) the computerized database system should be set up and funds should be made available accordingly and (c) the degree of commitment of the state to the Panchayat Raj Institutions should be taken as a main parameter in fixing the inter state – allocation of central resources meant for the panchayats.

In another memorandum submitted by the Ministry of Urban Development and Poverty Alleviation, it is pointed out that the urban population which in 26 percent at present is expected to rise to 30 percent in 2001 and 41 percent by 2001. The urban population has also gone up from 5 crores in 1991 to 10 crores by 2001. Under these circumstances, municipal reforms need to be carried for resource augmentation of the local bodies.

The Eleventh Finance Commission point out that the report of the State Finance Commission are not coterminous with the report of the Finance Commission. The action take report (ATR) on the recommendations of the State Finance Commission is not placed in the house for months and even years. Moreover, various states submit their Finance Commission Reports, which display "heterogeneity in approach, contents and period covered", which make it well nigh impossible to compare these reports and to take an integrated view of the issues involved in state finances.

For augmentation of the consolidated funds of the States, the Eleventh Finance Commission suggest that the states may consider the imposition of land taxes, surcharge / cess on the state taxes and profession tax. Further, tax reforms may be effected in respect of property / house tax, entry tax and user charges. Suitable changes in the rates of these may enable the local bodies to mobilize more resources.

The Eleventh Finance Commission recommends grants to the states for operation and maintenance of civil services but these grants should be transferred directly to the Panchayat and urban local bodies without routing these through the district level or intermediate bodies. The maintenance of accounts and audit of the local bodies are to be supervised and controlled by the Comptroller and Auditor General. Further, it will be necessary to build up the database on local finance and computerize the same.

The Eleventh Finance Commission recommends that Rs.1600 crores and Rs.400 crores should be provided each year for the panchayat and municipalities respectively for the period of 2000 – 2005. The interest share of states will be governed by the following criteria and weight.

01.	Population	40%
02.	Index of decentralization	20%
03.	Distance from highest per capita income	20%
04.	Revenue effort	10%
05.	Geographical area	10%

A number of Constitutional, legislative and administrative changes are called for to ensure real transfer of power to the local bodies. Mere transfer of certain subjects without specific schemes will not mean decentralization.

Local Audit:-

Maintenance of accounts and audit of the local bodies have assumed added significance with the transfer of increasing number of schemes and fund to these bodies under the 73rd and 74th Amendments to the Constitution. The present status of the local bodies, however, is characterized by gaping holes in local audit administration. This has prompted the Eleventh Finance Commission to recommend that the supervision and control of accounts and audit of local bodies should best be left to the hands of the Comptroller and Auditor General of India. Audit is an instrument of financial control and financial control is the need of the hour particularly when the states and the center are both running into huge fiscal imbalances over the years.

Any attempt to tone up local audit administration will have to consider a number of issues. (1) It is a common allegation that the single most important constraint faced by the State Finance Commission in the preparation of the Reports is the non availability of data and whenever data is available, it is mostly un-audited, (2) In a

number of cases it has been found that there is no standard format of data maintenance in respect of revenues collected as taxes, tolls, fees from property, ferry, street lights, shops, rickshaws, bicycle etc. (3) There is no separate fund to engage technical expertise to set up local finance data base. The complete lack of professionalism in the maintenance of accounts of town committees / municipal bodies / panchayats in many cases can be remedied only through the creation of the technical expertise. (4) In many cases of local audit parwise objection is not asked for Consequently, expenditure control and management become that much more difficult. (5) The issue of unsettled audit objections is posing a serious problem. When the Administrative Departments fail to take action against irregularities committed by the accounting authorities, things obviously do not change for the better (6) In many cases the Audit Manual has not been updated for years together, (7) 'Retention of heavy cash in hand' with the incumbents is a gross irregularity clear – cut instructions in this regard are urgently called for.

Chapter - 27

NON-TREASURY ACCOUNTS (WORKS DEPARTMENTS)

N,K, Dey.

Retd. Director of Audit (Local Fund),
Assam.

1. Works Department:-

Government departments are broadly classified as :-

- (i) Civil Departments
- (ii) Works Department

The Departments which are specifically entrusted with the job of contention which requires specialized engineering skill are classified as works Department. All other Departments are classified as Civil Departments.

The job of the Works Department is broadly divided into :-

- (i) Civil Works
- (ii) Mechanical Works
- (iii) Electrical Works

2. **Functions** :-

Works Department consists of :-

- (i) Public Works Department
- (ii) Flood Control Department
- (iii) Irrigation Department
- (iv) Public Health Engineering Department
- (v) Inland Water Department.

These Departments are entrusted with the job construction of building, roads and bridges (PWD) dams and various irrigation systems (Irrigation Department) embankments and dams (Flood Control Department) water supply and sanitation system (Public Health Engineering Department) ships and barges for navigation in the river system (Inland Water Department).

3. **PWD Rules**:-

Working of these departments are basically different from that of civil Departments, They require large fund of capital nature for creation of concrete asset for the nation by constructing building roads, bridges, irrigation, systems, dams, embankments, water works systems, ships and barges etc. The works are normally executed on contract basis through qualified and experienced contractors by following rules and procedures of P.W.D. such as A.P.W.D. Code, C.P.W.A. Code and Accounts Code Vol-III.

4. **System of drawal of Fund** :-

The Civil Departments (except Forest Deptt) draw their required fund from the Treasury by submitting bills showing details of the claims, sanction of the competent authority, position of fund, head of accounts besides other requirements. But in the case of Works Departments the position is different. The draw fund from the treasury by :-

- (i) drawing cheques and
- (ii) submitting bills to the treasury.

As the works is accepted by the Divisional Officer he has been authorized to draw the required fund from the treasury by means of cheques for the purpose of works and office contingencies including payment of salaries and other charges of work-charge establishment and muster roll labourers.

However, salary, T.A. and other charges of regular establishment of the Division and Sub Division are drawn from treasury by usual process of submitting bills like civil departments. The Superintending Engineers and Chief Engineers have not been authorized to draw cheques as no payment for works is made by them. They draw their required fund by submitting bill in the treasury.

5. **Compilation and Submission of monthly accounts** :-

So far as fund drawn by submitting bills in the treasury, the details monthly accounts are maintained and compiled by the treasury and the same is submitted by the treasury to the A.G.

But as far as fund drawn by cheques, the treasury submits the monthly accounts to the A.G. showing only the amount of cheque drawn by each Divisional Officer under the concerned major head of account. No detailed accounts of works are by the treasury.

The Divisional Officer who makes the payment for the works by cheque is required to maintain the detailed accounts in his office and complete the monthly accounts showing full classification and to submit the same to the A.G. along with the supporting vouchers, required schedule and returns. The monthly account of the Division is required to be submitted to the A.G. on or before 10th of the Next month.

The monthly accounts so completed in the Divisional office shows the expenditure incurred in various works (Work-wise) for various Departments with full classification showing major head, sub-major head, minor head, sub-head and detailed head of accounts.

For better management of finance a well-trained official designated as Divisional Accountant (now designated as Accounts Officer) is posted in each division by the Finance Department. It is his duty to see that payment for the works done are made correctly and that the expenditure for any work remains within the sanctioned estimate and within the fund received for that purpose. He is also responsible for maintenance and compilation of monthly accounts accurately and submission of the same to A.G. punctually.

It is very important point in the Civil Departments, only the Drawing & Disbursing Officer's (DDO's) are authorized to sign the bills for the purpose of drawal of fund from the treasury. There is no system of joint responsibility for drawal of fund.

But in the case of the Works Department cheques are drawn under joint signature of the Divisional Officer and Accounts Officer (previously Divisional Accountant). This is no doubt a bold step forward for better management of state finance in works Department.

Chapter – 28
IMPORTANCE OF TREASURY IN MAINTENANCE
OF ACCOUNTS OF THE STATE.

N.K. Dey,

1. District Treasury :-

A state is divided into a number of districts'and at the headquarter of each district there is a treasury called "District Treasury" with one or more sub-treasuries distributed through out the district.

The Treasuries are the units of fiscal system and the primary points at which the public accounts starts. Into these treasuries are paid the receipts of Government and from these treasuries are disbursed the payment on behalf of Government.

All the money received by the Government Servant on behalf of on behalf of the Government whether proceeds of taxation or yield of ordinary revenue or capital receipts, receipts of loans, grants etc. or nay other kind of receipts are required to be deposited into Treasury in full without delay and forms part of the consolidated fund of the state or public accounts of the state.

Whenever money is required by a Government Servant to meet the expenditure on account of sums due to Government the bills will be showing details of such expenditure including detailed budget classifications and availability of fund will have to be submitted to treasury for drawal of required fund..

The Treasury is also the custodian of government money and other Government treasures.

2. Accountability:-

The responsibility of the Treasury is not limited to receipt, payment and sage custody of Government money and other treasure the treasury is also responsible for due accounting of all money received and disbursed and safe custody of cash, notes, stamps, securities and other valuables and punctual submission of monthly accounts and other returns to the Accountant General supported by paid vouchers, receipted challans and other required returns.

3. Maintenance of Accounts :-

Any person paying money into the treasury shall present it with a memorandum (i.e. challan) in prescribed form (T.R. Form No 3) which will

show clearly the nature of payment, the person or Government servant on whose behalf the money is deposited and proper classification of such receipts. The challan is required to be deposited in duplicate or in triplicate or quadruplicate as is required and one duly receipted is returned by the Treasury as formal receipt for money so deposited.

When fund is required for payment having a claim against Government the Drawing & Disbursing Officer (D.D.O) shall submit his claim in prescribed bill form showing details of such claim duly receipted and stamped where necessary. The bill so submitted should show proper detailed classification. If the bill is otherwise in order and claim is admitted then Treasury Officer will pass necessary payment order and then payment is made. The bill then becomes a voucher.

Under the existing system cash transaction of the treasury is conducted by the Bank (State Bank of India) and these actual receipt and disbursement of money is done by the bank on behalf of the treasury. After closing of transaction and at the end of the day the bank sends two statements (i.e. bank scroll) showing receipts and payment separately for the day along with supporting receipted challans and paid vouchers to the Treasury. The receipted challans and paid vouchers are checked with the bank scrolls and if bank correct the same are accepted.

4. Compilation of Accounts :-

The above receipted challans and vouchers are then entered into the subsidiary registers maintained by the Treasury Accountant in addition to his cash book for receipts and payments belonging to different departments under major head wise. Only the daily total of these subsidiary registers are posted major head wise in the Accountant's Cash book.

At the same time a daily sheet supported by receipted challans and vouchers is received in the district treasury from each of its sub-treasuries reporting the receipt, payment and balances of the day. This is examined in the District Treasury and if found in order, the same is posted in the

Accountant's books (i.e. subsidiary register and cash book) in the District Treasury.

The cash book is then closed and a balance sheet is then prepared in prescribed form. The Treasury Officer checks the entries of the subsidiary registers and cash book with receipted challan and vouchers himself and if the totals of the cash book for receipt, payment and the balance of the day agrees with the receipt, payment and balance as shown in the Bank Scrolls the Treasury Officer signs the cash book and balance sheet and the accounts of the day is closed.

Compilation of accounts of transactions of the Treasury proceeds in this way from day to day and at the end of the month the daily totals in the cash books are added which shows the total transactions in the month i.e. total receipt and total payment in the month and net balance of the month.

There are separate schedules of receipt and payment for each Major Head of account. In these schedules transactions are entered in sufficient details as recorded in the receipted challans and vouchers, to enable the Accountant General to compile preliminary accounts therefrom and receipted challans and vouchers are identified according to classification given therein.

5. Submission of monthly Accounts to A.G. :

The point has now been reached for submission of monthly accounts to A.G. The first batch of the payment schedule supported by all vouchers is sent to A.G. Office on 11th of the month covering the period from 1st to 10th of month. The remaining schedules supported by the necessary vouchers, the List of Payments and the Cash Account accompanied by the certificate of agreement of the account balance with the balance reported in the cash balance report of the treasury for the last day of month, are sent to the A.G. on the 1st day of the next month.

6. Compilation of Monthly Accounts by A.G. :-

The Monthly Accounts of all treasuries of the state so received in the A.G.'s Office are consolidated department wise and major head wise showing the details under Sub-major heads, Minor heads, Sub-head and

detailed heads of accounts separately for plan and non-plan schemes as well as under 'General Areas' and Sixths-Schedule Areas.

On the other head the Divisional Officers of the Works Departments (such as PWD, Flood Control Deptt, Irrigation Deptt., Public Health Engineering Deptt. and Inland Water Deptt.) and Forest Department submits their 'Compiled Monthly Accounts' along with the supporting receipted challans and vouchers directly to the Accountant General. These accounts are also consolidated for the entire state.

7. Finance Account of the State :-

These "Consolidated Monthly Accounts" are again consolidated from month to month for the entire financial year. This consolidated accounts for the entire financial year is known as "Finance Accounts" of the state.

Thus it will be noticed that the accounts are built up from the bottom. The starting points are the Treasuries and sub-Treasuries. On the very basis of the accounts and returns submitted by all the Treasuries of the State, the Accountant General compiles the annual accounts known as "Finance Accounts" of the State.

Thus the contribution of treasuries in maintenance of accounts of the state is immense.

Chapter - 29

ROLE OF TREASURY IN MANAGEMENT OF STATE FINANCE

N.K. Dey,

1. Treasury: -

Since time immemorial, the treasure of the State is kept in an adequately secured place and at the custody of a most reliable person who is specially trained for this purpose and is bound to follow certain prescribed rules and regulations.

Thus in simple term the place where the treasure of the state is kept is known as “Treasury”. The person at whose custody the state treasurer is kept is known as “Treasury Officer” and the rules and regulations relating to deposit of Government money into the treasury, withdrawal of money from the same and custody and control of money while in the treasury is known as “Treasury Rules”.

2. Receipt of Government Money :-

Treasury is the sole custodian of Government money. All the money received by a Government Servant on behalf of Government. Whether proceeds of taxation or yield of ordinary revenue or capital receipts, receipts of loans, grants etc. or any other kind of receipts are required to be deposited into the treasury in full without under delay and form part of the consolidated fund by or state or public accounts of the state. Money received as aforesaid shall not be appropriated to meet department expenditure, nor otherwise be kept apart or kept out of Government account.

3. Custody of Government Money: -

In the case of Non Bank Treasury where the cash transactions are conducted in the Treasury itself, the Treasury Officer will be responsible for proper safe custody of money so received. In the case of Bank Treasury where cash transaction of the Treasury is done by the Bank, the Bank will be responsible for safe custody of Government Money.

4. With drawl from Treasury :-

Withdrawal of money from the Treasury for disbursement on behalf of state Government is strictly regulated by the provision of treasury rules.

No money shall be withdrawn from the treasury without specific written order by the Treasury Officer.

However, the Treasury Officer is not free to allow withdrawal of fund from the Treasury. He has no general authority to deal with the claims presented at the Treasury. His authority to allow withdrawal of fund from the Treasury is strictly limited by the provisions of the Rules 15 to Rule 27 of the Treasury Rules. Before allowing withdrawal of fund from the Treasury he must be satisfied that the Drawing and Disbursing Officer has fulfilled all the required conditions in Rule 16 of the Treasury Rules and Subsidiary Orders 49 to 189 made there under and such other orders issued by the Govt. in the Finance Department from time to time.

Only the DDO's who are authorized by Govt. are entitled to prefer their claim for withdrawal of fund from the Treasury. Any claim of money against Govt. preferred by all individual, or organization or firm will not be allowed by the Treasury rules such claim is preferred through the DDO's or through in A.G.

To ensure strict management of state finance particularly withdrawal of fund from the Treasury it may be specifically mentioned that no authority of the state Government can issue direction to the Treasury Officer to allow withdrawal of fund not covered the provisions of the Treasury Rules.

However the D.C., who is in overall charge of the Treasury, in exercise of his special power under Rule 27 of Treasury Rules and S.O. 210 may in circumstances of urgency, by an order in writing authorize and require a Treasury Officer to allow withdrawal of fund without complying with the provisions of Treasury Rules. The circumstances of urgency are: -

- i) Prevention of loss of life and property, resulting from disasters, such as flood, cyclone, earthquake fire etc.
- ii) Safeguarding against loss of life and property threatened by washing away of embankments, collapsing of bridges on rivers, canals railways etc.

Notwithstanding anything contained herein above, the A.G. may permit and issue authority to Treasury Officer for withdrawal of fund from the treasury for any purpose.

5. **Accountability:** -

The responsible of the Treasury is not limited receipt and payment of Government, money but also to keep Government money and other Government treasure in safe custody. The Treasury Officer is personally responsible for due accounting of all money received and disbursed and for safe custody of cash, notes, stamps, securities and other valuable and punctual submission of monthly accounts and all returns to the Accountant General.

6. **Management of Finance** :-

Management of State Finance not only includes arrangement of fund and allocation of the same to the DDO's as per requirement to meet the required expenditure in running the state machinery as well as implementation of various development.

Besides other things it also includes receipts payment and save custody of Govt. money in the treasury and maintenance of proper accounts and submission the same to the Accountant General. This part of the job is entrusted to the Treasury. As such its role in the management of state finance is immense.

Proper management of state finance requires proper planning, imagination foresightedness, uprightness, prudence, integrity and strict financial discipline. In the existing system of state finance the treasury is playing its role in the most disciplined manner though there is scope for much improvement. But proper planning and other related matters relating to management of state finance are required to be properly done by those who are in charge of policy making in the domain of financial administration.

Chapter – 30

ROLE OF LOCAL AUDIT IN THE MANAGEMENT OF STATE FINANCE.

N,K, Dey

2) **Origin of Local Audit Department: -**

The Governor General in Council, under Section 45-A and 129-A of the Government of India Act 1919, classified “Local Fund Audit” as a provincial subject. In presence of this decision the Government of Assam decided to take over the Local Audit Department under their direct control with effect from July 1921.

3) **Jurisdiction of Local Audit :-**

As per Provision of Sec. 5(1) of Assam Local Fund (Accounts and Audit) Act, 1930 the Local Audit Department will examine and audit the accounts of any Local authority.

Here accounts of Local Authority includes the accounts of Local Fund and all other property vested in or under the control or in engagement of any local authority such as Municipal Corporation, Municipal Board, Town Committee, Village authority and other Local Authority and also includes and fund declared by the State Government as local fund.

The Government of Assam has also brought the following under the jurisdiction of Local Audit Department.

- (i) All Institutions under the Panchyat Raj Act.
- (ii) All educational institutions receiving grants-in-aid from the Government.
- (iii) Any other institutions and organization receiving grants from the Government.
- (iv) Such other Departments, institutions or organization as is or will be determined by the Government in the Finance Department from time to time for conducting Audit or special audit by the Local Audit Department.

2. **Function** :-

In the management of state finance the Local Audit Department plays a vital role. In true sense of term “Management of State Finance “ not only includes arrangement of required fund allocation of the same to the D.D.O.’s as per requirement for the purpose of implementation of various development schemes and to nut the day to day expenditure in running the state machinery. Management of state finance also includes: -

- (i) Maintenance of accurate correct and proper accounts.
- (ii) To proper utilization of ensure fund allocated.
- (iii) To ensure that fund has been utilized for the purpose for which it has been sanctioned.
- (iv) To ensure that fund so allocated has not been misused or defalcated.
- (v) To protect and safe guard the interest of taxpayers.

So far as item (I) the maintenance of accurate, correct and proper accounts, it is the responsibility of the Executives in the D.D.O.’s and other controlling authorities.

For the rest items (ii), (iii), (iv) and (v) the Government has to depend on the report of an authority who can is independent of the Executives. These functions have been entrusted to the Local Audit Department.

3. **Local Audit** :-

Provision of Rule 3 (ii) of Assam Audit Manual (3rd edition) clearly stated that audit confuted by the Local Audit Department is not a test audit (as us normally done by the A.G.) but a detailed audit covering hundred percent checking of the accounts. This implies how serious the responsibility of Local Audit Department in conducting audit and fulfillment of the aims and objectives as mentioned in sub-para (ii), (iii), (iv) and (v) of para 3 above.

Audit is an indispensable instrument of financial control in the management of state finance. Contribution of Local Audit Department in this sphere is immense.

The main aims of Local Audit Department are:-

- (i) to safe-guard the interest of tax payers against any extravagance, carelessness or fraud on the part of the officials or management in realization and utilization of public money or other assets.
- (ii) to ensure on tax payer's behalf that the accounts maintained truly and accurately represents facts.
- (iii) to ensure that the expenditure has been incurred with due regularity and propriety.
- (iv) to ensure that the rules and orders framed by the competent authority in regard to the financial matters have truly obeyed.
- (v) and to report to the Government and or Local Authority whether in his opinion the accounts so maintained are accurate, correct and fully and fairly discloses the position of affairs, or in what respects they fail to do so.

5. Purpose of Local Audit: -

The Local Audit Department plays the pivotal role in the management of state finance as it decisively ascertains whether the accounts maintained by the Executive is accurate, correct and truly portrays the exact state of affairs of the organization.

6. Volume of Work of Local Audit Department :-

The Local Audit Department is to conduct cent percent audit of huge numbers of accounts of Local Fund and in addition a good numbers of accounts of Government Department. At present the total numbers of accounts to be audited annually is about 4300 out of which about 800 are major accounts and the rest 3500 are minor accounts. Besides these, as and when occasion arises under direction of the Government, Local Audit Department is required to conduct special audit on the accounts of Government and Semi Government organizations.

7. Special responsibility of Local Audit :-

Local Audit is to play a bigger role in the sphere of financial administration by pointing out the defect and bringing to the notice of the executives any wasteful and infructuous expenditure in the public administration. Constructive criticism of audit will help the executive to be prudent while spending public money, to remain clean, to maintain integrity and uprightness in financial transactions. Such constructive criticism in the field of financial administration will also develop awareness among the public regarding management of Tax-Payers money by Government or by local bodies.

The Executive thus should not treat Local Audit Department as a fault finding machinery by shout accept Audit as their guide, friend and philosopher in the matter of financial administration.

Chapter - 31

IMPORTANCE OF AUDIT IN GOVERNMENT DEPARTMENT

M.U. Ahmed.

Audit forms an indispensable part of the financial system which is necessary to ensure the proper functioning of democracy. It is the main instrument to secure accountability of the executive to the legislature. Audit assists parliament / legislature in exercising financial control both in respect of revenues and expenditure. It checks the compliance, by various authorities, with rules and orders issued by the Government.

The primary function of audit is to verify the accuracy and completeness of accounts and to ensure that all revenue and receipts collected are brought into accounts under proper heads and disbursements are authorized, vouched and correctly classified and that the final accounts represent a complete and true statement of financial accounts. The main aim is to safeguard the financial interest of the tax payer. However, there is a distinction between the auditorial and administrative function. It is the function of audit to verify that financial rules and orders satisfy the provisions of law and are properly applied. It is not the function of audit to interfere in day to day administrative matters if they do not otherwise erode the provisions of prescribed rules and orders.

The institution of Government Audit in India has a history of 140 years. Initially audit was Confined to ticks and checks of financial statements and regularity of transactions. Over the years with manifold increase in expenditure and receipts it has now been extended to cover financial management and performance as well.

The C & AG of India, the Supreme Audit Authority derives power and function under Article 149 to 151 of the Constitution of India. The C & AG is to perform such duties and exercise such powers in relation to the accounts of the Union and the States and of any other authority or body as may be prescribed by or under any law made by the parliament. Till 1971 the C & AG performed his duties and exercised powers as provided in the Government of India (Audit and Accounts) order 1936. The C & AG's duties and powers and conditions of

service Act 1971 was enacted by the parliament to bring out a comprehensive legislation in this regard :

Audit mandate in Government department includes the audit of :

- i) Receipts and expenditure from the Consolidated Fund of India and or the State / Union Territories.
- ii) Transaction relating to contingency funds and public accounts.
- iii) Trading, manufacturing, profit and loss accounts, balance sheets kept in any Government Department.
- iv) Accounts and stores kept in Government offices and Departments.
- v) Authorities and bodies substantially financed by Central and State Government.

The C & AG does the following types of audit :

- a) Audit against provision of funds
- b) Regularity audit
- c) Propriety audited
- d) Efficiency cum performance audit or value for money audit
- e) System audit

Audit functions like a watch dog by policing the Government transaction maintaining great vigilance and control over the tax payers money to see proper utilization of every rupee collected from them. Audit is obliged to say certain things which are embarrassing to the Government but it should not refrain from performing its duty and should not shrink from showing loyalty to the country men as a whole. Audit does not shrink from truth for fear of offending men in high places also.

It is our duty to build our Welfare State. Welfare of ones own-self should not stand in the way of audit in any case. By revealing defects and exposing failings audit sets before the country a great standard just like in any family the economy and efficiency of moneys spent is to be judged. Ours is a poor country. Its resources are limited. We cannot afford any kind of waste. Department are to look upon their functions to ensure greatest public utility and audit will do their

best by pointing out errors, by showing where and how abuses can be removed, affect economies and reduce wasteful expenditure. In a welfare state set up involving receipt and payment of crores of rupees the importance of audit can never be over emphasized.

The broad aim of audit is to safeguard the financial interests of the State and to uphold and promote public accountability and sound and economical financial management practices.

Whenever democracies are replaced by other form of Government, the first victim is the independence of audit. Such an appreciation brings out the fact what a vital role is played by audit in democratic set up.

SETTLEMENT OF OBJECTION / DRAFT PARAS

The results of local audit are set forth in the following parts

- Part – I**
- a) Introductory
 - b) Outstanding objection in previous Reports
 - c) Schedule of persistent irregularities

Part – II – A Consisting of major irregularities which are likely to materialize in to draft paras of the Audit Report.

Part – II – B Consisting of irregularities which though not major are to be brought to the notice of the higher authorities and followed up by the Accountant General.

Part – III Containing minor irregularities. The procedural irregularities in respect of which the head of the office has held out assurance about following correct procedure in future should be noted.

Settlement of audit objections is made in the following manner :

1. ACCOUNTANT GENERAL'S OFFICE :

Inspection Reports containing audit objections pointed out by the field parties are scrutinized / edited are forwarded to the disbursing officers / head of the department and controlling authorities for furnishing reply / offer comments. Responsibility for removal of objections devolves primarily upon above authorities on receipt of reply / comment fulfilling audit requirements audit objections are dropped. Every quarter, lists of objections remaining outstanding

for more than 6 months are prepared and forwarded to the disbursing officer / head of the department and controlling officer for furnishing reply of the outstanding audit objections. Sending of timely reply with action taken on audit observation helps expeditions settlement of objections.

2. AUDIT COMMITTEE;

Outstanding audit objections which are lying for a considerable period or could not be cleared through discussion at lower level are referred to the Audit Committee each consisting of the concerned Secretary to Government / Head of department and representative of the Accountant General and Finance Department for considering the further course of action to be taken for setting the objections.

3. LOCAL INSPECTION PARTY:

Local inspection parties on examination of various records issue Preliminary objection statements knowing financial and other irregularities at the time of discussion with the disbursing officer if suitable reply can be furnished in respect of any Post then such objection is dropped on the spot.

Field parties also review outstanding audit objections in respect of audited unit. If appropriate action is taken on any outstanding objection then such objection is dropped.

5.17 DRAFT PARAS :

Where objections having serious financial irregularities have been included in the Audit Report for discussion in the Public Accounts Committee, they may be dropped from the objection book and further action thereon watched through report of the Public Accounts Committee and Action Taken Note of Department / Ministry.

PUBLIC ACCOUNTS COMMITTEE

M.U. Ahmed,

There shall be a Committee on Public Accounts for the examination of accounts showing the appropriation of sums granted by the Assembly for the expenditure of State Government, the Annual Finance Accounts of the State Government and such other accounts laid before the Assembly as the committee may think fit. In scrutinising the Appropriation Accounts of the State Government and report of the Comptroller and Auditor General thereon, it shall be the duty of the committee to satisfy itself :-

- a. that the money shown in the accounts as having been disbursed were legally available for, and applicable to, the service of purpose to which they have been applied or charged;
 - b. that the expenditure conforms to the authority which governs it; and
 - c. that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority
- It shall also be the duty of the Committee –
- a. to examine the statement of accounts showing the income & expenditure of State Corporations, trading and manufacturing schemes, concerned and projects together with the balance sheet and statement of profit and loss accounts which the Governor may have required to be prepared or are prepared under the provision of the statutory rules regulating the financing of a particular corporation, trading or manufacturing schemes or concerns or projects and the report of the Comptroller Auditor General thereon;
 - b. to examine the statement of accounts showing the income expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Comptroller Auditor General of India either under the director of the Governor by a Statute of the State Assembly; and

- c. to consider the report of the Comptroller and Auditor General of India in cases where the Governor may have required him to conduct and audit any receipt or examine the accounts of the stores and stocks.

If any money has been spent on any service during a financial year in excess of the amount granted by the House for the purpose, the Committee, shall examine with reference to facts of each case the circumstances leading to such an excess and make such recommendation as it may deem fit.

Serious financial irregularities which are detected by the Comptroller and Auditor General of India in the shape of draft para have come under the purview of the Public Accounts Committee for its examination. The Public Accounts Committee ascertained the facts from the departmental secretary who is to appear before them by taking oath. If the replies both written as well as oral explanation (whom the committee may cross examine). Satisfied the member may recommend for dropping of the draft paras, otherwise he / she may recommend action against the delinquent official for committing such irregularities.

Chapter- 33
ISSUE OF AUDIT CERTIFICATE

M.U. Ahmed,

1. CERTIFICATION OF EXPENDITURE IN REGARD TO PLAN SCHEMES

The Government of India releases each year assistance in the form of grants and / or loans to various States / Union Territory Government for various central and centrally sponsored schemes in accordance with the pattern specified in the sanctions relating to the scheme. While on certain schemes the entire expenditure is borne by the Central Government, on others the expenditure is shared between the Central Government and the State / Union Territory Governments. For State Plan schemes, the assistance takes the form of Block grants and loans, which is related to the total outlay allotted for the State Plan as a whole by the Planning Commission, without linkage with individual schemes. Besides the plan assistance, the State / Union Territory Governments also receive from different Ministries of the Government of India assistance by way of loans and / or grants for a number of non-plan items like expenditure on mitigating natural calamities, rehabilitating refugees, loans for fertilizers, loans under national Scholarship Schemes.

After the accounts of the year are closed the Accountant General (A & E) will prepare SOE for grants in question, indicating therein the items kept under objection by him, and furnish them to the Accountant General (Audit) for audit and certification. The Accountant General (A & E) will then forward certified copies of the statements, indicating therein the amount kept under objection, by both Accountant General (A & E) and Audit office to the Ministry of Finance / concerned Ministries with copy to the State / Union Territory Government; to enable the later to prefer the final claims.

While certifying the expenditure, it should be borne in mind that :

- i) the amounts drawn in Abstract Contingent bills for which DCC bills have not been submitted are excluded.

- ii) any item of expenditure found clearly ineligible for Central assistance with reference to the terms and conditions of such assistance or instruction of the Government of India is not included.
- iii) the certificate is qualified that it is without prejudice to the right of the C & AG of India to include in the Audit Report and Audit comments in regard to utilization of central assistance by State Government, noticed as a result of audit.
- iv) Amounts held under objection for want of detailed bills (DCC bills) or utilization certificate may be excluded from the audited figures of expenditure.

4. WORLD BANK AIDED PROJECT

The agreements for loan / development credit entered into by International Bank for Reconstruction and Development and International Development Association with the Government of India for financing development projects to be implemented by departments of the Central Government, Government of States, Public Sector Undertakings and Autonomous Bodies, etc. include specific clauses for Accounts and Audit. The Government of Project Entity shall (a) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, recourses and expenditure in respect of the project, (b) have the records and accounts of the projects for each fiscal year audited in accordance with the appropriate auditing principles consistently applied by independent auditors acceptable to the Bank.

The World Bank has accepted, after going through the accounting and auditing arrangements in India that the system ensured a satisfactory degree of financial discipline and accordingly, accepted the C & AG of India to be an independent auditor for the purpose of certification of accounts and issue of audit certificate in respect of projects being executed in India with World Bank financial assistance. The standard audit convenient in the loan agreements, in respect of project executed by Government department and Corporations, the audit of which vests with the C & AG, is met by the Accountant General (Audit) by furnishing to the project authority for onward transmission to the Bank, an

integrated audit certificate with 9 months of the close of the financial year in the prescribed form based on irregularities noticed in central as well as local audit in relation to the accounts of the projects.

The project authorities are required to furnish the accounts / statement of expenditure (SOE) for audit within 4 months of the close of the financial year.

It has to be ensured that there is no delay in verification and reconciliation of the expenditure where necessary, by the office of the Accountant General (A & E) and reconciled accounts / statements are passed on to Audit Office mentioning each category of transactions and amount thereof as per former records for the purpose of issuing audit certificate.

The audit certificates in respect of projects executed by Government Companies are issued by Chartered Accountants who are statutory auditors of the Companies and not by CAG who conducts only supplementary audit.

Chapter - 34

FISCAL DEFECITS

Prof. D.K. Barua

The identification of fiscal deficits in its various forms has become imperative for the States as the Eleventh Finance Commission has adopted fiscal discipline as one of the important criteria for devolution of funds to the states. In addition, the incentive fund is also being released to the states which are implementing fiscal reform measures.

It was the fiscal profligacy of the late eighties which created the economic crises in India. The Consolidated fiscal deficit of the centre and the States which increased to 9.4 percent of the GDP in 1990 – 91 also had adverse impact on the Country's balance of payments deficit and external borrowing.

Any fiscal deficit need not be a cause for concern if it is temporary and manageable. The problem is serious when it is chronic and unmanageable. Fiscal deficit may take various forms.

The gross fiscal deficit is the excess of Central Government expenditure over central government income (current revenue plus grants). This deficit is a measure of total borrowing by the centre.

The net fiscal deficit is the gross deficit minus government lending.

The revenue deficit is the difference between revenue receipt (tax and non-tax) and revenue expenditure. It is an indicator of the fact that the government is drawing upon the capital account to finance its own revenue to pay salaries, allowances etc to its employees. The rising revenue deficit depletes the capital base of the economy and hence lowers its productivity.

The budgeting deficit is the difference between budgeted receipts (revenue plus capital) and expenditure (revenue plus capital). This gap is removed through the issue of Treasury Bills held by the Reserve Bank of India and by drawing down cash balances.

The primary deficit is the fiscal deficit minus interest payments. It is to be noted that interest payments happens to be the single most important component of Non-Plan expenditure in our country.

The monetised of deficit is the proportion of the fiscal deficit, which is financial by the Reserve Bank of India.

As the instrument of deficit financing is not available to the states and that is as it should be to avoid over – issue of currency, the states fall back upon a number of measures to meet their deficits. Loans from the Government of India, asset sales, Reserve Bank of India overdrafts, market borrowing, surpluses of PSU's provident funds and using the Public Account are the main steps that the states can take up to remove the deficit.

The Tenth Finance Commission Report has clearly analysed the problem of 'secular deterioration in the fiscal balances' of the centre and the states. The Economic Survey, Government of India, 2000 – 2001 and the Reserve Bank of India Annual Report 2000 – 2001 show the fiscal deficits of the centre and the states and the revenue deficit of the centre and the states, which do not augur well for the economy. In 1990 91, the fiscal deficit was 9.4% which came down to 6.5% in 1995 – 96 only to go back to 9.4% in 1999 – 2000. Similarly, the revenue deficit which was 4.2 percent in 1990 – 91 came down to 3.2 percent in 1995 – 96 but jumped to 6.2 percent in 1999 – 2000.

It is in the light of this unpropitious fiscal scenario that expenditure control measures have assumed tremendous significance. After all the issue if not only one of raising additional resources for the government and local bodies; it is equally important to ensure that the leakage are plugged and expenditure become cost – effective.

Chapter – 35

APPROPRIATION ACCOUNTS AND FINANCE ACCOUNTS :

M.U. Ahmed,

Appropriation Accounts

Appropriation Accounts are prepared to relate expenditure brought into account during a financial year to several items specified to the Appropriation Acts. passed in accordance with the provision of Art. 204 – 206 of the Constitution. The report shows the Government the extent to which its subordinates are complying with its rules and order. In the legislative through its Public Accounts Committee, it will reveal in general how far the Government has complied with its expressed views in matter of importance and in particular how far moneys placed at the disposal of Government were regularly and properly spent.

Finance Accounts :

The Finance Accounts represent are audited presentation of general accounts of Government for the year and conveys a just and impartial picture of the financial position of the Government concerned giving some elucidation and some normative presentation of new or salient features. The accounts present the account of the receipts and outgo at the Government together with the financial results disclosed by the revenue and capital accounts of the public debt and the liabilities and aspect of the Government concerned as worked out from the balance recorded in the accounts

Finance accounts are prepared in two parts :

Part – I Summarized Statements :- The Statement in this part are intended to give in a summarized form the information in regard to :-

- i) transaction of the year relating to the Consolidated Fund, Contingency Fund and Public Account
- ii) Capital outlay;
- iii) Financial results of irrigation and electricity.
- iv) Debt position of government including expenditure incurred on the service of debt.
- v) Loans and advances by Government.
- vi) Guarantees given by Government.

- vii) Cash balance and investments of cash balances, and
- viii) The balances out standing in government accounts at the end of the year grouped under the main broad hidings.

Part – II Detailed Accounts and other statements :-

The detailed Statements included in this part contain :-

- i) accounts of revenue and expenditure during the year by minor heads of accounts,
- ii) particulars of capital expenditure during and at the end of the year,
- iii) particular of investment of the Government in the shares of Statutory corporation, government Companies, Joint Stock Campaniles, Co-operative Banks and Societies etc.
- iv) information regarding capital and other expenditure (out side the revenue account) to the end of the year and the principal sources from which the fund were provided for the expenditure;
- v) accounts showing receipts, disbursements and balances under heads of accounts relating to debt (including loans and advances) deposit, remittances and contingency fund and
- vi) particulars of earmarked balance relating to Reserve Fund, etc.

This part also includes statements giving statistical information

In regard to :-

- (a) revenue and expenditure under different heads expressed as percentage of total revenue /total expenditure and
- (b) distribution between charged and voted expenditure.

Chapter – 36

ZERO BASE BUDGETING

Prof. Dilip Kumar Barua,

Relevance :

Zero Base Budgeting has assumed tremendous significance in the wake of the resources crunch and alarming fiscal deficits both in the central and the state budgets. It can definitely be tried out as one of the methods to effectively control and manage public expenditure in our country.

It is not that Zero Base Budgeting have never been introduced in India. In the V.P. Singh Union Budget of 1986 – 87 it was sought to be introduced in a few central government department. However, it had to be abandoned subsequently in view of the lack of up-to-date and relevant data that this type of budgeting demands. To-day when the government departments are getting increasingly computerized and the concept of E – governance is gaining ground, it should not be that difficult to collect, process, present and retrieve data to facilitate the process of Zero Base Budgeting.

Origin

The origin of Zero Base Budgeting can be traced to E. Hilton Young who , in 1924, placed for annual re-justification of budget. A significant step towards Zero Base Budgeting was taken much later, in 1962 when the budget Director Bell suggested that each programme in the Department of Agriculture, United States of America, should be justified from Zero. “ However, it was in 1969 that the Staff Control Manager in Texas Instruments, USA, Peter Phyrre decided to introduce Zero Base Budgeting in his department and hundreds of corporations and a number of state governments in the USA were soon to follow suit.

Meaning

Accepted as the Father of Zero Base Budgeting, Peter Phyn explains the concept of Zero Base Budgeting in the following words: “Zero Base Budgeting is an operating, planning and budgeting process which requires each manager to justify his or her entire budget request in details from scratch (hence zero base) and shifts the burden of proof to each manager to justify why any money should be spent at all, as well as how the job can be done better. This approach requires that (i) all activities be identified in decision packages (or programmes) that relate inputs (costs) with outputs (benefits), (ii)

each one be evaluated by systematic analysis and (iii) all programmes be ranked in order of performance .

Basic elements and Methodology :

The basic elements in Zero Base Budgeting will be (a) the decision package (b) the decision unit and (c) the ranking process. The decision package will be the document that explains a particular activity vis-à-vis other activities competing for limited resources. The decision unit is the unit for which resources are being asked for. The ranking process involves the arrangement at the decision packages in order of priorities by the decision unit manager.

It is evident that there is no alternative to prioritisation of schemes in the face of inelastic fund set against too many demands on it. The ranking process is of crucial importance for distribution of resources at the national, state and local levels (Panchayati Raj Institutions, urban local bodies and District councils).

Incremental budgeting and Zero Base Budgeting :

This is not to say that in the present form of budgeting there is no place for prioritisation. In the present form of budgeting, commonly known as incremental budgeting, while the inputs (costs) continue as budgeted, the outputs (benefits) are not evaluated at the end of each financial year to justify the continuation of the allocation for the next year too. There is no zero base as last year's budgetary allocation is taken as the base for the coming year's allocation with addition here and there, past commitments provide the justification for the current budget. The allocation is simply adjusted against inflation and the introduction of new programmes. Past inefficiencies and wasteful expenditure are continued. The relevance of the scheme is not reconsidered. Questions are not asked in the departments. When the financial crisis deepens, across the board cuts are made. Departments with better performance begin to suffer. Cost effectiveness of schemes goes by default. The common fallacy is that Zero Base Budgeting will deduce public expenditure and job opportunities and is therefore, anti – labour. The fact of the matter is that Zero Base Budgeting is all for encouraging efficiency – related priority based expenditure which can only further public good and ensure better utilisation of tax payer's money. Not only that, the present form of incremental budgeting does not encourage a participatory exercise in the departments. Zero Base Budgeting, on the contrary, will encourage brainstorming in the departments, both horizontally and vertically. Not only will duplicative efforts be identified, it will also be possible to exercise control over public expenditure ex ante instead of the control being exercised ex post as

at present. The participatory management in the department will help build up an efficient and skillful management team with a salutary impact on the level and quality of governance.

Relevant areas :

To begin with Zero Base Budgeting can definitely be introduced in departments where the over-head costs are high and whopping revenue expenditure is being met out of borrowed capital.

The preparation :

Dissemination of information and knowledge about Zero Base Budgeting across departments, party lines, working groups and members of the public will be necessary to create a congenial climate for the change from incremental budgeting to Zero Base Budgeting. Prior to the implementation of Zero Base Budgeting a case – study based training of public personnel in concept, methodology and application of Zero Base Budgeting will be unavoidable.
