P. A.C. No. 84

PUBLIC ACCOUNTS COMMITTEE 1962-63

NINTH REPORT

(THIRD LOK SABHA)

[Finance Accounts of the Government of India —Chapter I of Audit Report (Civil), 1962]

LOK SABHA SECRETARIAT
NEW DELHI

March, 1963
Phalguna, 1884 (Saka)

Price : Re. 1.00 nP.

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40. Rama Krishna & Sons, 16-B, Connaught Place, New Delhi.

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(1962-63)

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Shri H. N. Trivedi—*Deputy Secretary.*
Shri Y. P. Passi—*Under Secretary.*

INTRODUCTION

As authorised by the Public Accounts Committee, I hereby present the Ninth Report on the Finance Accounts of the Central Government and connected Audit Report, 1962.

2. The Finance Accounts give complete information regarding the financial transactions of the Govt. for the year, both under receipts as well as expenditure. The object of the preparation of Finance Accounts and Audit Report thereon is to present to Parliament the accounts of the entire receipts and outgoings of the Government for each financial year and a report on the financial results disclosed by the different accounts and other data coming under examination, that is to say, the revenue and capital accounts, the accounts of the public debt and of the liabilities and assets of the Government concerned as deduced from the balances recorded in the books of the Accounts Officers concerned.

According to Rule 308(1) of the Rules of Procedure and Conduct of Business in Lok Sabha, the Committee on Public Accounts are required, *inter alia,* to examine the annual Finance accounts of the Government of India also. The question of extending the scope and functions of the Committee to the scrutiny of the Receipt side of the Central Government Accounts with particular reference to sources of Revenue, Borrowings, Public Debt. etc. had engaged the attention of the successive Public Accounts Committees in the past.

The compilation of these Accounts for the year 1947-48 was delayed mainly because of the difficulties in the allocation of the balances on the 14th August 1947 as between India & Pakistan under cash and various debt heads, deposit heads etc. which in turn delayed the compilation of these accounts for the subsequent years. These accounts were laid on the Table of the House on the dates mentioned below:—

Finance Accounts for the year.	Date of presentation to Parliament
1947-48 (Post-partition)	5-5-1959
1948-49 to 1954-55	6-4-1960
1955-56 to 1958-59	29-8-1960
1959-60	27-11-1961
1960-61	6-9-1962

The Audit Report (Civil), 1962 was presented to the House on 4th June, 1962.

3. In this Report the Committee have dealt with matters of topical interest relating to Revenue and Capital Accounts, accounts of Public Debt and liabilities and assets of Government, which were set out briefly in Chapter I of the Audit Report, 1962.

4. The Committee examined these Accounts at their sittings held on the 15th and 16th January, 1963. A brief record of these sittings has been prepared and forms part (Part II) of this Report.

This Report was considered and approved by the Committee at their sitting held on 8th March, 1963.

5. A statement showing the summary of the principal conclusions/recommendations of the Committee is given in Appendix V.

6. The Committee place on record their appreciation of the assistance rendered to them in their examination of these Accounts by the Comptroller & Auditor General of India.

7. The Committee would also like to express their thanks to the officers of the Ministry of Finance and the Central Board of Revenue for the cooperation extended by them in giving information to the Committee during course of evidence.

NEW DELHI;

8th March, 1963.
17th Phalguna, 1884 (*Saka*).

MAHAVIR TYAGI,
Chairman,
Public Accounts Committee.

REVENUE POSITION OF THE GOVERNMENT OF INDIA

Pages 1—3, Para 1 of Audit Report

General

1. The total Revenue Receipts of the Government of India and the expenditure on revenue accounts during the five years ending 1960-61 compared with the Budget Estimates, were as shown below:—

(In crores of rupees)

Year	Receipts			Expenditure			Deficit/surplus	
	Budget	Actuals	Variations %	Budget	Actuals	Variations %	Budget	Actuals
1956-57 . .	527·39	591·15	+12	545·43	497·89	—9	—18·04	+93·26
1957-58 . .	703·83	728·12	+3	668·09	685·13	+3	+35·74	+42·99
1958-59 . .	767·99	759·93	—1	796·01	763·74	—4	—28·02	—3·81
1959-60 . .	780·10	872·90	+12	839·18	828·66	—1	—59·08	+44·24
1960-61 . .	919·77	971·77	+6	980·35	921·95	—6	—60·70	+49·82

In each year the actual revenue received was appreciably in excess of the budget estimates (except in 1958-59), while the expenditure (except in 1957-58) was less than the budget estimates. The net result was that the accounts of each of these years closed with substantial revenue surplus (except in 1958-59) although the budgets presented to Parliament during each of these years (except in 1957-58) had anticipated revenue deficits. Noticing that there was a persistent tendency on the part of Ministries to err on the safe side, *viz.*, to under estimate the revenue and over-estimate expenditure incurred therefrom, the Committee inquired whether an impression was not likely to be created that the amount of additional taxation during these years had been excessive to the extent of the gap. They also desired to know whether on the basis of this experience it would not be feasible to leave a larger budgetary deficit at the initial stage which could eventually be covered. The representatives of the Ministry of Finance stated in evidence that such a course of action might give rise to inflationary trends. It was further urged in this connection that in the context of the Plan the concept of balancing the annual budget had lost much of its significance as the extent of additional tax revenue needed to finance the Plan was already laid down. Further, in the background of deficit financing already undertaken the under-estimating of revenue and over-estimating of expenditure had not significantly reduced the level of deficit financing over a period of years.

While the Committee appreciate the force of the contention that the budget of the year is to be viewed in the context of the Plan wherein both the total expenditure and resources are assessed for the Plan period, they nevertheless feel that these annual estimates are significant stages towards the achievement of the Plan targets. Further, the annual budget is the main instrument of financial control by Parliament. To the extent there are shortfalls in planned expenditure and under-estimating of revenue, the economy would seem to indulge in exaggerated inflationary expectation implicit in the deficits shown in the annual budget estimates. In the Committee's view, it is obvious that the situation calls not only for greater drive to achieve the planned targets of developmental expenditure but also for a closer estimate of resources and expenditure.

2. Accordingly, the Committee explored with the representatives of the Ministry of Finance the ways in which estimating of revenue and expenditure could be improved.

(i) *Revenue Estimates.*—It was urged in evidence before the Committee that the budget estimates were framed 14 to 15 months in advance of the close of the year to which they pertained and generally followed the trend of past and current actuals and such other information as was available at the time. There were certain inherent difficulties in forecasting accurately revenue receipts for the ensuing financial year. Major variations occurred mainly under three main heads, *viz.*, Customs. Union Excise Duties and Corporation and Income-tax. As regards Customs, it was stated that customs revenue was mainly linked up with the quantum of foreign exchange available, the prices position of which could not be foreseen at the time the budget was drawn up. Further, restrictions on import of goods imposed from time to time resulted in variations between estimates and actuals. The duties were also sometimes reduced/enhanced in the course of the year. In the case of Central Excise it was argued that in view of the need for observing secrecy in regard to the items proposed to be brought within the tax net detailed inquiries regarding the latest trends of production could not be made openly. This necessitated preparation of estimates mainly on the basis of past figures. In certain cases additional duties were also imposed in the course of the financial year which accounted for a part of the variations in the estimates and actuals.

As regards corporation tax and income-tax, it was stated that important changes in the pattern of taxation of companies were introduced in the years 1959-60 and 1960-61, which accounted for the variations in these years. Further, as the budget was prepared long before the accounts of the assessess (companies, etc.) for the relevant period were available, some variation between the original estimates and actuals was inevitable.

Alluding to the measures taken by the Central Board of Revenue to improve the standard of estimates of revenue the representatives of the Ministry of Finance further informed the Committee that at the Commissioners' Conferences held during the last two years the need for ensuring accuracy of estimates had been emphasised. The Board had also been insisting upon the scrutiny of each big case before its revenue potentiality was included in the budget.

The Committee recognise that to deal with stresses, strains and disparities arising in a process of planned economic growth fiscal measures have to be taken in the course of the year which may not be foreseen at the time of framing the Budget. Consequently there may be variations. They gathered the impression, however, that by and large, the variations were due to other factors, mainly, lack of firm statistical basis and conservatism in assessment of revenue. The Committee have dealt with these aspects in regard to Customs Revenue in para 4 of their Sixth Report (1962-63) on Revenue Receipts. They feel that the same deficiencies are noticeable in respect of estimates of Excise Revenue and of the Income and Corporation taxes.

3. In the case of Excise Revenue, the Committee had analysed in para 8 of their Sixth Report the gap of Rs. 36·34 crores (9·6 per cent of the estimated figure) between the estimates and actuals for 1960-61. They noticed that out of the total under-estimate, an additional collection of Rs. 5·80 crores being the tax realised on new items taxed in 1960-61 could not be precisely estimated due to consideration of secrecy and an additional duty of only Rs. 2·92 crores collected in the month of March, 1961 on account of new Excises introduced through the Finance Bill 1961 was likewise unanticipated. The balance of Rs. 27·62 crores which is 76 per cent of the total under-estimate was attributed to higher production than anticipated in respect of items already under excise. **In the Committee's opinion this underlines the need for basing the estimates on better statistical data as regards trends of production of excisable goods.**

4. A view was also expressed before the Committee that the Revenue Officers had a tendency to under-estimate the collection of revenue lest they should be later held responsible for having failed to collect the anticipated amount. The Member, Central Board of Revenue (Income-tax) explained that efforts were since being made to overcome this tendency. It was added that "Just as we take a man to task for not collecting his budget, we are now taking people to task for not being accurate in the budget estimates". **The Committee trust that the Ministry will keep this aspect of the matter under constant watch so that it does not prejudice framing of accurate estimates. In the opinion of the Committee an overall variation exceeding 3 to 4 per cent should be regarded as a matter of concern requiring special remedial measures.**

(ii) *Over-estimating of expenditure*

5. Over-estimating of expenditure has been a recurring phenomenon to which the Public Accounts Committee had repeatedly drawn attention in their Reports. The Committee dealt with this problem in detail in their Eighth Report (Second Lok Sabha) where they suggested *inter alia* certain concrete steps to check loose budgeting. Nevertheless a tendency to over-estimate the requirements still persists. This ultimately results in lapse of funds at the close of

each financial year.* The Committee were informed in evidence that in the case of Plan Projects the Ministry of Finance did not want to cut down the estimates put forward by the Administrative Ministries lest it should unduly curb their enthusiasm and result in slowing down of projects for want of budgetary support.

The Committee feel that the administrative ministries should be asked to work out the details of the various projects and schemes included in the Plan well in advance of their inclusion in the budget estimates and that Finance Ministry should not relax its scrutiny to see that only such of the schemes and projects are included in the budget estimates as have a reasonable prospect of being carried through during the financial year.

6. A suggestion was made by the Comptroller and Auditor General that imposition of a lump sum cut by the Ministry of Finance in respect of overall provision under a grant, in respect of which savings are a recurring feature, would be consistent with the Finance Ministry's desire not to impose arbitrary cuts in regard to individual Plan schemes covered by a grant. The amount of the cut would be determined in accordance with the phase reached by each scheme and the tempo of expenditure built up during the previous years. It would be unnecessary to distribute the cut as amongst different schemes. The administrative ministry should be allowed to proceed on the basis of its original estimates, and, in case it was able to do better than the funds granted, supplementary funds could be obtained from Parliament in the course of the year. **The Committee would commend this suggestion to the Finance Ministry, as it appears to hold a prospect of reaching the over-all net targets laid down in the estimates. In the implementation of this suggestion, it would be necessary to see during the periodical review of the progress of expenditure that shortfall in expenditure anticipated in respect of individual schemes are declared in time so as to avoid the contingency of going in for unnecessary supplementary grants.**

*Variation of actual expenditure on revenue account with reference to Estimates for the five years since 1956-57 is indicated in the statement at page 1 above. The total expenditure for the corresponding period on capital account is compared below with the Estimates (c.f. page 9, para 4 of Audit Report):—

Year	Budget	Actuals	Saving %
1956-57	316·75	275·87	—13
1957-58	550·57	431·12	—22
1958-59	491·35	400·85	—18
1959-60	477·53	357·57	—25
1960-61	444·41	406·43	—9

Revenue Receipts

7. There was an increase of Rs. 380·62 crores (about 64 per cent) in the revenue receipts over the period of five years since 1956-57. The important variations under different heads of revenue are given below:

(In crores of rupees)

Heads	1956-57	1957-58	1958-59	1959-60	1960-61	Total increase/decrease during five years.
1	2	3	4	5	6	7
Customs . .	173·23	179·99	138·29	156·11	170·03	—3·20
Union Excise* .	190·43	273·78	312·94	360·64	416·35	225·92
Corporatilon Tax .	50·40	55·66	53·52	105·54	109·70	59·30
Income Tax** .	92·44	91·18	96·98	69·86	81·37	—11·07
Taxes on Wealth .	..	7·07	9·68	12·14	8·15	18·5
State Excise Duties	·72	1·87	1·80	1·66	1·83	1·11
Stamps . . .	2·13	3·20	3·30	3·25	3·57	1·44
Forests . . .	1·70	2·33	2·67	3·11	3·84	2·14
Sales Tax . .	..	..	3·36	4·06	5·19	5·19
Other Taxes and Duties . .	·94	3·42	1·82	·55	3·75	2·81
Interest Receipts .	5·65	6·18	8·37	8·03	14·82	9·17
Industry and Supply	5·93	31·14	39·27	36·63	41·96	36·03
Currency and Mint	26·77	34·69	33·87	55·82	58·10	31·33
Net Contribution from Railways . .	5·86	6·29	6·26	5·63	4·77	—1·09
Net Revenue Post and Telegraph . .	6·32	3·71	6·41	5·13	·46	—5·86
Other Heads . .	28·63	27·61	41·39	44·64	47·88	19·25
TOTAL .	591·15	728·12	759·93	872·90	971·77	380·62

The fall in revenue from Customs during 1960-61 as compared with 1956-57 was stated to be mainly due to abolition of export duties on certain items like manganese ore, raw cotton, etc., while the increase of revenue from Union Excise was mainly due to the levy of duties on new commodities, and increase in the existing rates of duty and increase in indigenous production.

The new direct taxes introduced during the period 1957-58 to 1960-61 and the amounts realised were as follows:—

(In crores of rupees)

Heads	1957-58	1958-59	1959-60	1960-61	Total
Taxes on Wealth	7·07	9·68	12·14	8·15	37·04
Taxes on expenditure . . .	..	0·64	0·79	0·91	2·34
Taxes on Gifts	..	0·98	0·81	0·88	2·67
Taxes on Railway Fares . .	3·69	12·24	12·81	15·89	44·63
TOTAL . .	10·76	23·54	26·55	25·83	86·68

*Represent total collections before payment of the share allocated to State Governments.

**Represent the net amounts after adjusting the share of State Governments.

At the instance of the Committee a note has been submitted giving a broad comparison between the growth of revenue from direct taxes with the growth of national income (Appendix I). The note indicates that national income rose from Rs. 9,530 crores in 1950-51 to Rs. 14,200 crores in 1960-61, recording an increase of 49 per cent over the period. The annual rate of growth of national income on this basis, works out to 4·9 per cent. During the same period revenue from Centre's direct taxes went up from Rs. 173 crores to Rs. 292 crores. This gives an increase of 68·8 per cent over the period or 6·9 per cent annually. The Committee understand from Audit that in this note the Ministry had taken the actual collections in 1950-51 and other years for purposes of working out the percentage increase. Very little assessment and collection was made in 1950-51 from the former Part B States which had been financially integrated with the Centre from the beginning of that year. Further the collections made in 1950-51 and subsequent years were in a number of cases against arrear assessments of income earned in earlier years. **In the light of the above, the Committee feel that for having a true basis for comparison of the growth of national income and the increase in revenue from direct taxes over the decade, it would be necessary to compile the figures of taxes on incomes earned during the respective years, irrespective of whether they were actually assessed in the same or in the subsequent years. Further, as agricultural incomes were not subject to income tax, the comparison should really be made with the growth of non-agricultural income during the period. The Committee feel that a study conducted on these lines in the Finance Ministry would be useful so as to see how far the collection of taxes has kept pace with the growth of non-agricultural incomes. They would like to be apprised as to how far a study of this nature has been feasible and of the results thereof.**

Arrears of Taxes.—Pages 3-4, para 2.

8. The arrears of Taxes on Income and Union Excise Duties as at the end of each of the five years from 1956-57 were:—

(In crores of rupees)

Year	Taxes on Income	Union Excise Duties
1956-57	267·33	1·75
1957-58	272·33	1·91
1958-59	266·90	1·88
1959-60	257·40	4·05
1960-61	253·49	3·06

The arrears of Rs. 253·49 crores at the end of 1960-61 under the Taxes on Income are roughly equal to one year's revenue. (The total collection made during 1960-61 was Rs. 278·44 crores). Of this amount, Rs. 149·23 crores related to arrears of 1958-59 and earlier years.

The Committee had examined and dealt with the above position of arrears in the collection of taxes in their Sixth Report (1962-63) on Revenue Receipts (c.f. paras 16 and 31). In view of the importance of the subject matter they held further discussions with the representatives of the Ministry of Finance in regard to arrears of Income-tax (a brief record of these is included in Para II of this Report.) The Committee referred to the arrears of income tax amounting to Rs. 32·16 crores ascribed to cases pending before Certificate Officers. This amount was shown in the Audit Report (page 111) as 'irrecoverable which will have to be written off ultimately'. The Committee inquired how these arrears had become irrecoverable. They were informed that the Collectors, who had been asked to effect the recoveries had not been able to locate any further assets of the assessees from which the amounts could be realised. In certain cases, it was possible that the demands had been over-assessed. **The Committee are not satisfied with this explanation. The Ministry's representatives admitted that in some cases due to delay in issuing recovery certificates, the assets might have been transferred or concealed to a certain extent. They trust that Central Board of Revenue will exercise due vigilance to see that all the necessary steps for recovery of Tax-demand are taken with sufficient promptitude to avoid the arrears of Tax being eventually declared as irrecoverable.**

EXPENDITURE ON REVENUE ACCOUNT

Pages 4-8, para 3 of Audit Report.

9. The expenditure on revenue account showed an increase of Rs. 424·06 crores (85%) over the period of five years from 1956-57 to 1960-61 as follows:—

(In crores of Rupees)

Heads	1956-57	1960-61	Increase over the period.
(*i*) Collection of Taxes, duties and other Principal revenues	36·32	106·67	+70·35
(*ii*) Administrative Services	36·02	58·66	+22·64
(*iii*) Social and Developmental Services	95·22	214·66	+119·44
(*iv*) Civil Works	14·39	20·59	+6·20
(*v*) Defence Services	192·14	247·55	+55·41
(*vi*) Debt Services	31·74	72·09	+40·35
(*vii*) Other Heads	92·06	201·83	+109·67
TOTAL	497·89	921·95	+424·06

The Committee examined in detail the following items:

(i) *Expenditure on collection of taxes, duties and other principal heads of revenue, para 3(b)*

10. The Audit Report gave the following details of the increase in expenditure under this head:—

(In crores of Rupees)

	1956-57	1960-61	Increase	
			Amount	Percentage
Customs	2·86	3·61	+0·75	26
Union Excise Duties :				
(*i*) Collection charges	5·04	7·10	+2·06	41
(*ii*) States' share of the duties paid	18·22	75·10	+56·88	312
Corporation Tax	1·05	0·46	—0·59	—56
Taxes on income	3·16	5·14	+1·98	+63
Forests	2·14	4·56	+2·42	113
Stamps	1·54	2·29	+0·75	49
Other Heads	2·31	8·41	+6·10	264
TOTAL	36·32	106·67	70·35	194

It was clarified in the course of evidence that hitherto payments made towards States' share of duties were shown in the budget as part of the expenditure on "Union Excise Duties" which did not exhibit the true picture of the cost incurred on the collection of the revenue. If this were taken out, the increase in expenditure under this Head would work out only to 74 per cent instead of 194%, as shown in the Audit Report. With effect from the year 1961-62, the States' share of Union Excise Duties has been segregated from the cost of collection of the duties.

The expenditure incurred in the collection of principal items of revenue during the year 1960-61 as compared to that incurred in 1956-57 is shown below:—

Principal Heads of Revenue	1956-57			1960-61		
	Amount Collected (Gross)	Expenditrue incurred in collection	Percentage of expenditure on the revenue collected	Amount collected (Gross)	Expenditure incurred on collection	Percentage of expenditure on the revenue collected
Customs	173·23	2·86	1·7%	170·03	3·61	2·1%
Union Excise Duties	190·43	5·04	2·6%	416·35	7·10	1·7%
Taxes on Income including Corporation Tax	201·59	4·21	2·1%	278·44	5·60	2·0%

It will be observed that, although the revenue from custom duties in 1960-61 was less than the collections in 1956-57, the expenditure had gone up from 2·86 crores of rupees to 3·61 crores of rupees in 1960-61, recording an increase of 26 per cent. At the instance of the Committee the Ministry submitted a note giving the following break-up of this increase:—

	(Rupees in lakhs)		Percentage increase other total expenditure of 1956-57
(i) Increase on account of Pay Commission's Recommendations . . .	5·3		2%
(ii) Increase on account of other factors :			
(a) Accrual of normal increments .	6·4	43·2	15%
(b) Other items (Contingencies) .	7·3		
(c) Charges paid to Union excise Deptt.	29·5		
(iii) Increase in staff for collection of duty etc.	14·7		5%
(iv) Increase in staff for preventing and detecting smuggling . . .	11·1		4%
TOTAL . . .	74·3		26%

The Committee inquired about the justification for the increase in staff "for collection of duty etc." when the collections had actually diminished as compared to the earlier years. It was explained that a part of the additional staff was employed on non-revenue earning activities, such as those connected with foreign exchange regulations, drawback claims etc.

11. Of the increase of Rs. 29·5 lakhs in the payments to the Union Excise Department, the bulk, viz., Rs. 15 lakhs was stated to be on account of operation and maintenance charges of six launches acquired by the Customs Department after 1956-57. Another Rs. 2 lakhs were paid towards the instalments of purchase price of some of these launches. The remaining amount was on account of a number of services rendered by the Union Excise Department on behalf of Customs in minor ports and land customs.

From the facts placed before them, the Committee have not been able to satisfy themselves that expenditure on revenue earning and other activities of the Customs Department was kept fully under control. They hope that when the accounts for 1961-62 are taken up for examination, the Department will be in a position to present a complete appraisal of the expenditure against the results achieved.

(ii) Expenditure on Social and Development Services. Para 3 (d).

12. Service-wise analysis of the increase of Rs. 119·44 crores in the expenditure on Social and Developmental Services is given below:—

(In crores of Rupees)

	1956-57	1960-61	Increase	
			Amount	Percentage
Scientific Departments .	11·05	21·36	10·31	93
Education	19·44	43·79	24·35	125
Medical	2·87	8·57	5·70	198
Public Health . . .	3·35	5·11	1·76	53
Agriculture . . .	7·46	13·60	6·14	82
Co-operation . . .	·74	3·27	2·53	342
Industries & Supplies . .	20·83	63·21	42·38	203
Community Development .	9·35	23·34	13·99	150
Others	20·13	32·41	12·28	61
TOTAL . .	95·22	214·66	119·44	125

The increase under 'Education' was mainly due to larger grants paid to State Governments (Rs. 24·09 crores in 1960-61 as against Rs 0·35 crores in 1956-57) and to the University Grants Commission (Rs. 8·20 crores in 1960-61 as against nil in 1956-57 as the University Grants Commission was not in existence then.)

The expenditure on Grant-in-aid included in the figures shown in the above table increased from Rs. 28·27 crores in 1956-57 to Rs. 93·53 crores in 1960-61.

The Committee had desired to be informed of the method followed in the determination and disbursement of grants-in-aid by the Centre to the State Governments and the extent of checks exercised by the former over their utilisation. The Ministry of Finance has accordingly submitted a note prepared by the Planning Commission (Appendix II) which states that the Central assistance to States is determined on the basis of annual Plans drawn for each State under the general frame-work of their five year programme, and on overall assessment of the States' resources under each head of development. Periodical reviews of the progress made and information regarding actual achievements are required to be furnished annually to the Planning Commission. The Planning Commission also conducted special reviews where necessary, assisted by their Programme Administration Advisers and other senior officers. In addition, the Committee on Plan Projects and the Programme Evaluation Organisation undertake the evaluation of various projects and programmes included in the Plan. The Committee note from an Annexure appended to the note that in a circular issued by the Planning Commission in August, 1962, they had observed that "in the past reporting of expenditure from quarter to quarter has been generally unsatisfactory". **The Committee, therefore, desired to know the nature of the shortcomings or defects pointed, out by the Planning Commission. The Ministry promised to furnish the information, which is still awaited.**

13. The Committee were specially interested to ascertain as to what checks were exercised by the Central Government to ensure that amounts of grants-in-aid sanctioned to States were (i) actually spent for the purpose for which they were given and (ii) usefully and economically spent. As regards (i) the Committee were informed in evidence that except in the case of conditional grants the State Governments were generally allowed certain degree of freedom to regulate expenditure on different schemes within the same head of development. The degree of flexibility was defined in the sanction itself, and the States could not alter the conditions subject to which the Grants had been sanctioned, without the approval of the Centre. It was added that the control exercised by the Centre was two-fold—(i) administrative checks exercised through the different wings of the Planning Commission and the Administrative Ministry and (ii) audit check exercised by the Comptroller and Auditor General and Accountants General under him. It was stated that since the Comptroller and Auditor General was responsible for the audit of both the Central and State Governments, he was expected to verify that the assistance provided to the States was utilised for the purpose for which it was given and the conditions imposed thereon, were duly observed. The Comptroller and Auditor General however, pointed out to the Committee that it had not been possible for him to conduct these checks, because (i) the amounts of Central assistance granted were finalised on the basis of departmental figures; (ii) there was generally no correlation between the "heads of development" according to which the Central assistance was distributed and the heads of accounts appearing in the accounts maintained by the Accountant General. Several schemes were grouped under each head of development and State Governments were generally left free to regulate the expenditure on different schemes within a Head of Development; departments were not maintaining "proforma" accounts in a manner which would admit of check and reconciliation with the figures in the Government Accounts, and (iii) the nomenclature adopted by the Government of India while sanctioning assistance generally differed from the nomenclature of the schemes adopted for execution by the State Government. He added that in 1961 Government had accepted in principle the suggestion that the final adjustment of Central assistance to the States should be made on the basis of figures reconciled with those booked in the accounts maintained by the Accountant General, but have not so far

issued detailed instructions to that effect. The Ministry of Finance admitted that the position stated by the Comptroller and Auditor General was correct and that steps were being taken to simplify the accounting procedure. A step in this directon had already been taken by segregating 'Plan' and 'Non-Plan' expenditure in Accounts with effect from 1959-60. All States except two had also been persuaded to book the expenditure by Heads of development. Also, a circular regarding reporting of actuals by States, as certified by the State Accountants General, had been prepared some time back, in consultation with the Comptroller and Auditor General. This could not, however, be issued as the matter was still under consideration with the Planning Commission.

The Committee are constrained to observe that this betrays an unsatisfactory state of affairs. Due to inability of Government to take a decision in regard to issue of a circular drafted two years ago grants-in-aid to States worth crores of rupees have continued to escape audit check as regards their utilisation in the manner prescribed. The Committee would urge that the lacunae referred to by the Comptroller and Auditor General should be removed without further delay.

With regard to the proper and economic utilisation of the grants it was urged in evidence that grants given by the Centre to the States accrued to them as a part of their revenue, and all expenditure therefrom was subject to the vote of the State Legislatures. As the expenditure incurred by State Governments was booked in the State Accounts, the wastes, irregularities and misappropriations in the disbursement of these grants, noticed during the course of audit, were included in the State Audit Reports.

RESERVE BANK OF INDIA

14. The Reserve Bank of India, which was originally constituted as a Shareholders' Bank in the year 1935, was nationalised after Independence. In terms of the Reserve Bank (Transfer to Public Ownership) Act, 1948, the entire share capital was acquired by the Central Government. The Act empowers the Government to issue such directions to the Bank as it might, after consultation with the Governor of the Bank, consider necessary in the public interest. Otherwise, it leaves the operational and other features of the Bank's organisation practically undisturbed. The whole of the net profits of the Bank after making statutory and other appropriations is transferred to the Central Government. The Bank's income has risen from Rs. 3·82 crores in the accounting year 1940-41 to Rs. 53·95 crores in 1961-62. Over the same period the Bank's expenditure which includes the expenses of administration and provision for sundry liabilities and contingencies has risen from Rs. 1·03 crores to Rs. 10·47 crores. The amount of net profits transferred to Government has risen from 2·62 crores in 1940-41 to Rs. 43·50 crores in 1961-62. Under Section 51 of the Act, the Central Government may at any time appoint the Comptroller and Auditor General to examine and report upon the accounts of the Reserve Bank.

The Committee wanted to know the control, if any, exercised by the Government over the expenditure of the Reserve Bank as this vitally affected the Central Revenues. The witness stated that Government had no control over the expenditure on the staff and their emoluments etc. except at the top level namely the emoluments of the Governor and the Deputy Governors. It was added that the Reserve Bank being the premier banking institution in the country had to follow the tradition of the banking companies as contradistinguished from Government departments. It had also to implement the Banks Tribunal's Award regarding the emoluments of the Bank employees. As regards the audit of accounts the witness added that Section 51 of the Reserve Bank Act was only permissive and not mandatory. Government had not thought it fit to invoke the provisions of this Section during the last 28 years of the Banks' working. It was also Government's view all along that specialised financial institutions such as the Reserve Bank, the State Bank and the Life Insurance Corporation should be treated on a different footing from other industrial and commercial undertakings in the public sector, and that audit of their accounts should be kept outside the purview of the Comptroller and Auditor General.

It was pointed out to the Committee that under the Companies Act, the Comptroller and Auditor General has three-fold functions in regard to audit of accounts of Government Companies;

(i) To advise Government as to the appointment of auditors;

(ii) To issue directives to auditors regarding the manner of auditing of accounts; and

(iii) To conduct through his own officers a supplementary audit of accounts of such undertakings.

The Committee desired to know the views of the Ministry on entrusting the first two functions to the Comptroller and Auditor General. The Secretary to the Department of Economic Affairs stated that while he was prepared to consider the first he had certain reservations regarding the entrusting of the second function to the Comptroller and Auditor General. **The Committee desire that the position may be examined and a decision in this regard communicated to them in due course.**

DEBT POSITION, PAGES 11—13, PARA 5

15. The total debt outstanding at the end of each of the five years ending 1960-61 was as below:—

(In crores of rupees)

	1-4-56	31-3-57	31-3-58	31-3-59	31-3-60	31-3-61
(*i*) Market Loans	1545	1669	1738	2218	2481	2619
(*ii*) Floating Debt (Treasury Bills, etc.)	808	1048	1503	1430	1570	1380
(*iii*) Loans from foreign countries	111	120	145	336	513	760
(*iv*) Unfunded Debt—						
(*a*) Small Savings collections	575	633	702	781	870	974
(*b*) Provident Fund, etc.	183	202	223	243	265	309
(*c*) Investment of U.S. counpart funds	..	..	..	..	..	240
TOTAL	3222	3672	4311	5008	5699	6282

During the five years ending 1960-61 fresh loans aggregating Rs. 1405.47 crores (Rs. 905.47 crores from Market and Rs. 500 crores by conversion of Treasury Bills) were raised.

Article 292 of the Constitution empowers Government to borrow upon the security of the Consolidated Fund of India and to give guarantees, within such limits as may be fixed by Parliament by law. The question of enacting legislation under Article 292 to regulate borrowing by Government was debated in Parliament in August, 1959. At that time, Government took the view that the provisions of Article 292 were permissive and not obligatory and that the present practice of getting parliamentary approval to Government's borrowing programme through the annual Budget was preferable to the alternative of laying down by law the conditions and limits in regard to borrowing by Government, which might be difficult to apply in practice.

Referring to the growth of public debt from a total of Rs. 3222 crores as on 1st April, 1956 to Rs. 6282 crores as on 31st March, 1961, the Committee enquired of the representatives of the Ministry of Finance whether it was not necessary to reconsider enacting of legislation envisaged under Article 292 of the Constitution to regulate borrowing by the Central Government on the security of the Consolidated Fund of India. The witnesses reiterated the earlier stand of Government. In their view Parliament already had ample opportunity to examine the plans and targets of borrowing at two stages, *viz.*, once when the Plan was discussed and approved and secondly when the annual budget proposals were discussed wherein the entire requirements of funds including the borrowing programme were laid down. It was further urged by the Secretary of the Ministry that instead of fixing a limit on the quantum of borrowing, parliamentary scrutiny could be more usefully directed to the way the borrowed money was spent.

He added "..... are the debts being used for productive purposes which generate the means of their own repayment. What is our experience? Our experience, surely, is that we have now to our credit a fairly big sector of remunerative investment....". "Therefore, the view which we should surely take is that we should always be careful about the use of the borrowed money and on that the House has to make a close scrutiny, rather than worry about the quantum of borrowing."

In reply to a question it was disclosed that at the end of the current financial year (1962-63) the total obligations would amount to about Rs. 7,900 crores, out of which Rs. 7,000 crores could be termed as productive part of the debt.

The Committee feel that the existing manner of getting parliamentary approval to the borrowing programme of Government does not provide satisfactory opportunity of an intelligent appraisal in Parliament of the issues involved, which would be afforded, if there were a specific debate thereon. They understand that the practice established in the United Kingdom, Canada, Ceylon and the United States of America was to obtain the approval of the legislature either

specifically before going to market for loans or to restrict the borrowing programme to the limits prescribed by the legislature. The Committee, therefore, suggest that a study might be made of the procedures followed in this regard in various democratic countries (as agreed to by the Secretary, Ministry of Finance during evidence) so as to arrive at a method of obtaining specific approval of Parliament to the borrowing programmes that would suit the needs of our developing economy. The result of this study should be communicated to the Committee at an early date. Meanwhile, the Committee would invite the attention of Government to the following observation of the Estimates Committee in their Sixtieth Report (Second Lok Sabha) with which they are in agreement:—

"The Committee feel that since particulars regarding loans are notified in the press there should not be any objection to make a report to Parliament regarding loans as and when it is decided to float them."

The Committee also note that in replying to an earlier recommendation of the Estimates Committee on this subject, the Ministry of Finance had stated—"If the Parliament is in session, a copy of the loan notification can be laid on the Table of Parliament, immediately after it is issued. After the loan is closed a further report on the results thereof can be laid on the Table of Parliament giving the amount of the subscriptions received in cash and in conversion separately for each loan, for which press notes are usually issued".

[*Vide* serial No. 29 of Chapter IV of the 60th Report of the Estimates Committee (1958-59)]

The Committee understand that even this proposal as accepted by the Ministry of Finance has not yet been implemented. The Committee recommend its early implementation.

Interest Payments (*Page* 13, *para* 6)

16. Interest payments on account of debt during the five years 1956-57 to 1960-61 were as follows :—

(In crores of rupees)

			1960-61
(*i*) Interest paid by the Government of India	99·48	170·06	188·48
(*ii*) (*a*) Interest received on loans to State Governments	30·40	49·45	57·63
(*b*) Interest raceived from Railways and other Commercial Departments	37·34	56·24	58·76
(*c*) Interest received on other Loans, return from Government investments in Companies, etc.. .	5·65	8·03	14·82
(*iii*) Net burden of interest on Ravenue (*i*) minus (*ii*)	26·09	56·34	57·27
(*iv*) Net interest as a percentage of Total Revenue	4·3	6·7	5·9

The Committee learnt during the course of evidence that the net burden of interest on revenue had to be rated at a much higher figure than shown above, because barring the railways; some of the parties in receipt of the Government of India loans paid interest out of fresh borrowing from Government of India. The Committee noted this with surprise. They would like to know the principles, if any, on the basis of which this practice had to be resorted to in such a large measure. The Committee are of the view that when the recipients utilised the loans on projects involving long periods of gestation, it would be more correct to provide in the sanctions to the loans themselves that payment of interest would commence after a specified period. They urge that healthy practices must be set up in regard to recovery of loans and interests.

Amortisation of Debt (Page 13, para 7)

17. A lump sum of Rs. 5 crores was being charged to revenue every year since 1946-47 for this purpose. It was stated in evidence that this matter was examined by the Public Accounts Committee in the year 1954-55, and it was explained to them that to expect all the borrowings to be repaid by charge to Revenue would be an impossible proposition. At that stage it was estimated that it would be necessary to make a provision of Rs. 20 crores in the Revenue Budget every year. In the present trend of Government activities and expenditure, there should be a surplus of Rs. 30 crores or more every year in the budget for debt redemption charges, which was not practicable. It was also contended that throughout the world it was not unusual for the public debt of Governments to be repaid by fresh borrowings.

In view of the fact that mobilisation of resources for investment purposes so as to raise the levels of living in the country is an immense task necessitating even recourse to deficit financing within certain limits, the Committee consider that there is force in the views of the Ministry of Finance as given above. However, Parliament and the Public Accounts Committee have to see that loans are essentially utilised on productive investments, so that they would generate their own means of repayments. It has been contended before the Committee that of the total of Rs. 7,900 crores that was the estimated debt obligation on the close of the financial year 1962-63, as much as Rs. 7,000 crores would represent the productive part of the debt. In this connection, however the C. and A.G. drew the attention of the Committee to the following observation of the Third Finance Commission in respect of multipurpose river valley and other major irrigation projects :

"We were disappointed to find that in a number of cases the returns are insufficient to meet even the wroking expenses and in the majority of cases insufficient to cover the additional incidence of interest liability. The power components of the multi-purpose projects are generally remunerative, though marginally, because of the statutory ceiling of 5 per cent return. They are not so where agreements were made for supplies at concessional rates either to attract industries to the States concerned, or to find an outlet at the time for power generated or both. But the irrigation components of these projects and also other major projects are unproductive in most cases."

Keeping in view the above observation and the fast pace at which the public debt is growing, the Committee suggest that the Explanatory Memorandum to the Budget should give a more detailed account of the utilisation of borrowed moneys and indicate to what extent it has been ensured that the investments would be self-financing in course of time.

Foreign Aid, Pages 14—17, *Para* 8.

18. Foreign aid for financing development projects in the country, received during the ten year period 1951 to 1961 in the form of grants, loans and technical assistance from foreign countries, *e.g.*, USA, USSR, West Germany, Japan, Norway, UK and other Colombo Plan countries amounted to Rs. 883·56 crores (Rs. 224·82 crores as grants and Rs. 658·4 crores as loans). In addition, loans were taken from the IBRD to the extent of Rs. 152·42 crores.

Aid was also received in the shape of equipment, technical services etc., from USSR and West Germany as well as from certain specialised agencies of the U.N. such as UNTAO, UNESCO, etc., as also from certain International Philanthropic Organisations like the Ford Foundation and Rockfeller Foundation. Such aid in kind is not reflected in Government accounts. When title to any equipment or material passes to the Government of India, it is shown in the Store Accounts or other inventories.

The amounts received as grant are shown below in crores of rupees :—

Programme	Source from which aid was received	Aid Received: Prior to 1956-57	Aid Received: during 1956-57 to 1960-61	Aid Received: Total	Remarks
1	2	3	4	5	6
Indo-US Technical Co-operation Aid Programme.	USA	58·93	57·29	116·22	Received in the shape of material and equipment. The Aid was also received in the form of technical services but this is not reflected in Government accounts.
PL—480	USA	..	3·68	3·68	This is further explained in para below.
Colombo-Plan	Canada	20·53	61·11	81·64	Mainly as wheat (Rs. 26·47 crores) and the balance as equipment.
Colombo-Plan	Australia	4·36	7·54	11·90	Aid worth Rs. 4·57 crores was in the form of wheat and the balance in the form of equipment.

1	2	3	4	5	6
Colombo-Plan .	New Zealand	·33	2·70	3·03	Mainly for the All India Institute of Medical Sciences.
Colombo Plan .	UK	1·04	4·45	0·49	Mainly in the form of technical books.
Indo-Norwegian Project for Fisheries Department .	Norway	0·28	0·61	0·89	Aid received in the shape of fishery equipment.
	Ford Foundation	2·17	4·80	6·97	In cash
	Total .	86·64	138·18	224·82	

Amounts received as loans from foreign countries and I.B.R.D. are shown below:

Country from which loan was received	Loans Received			Loans outstanding at the end of 1960-61 after repayment of instalments already fallen due	Rate of interest
	Prior to 1956-57	During 1956-57 to 1960-61	Total		
	(In crores of rupees)				
U.S.A. . . .	98·85	229·36	328·21	314·13	2½ to 5¾ %
U.K.	..	121·85	121·85	21·85	4¾ to 6¼ %
West Germany .	..	108·82	108·82	103·19	6·3 to 6·5%
U.S.S.R . .	..	74·21	74·21	57·48	2½ %
Canada . . .	..	15·71	15·71	14·07	1¼ %
Japan	..	9·94	9·94	9·94	5¾ to 6¼%
I.B.R.D. . .	22·51	129·91	152·42	140·19	4 to 6%
TOTAL .	121·36	689·80	811·16	760·85	

The Committee are glad to note from the Audit Report that instalments of principal and interest which fell due during and upto 1960-61 in respect of these loans were all paid on due dates.

Foreign Aid under Public Law 480 *page* 16—*para* 8 (*d*)

19. Under Public Law 480 of the U.S. Government, certain surplus agricultural products have been sold to India; and the rupee equivalent of the dollar cost of these products and 50 per cent. of the ocean freight were being deposited in the State Bank of India upto May, 1960 and thereafter in the Reserve Bank of India to the credit of the U.S. Title account. A major portion of the amounts thus deposited is earmarked for being given to the Government of India as grants and loans for financing agreed development projects. Upto the end of 1960-61 sums amounting to Rs. 375·33 crores and Rs. 517·14 crores were thus earmarked by the U.S. Government as grants and loans respectively. Against these, project agreements were signed for Rs. 18·51 crores as grants and Rs. 132·32 crores as loans. Out of the aid so authorised, the amounts actually drawn were Rs. 3·68 crores as grants and Rs. 77·88 crores as loans upto 31st March 1961.

Out of the amounts deposited in the U.S. Title account, certain amounts which are not required immediately for payment as loans or grants to Government or for other specific purposes, are invested with the Government of India in non-negotiable securities, and are accounted for under "Unfunded Debt". The balance of such investments at the end of 1960-61 stood at Rs. 240 crores.

The Committee wanted to know the reasons for the apparently slow progress in drawing up Project agreements for aid under PL 480 Schemes and in drawing amounts against the agreements executed so far. The Ministry of Finance has submitted a note (Appendix III) which indicates the position of utilisation of loans and grants under PL 480 schemes as on 30th June 1962. It has been explained that the effective amounts available at any time are the amounts apportionable as loans and grants out of the total rupee funds generated at that time. On 30th June, 1962 the total funds generated (*i.e.* the rupee deposits made in the U.S. Government account on account of imports) were Rs. 620 crores, out of which the amount apportionable as loans and grants to India was Rs. 294·00 crores and 178·00 crores respectively. Project agreements mutually agreed and drawn up for the utilisation of these funds amounted to Rs. 256·46 crores and Rs. 100·16 crores respectively. As regards the drawal of amounts against these agreements it has been stated that amounts are drawn on reimbursement basis as expenditure is incurred. In the case of some loan projects the final contribution dates extend upto 1964 and 1965. The drawal against these projects would extend upto that period. In the case of grant funds the final contribution dates are presently upto 31st March, 1963. The actual drawals had been less (*viz.* Rs. 137·57 crores and Rs. 20·02 crores as on 30th June, 1962 of loans and grants respectively) because many of the agreements were signed recently and statements of expenditure incurred on them had not been received from the Administrative Ministries. **The Committee trust that the Ministry of Finance will ensure that the foreign aid under the schemes is fully utilised as per schedule.**

LOANS AND ADVANCES BY THE CENTRAL GOVERNMENT, PAGES 17—19, PARA 10

20. The outstanding loans and advances granted by the Government to State Governments, Foreign Governments, etc., during the

period of five years since 1st April, 1956, were as follows:—

Name of Loanee	Amount outstanding on			Net increase during the five years
	1-4-1956	1-4-1960	31-3-1961	
	(in crores of rupees)			
State Governments	832·75	1676·98	1909·63	1076·88
Foreign Governments.	0·11	22·69	29·17	29·06
Railway Development Fund	..	25·82	29·40	29·40
Loacal Funds Municipalities etc.	26·72	46·23	52·60	25·88
Government Corporations, etc.	36·83	320·69	419·29	382·46
Private Institutions, etc.	41·16	72·22	83·60	42·44
Goverhment servants.	4·18	3·83	5·32	1·14
Cultivators	1·54	5·57	5·47	3·93
Total	943·29	2174·03	2534·48	1591·19

The loans advanced to State Governments during the year 1960-61 amounted to Rs. 328·13 crores while repayments made by the State Governments towards these loans worked out to Rs. 95·48 crores. Thus the net outgo under these loans during the year came to Rs. 232·65 crores.

Some of the State Governments had not been regular in making repayments of the loans advanced to them. The amounts of principal and interest, which remained overdue from the State Governments at the end of 1960-61 are given below:—

Name of State Government.	Amount of Principal outstanding on 31-3-1961	Amount of interest outstanding on 31-3-1961	Earliest period to which the arrears relate
		(In crores of rupees)	
Rajasthan	5·98	0·01	1955-56
		Arrears recovered during 1961-62	
Madhya Pradesh	1·76	2·04	1950·51
		During 1961-62 Rs.4, 67,243 (Principal and Rs. 34, 928 (interest) were recovered.	
Bihar	0·30	0·75	1955·56
		Rs. 30 lakhs towards principal and Rs.18 lakhs towards interest were recovered during 1961-62.	
Orissa	0·44	3·10	1954·55
		Rs. 29,663 towards Principal and Rs.2·93 crores towards interest were recovered during 1961-62.	
West Bengal	2·69	0·28	1954-55
		Rs. 36 lakhs (Principal) and Rs. 2 lakhs (interest) were paid during 1961-62.	
Uttar Pradesh	..	1·48	1954-55
Jammu & Kashmir	8·90	3·01	..
		Rs.11·91 lakhs (Principal) and Rs. 2·54 lakhs (interest) were paid during 1961-62.	

The above figures do not include the arrears in respect of loans granted to State Governments for the rehabilitation of displaced persons. According to the revised terms prescribed by the Government of India in 1958 rehabilitation loans were to be grouped into two categories, namely (i) Loans for re-lending and (ii) Loans for construction. In respect of the former category, the State Governments had to pay the amounts actually realised from displaced persons plus 10 per cent of the shortfall between the amounts so paid and the amounts due according to the original terms. The latter category of loans had to be repaid in accordance with the original terms. In some cases, however, the State Governments had not accepted the revised terms and were paying only the amounts actually realised from displaced persons.

There were also a few loans, the terms and conditions in respect of which, had not been settled, in particular, loans amounting to Rs. 33·69 crores paid to the Government of Andhra Pradesh during the period from December, 1955 to October, 1960, for Nagarjunasagar Project. No payment had, therefore, been made in respect of these loans either towards principal or towards interest.

The Committee were informed in evidence that except in the case of the Hirakud Project the terms and conditions in respect of all the loans including that for Nagarjunasagar Project had since been settled. With regard to the loans granted to State Governments for the rehabilitation of displaced persons a note has been submitted by the Ministry. It has been stated in the note that the State Governments have not reacted favourably to the orders issued by the Ministry of Finance in 1958 and 1959 under which Rehabilitation loans were categorised into (i) loans for relending and (ii) other loans. Concessional rates were intended to be applied to the first category only. The State Governments are insisting that no differentiation need be drawn between the two categories of rehabilitation loans. The matter is under examination of the Government. **The Committee note that this issue of settlement of terms and conditions of loans granted to States for rehabilitation of displaced persons has been pending too long. They would like to be informed of the settlement reached in this regard. The Committee would also suggest for future guidance that terms and conditions of loans should be settled first before any loans are actually given by the Central Government.**

21. The Committee inquired about the reasons for heavy sums outstanding from the State Governments and the steps proposed to be taken by the Government to ensure regular repayment of loans. The representative of the Ministry stated that the Accounts Officers were required to report the dfaults in repayment of principal or interest to the sanctioning authorities. Some difficulties, however, arose in cases where the financial position of the State did no permit enforcement of the recoveries. He added that if the Centre were to press its dues to the point of realisation regardless of the financial position, then the Centre would, in many cases, have to take over the financial administration of the States.

The Committee feel that in the matter of repayment of loans and interest the Centre and State Governments should on no account deviate from the terms and conditions already settled. In case, the

ways and means position of a particular State at any time needs to be strengthened, the Centre should consider the question independently and render such assistance in a direct manner instead of permitting defaults in the repayment of contracted loans. The Committee see from a note earlier submitted to them that Ministry of Finance were thinking over the matter on these lines. They hope that steps will be taken accordingly to enlist the co-operation of State Governments in this regard.

22. As regards loans and advances to private institutions the Committee wanted to examine the procedure followed in the disbursement of loans and effecting recoveries and the nature and extent of defaults in repayments etc. They were informed by the C. & A. G. that he would report in the next Audit Report certain cases of loans given to private parties in which loans were in arrears. **The Committee, therefore, deferred consideration of this issue.**

GUARANTEES GIVEN BY THE CENTRAL GOVERNMENT PAGE 19, PARA 11

23. As in the case of borrowings Parliament has not yet enacted any law fixing the limits within which Government can give guarantees on the security of the Consolidated Fund of India. The question whether any fee or charge should be levied by Government for covering the risk involved in these guarantees was stated in the Audit Report to be under consideration of Government (one of the State Governments is charging a nominal fee, 25% to 1% per annum, for similar guarantees given by it). The Audit Report gave the particulars of guarantees given by Government on behalf of Companies etc. both in the public and private sectors till the end of 1960-61 (Appendix IV). Till the end of 1960-61, guarantees given for the repayment of principal and interest on (a) rupee, (b) sterling and (c) dollar loans, involved loans worth Rs. 107.87 crores, £10.78 million and $308.68 million respectively. Their break-up in broad categories is given below:

Parties on whose behalf guarantee was given	Limits upto which guarantee was given		
	(*a*) Rupees (in crores)	(*b*) Sterling (in crores)	(*c*) Dollars (in millions)
1. Government Companies, Statutory Corporations and Ports	93·42	10·78	88·18
2. Co-operative Societies (including State Co-operative Banks)	8·70	..	..
3. Joint Stock Companies in which Government have interest.	2·46	..	..
4. Joint Stock Companies other than (3) above: :			
(*i*) Indian Iron & Steel Co. Ltd.	..	..	49·20
(*ii*) Tata Iron & Steel Co. Ltd.	..	..	107·50
(*iii*) Tata Group of Hydro-Electric Companies Ltd..	..	..	23·80
(*iv*) Industrial Credit & Investment Corpn. . .	..	..	40·00
(*v*) Other Companies	3·29	..	..
TOTAL	107·87	10·78	308·68

Substantial amounts of loans in other foreign currencies were also guaranteed in favour of Government companies and Statutory corporations. None of these guarantees was invoked during 1960-61.

The Secretary, Department of Economic Affairs informed the Committee that the question whether any fee should be levied by Government for covering the risk involved in these guarantees was still under consideration. He added that broadly there were two types of cases in which repayments on loans and interest were guaranteed by Government—(i) in the case of international loans where the statute governing the lending agency such as the World Bank made it obligatory on the part of the borrowing Company to produce such guarantees and (ii) in respect of domestic loans to certain institutions like the co-operative societies, which were regarded by Government as deserving of special help; but, for governmental guarantees loans from markets on ordinary commercial terms would not be made available to such institutions. In neither of these types of cases was it considered appropriate by Government to make an additional charge towards the guarantees given, as it was the aim of Government to attract international loans and to help the co-operative movement.

Guarantees also used to be given in respect of a third type of loans when the Industrial Finance Corporation was under statutory obligation to obtain governmental guarantees in respect of loans above certain monetary limits. This statutory obligation was no longer in force, but so long as it was applicable, Government was of the view that it would not be proper to charge a fee for the giving of such compulsory guarantees. It was now proposed to issue instructions to the effect that where a Ministry had to give a guarantee to some party, the question whether a fee should, or should not be levied, should be specifically considered on merits and a decision taken with the concurrence of the Ministry of Finance. It was felt, however, that *in-as-much* as Government did not make it their normal business unlike banks to guarantee loans for earning profits, the number of cases in which a fee might be levied, would not be very large.

The Committee inquired as to what steps were proposed to be taken to safeguard the interests of Government as guarantor for the loans taken by private institutions. The representative of the Ministry stated that it was not proposed to interfere in the day to day business of the private institutions. In the Ministry's opinion. the lender normally went into the credit worthiness, assets and liabilities, etc. of the borrower before lending any amount and there was little risk involved in such guarantees. Further, in the case of foreign loans it was stated that the agreements provided that Government would step into the position of the lender in respect of any moneys paid by them due to the default of the borrower. **The Committee can hardly subscribe to this view. They are inclined to agree with the Comptroller and Auditor General that where the guarantor was a Government, whose credit was unquestionable, the lender might not insist on a detailed scrutiny of the borrower's**

financial position. It was admitted in evidence that this risk would legitimately arise in the case of loans to co-operative societies. Therefore, it is necessary for the Government as a guarantor to ensure that the borrower would conduct its affairs in such a manner that there was no default in the repayment of the loan. The Committee suggest that the question may be reviewed in the light of the above observations and suitable measures devised to safeguard Government's interest in giving these guarantees.

MAHAVIR TYAGI,
Chairman,
Public Accounts Committee.

NEW DELHI-1
March, 8, 1963/Phalguna 17, 1884 (S)

PART II

Proceedings of the Sittings of the Public Accounts Committee held on the 15th and 16th January, 1963.

Proceedings of the 44th sitting of the Public Accounts Committee held on Tuesday, the 15th January, 1963.

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1. The Committee sat from 10.30 to 12.45 hours.

PRESENT

Shri Mahavir Tyagi—*Chairman.*

MEMBERS

2. Shri S. C. Balakrishnan
3. Shri Bhakt Darshan
4. Shri Hem Raj
5. Sardar Kapur Singh
6. Shri R. K. Khadilkar
7. Dr. P. Mandal
8. Dr. G. S. Melkote
9. Shri Prakash Vir Shastri
10. Shri Nawab Singh Chauhan
11. Shri Dahyabhai V. Patel
12. Shri Sonusing Dhansingh Patil
13. Shri Rajeshwar Prasad Narain Sinha.

Shri A. K. Roy, *Comptroller & Auditor General of India.*

Shri G. Swaminathan, *Addl. Dy. Comptroller & Auditor General.*

Shri P. V. R. Rao, *Accountant General, Central Revenues.*

SECRETARIAT

Shri H. N. Trivedi—*Deputy Secretary.*

WITNESSESS

Ministry of Finance (Department of Expenditure).

1. Shri V. T. Dehejia, *Secretary*
2. Shri R. P. Padhi, *Joint Secretary.*
3. Shri S. S. Shiralkar, *Joint Secretary.*

Ministry of Finance (Department of Revenue).

1. Shri V. V. Chari. *Additional Secretary and Chairman, Central Board of Revenue.*
2. Shri B. N. Banerjee, *Member (Central Excise).*
3. Shri D. P. Anand, *Member (Customs).*
4. Shri J. P. Singh, *Member (Inspection & Estate Duty).*

Ministry of Finance (Department of Economic Affairs).

1. Shri L. K. Jha, *Secretary.*
2. Shri Shiv Naubh Singh, *Joint Secretary.*
3. Shri A. Baksi, *Joint Secretary.*
4. Shri K. S. Sundara Rajan, *Joint Secretary.*
5. Shri S. Krishnamurty, *Joint Secretary.*
6. Shri M. R. Yardi, *Joint Secretary.*

AUDIT REPORT (CIVIL), 1962—MINISTRY OF FINANCE.

Variations between Budget Estimates and Actuals—page 1, *sub-para* 1.

2. The Secretary, Department of Economic Affairs, stated that under-estimating of revenue and over-estimating of expenditure were inherent in the existing budgetary procedures. Referring to revenue, he stated that the budget estimates were framed 14 to 15 months in advance of the close of the financial year to which they pertained. The changes likely to take place in the economy in the intervening period could not be foreseen with precision. Also, the revenue officers had a tendency to under-estimate collection of revenue lest they should be later held responsible for having failed to collect the anticipated amount.

Dealing with variations under 'Central Excise', the Secretary, Department of Economic Affairs, stated that in view of the need for observing secrecy in regard to the items proposed to be brought within the tax-net, detailed enquiries regarding the latest trends of production could not be made from other Ministries. This necessitated preparation of estimates mainly on the basis of past figures. The Member, Central Board of Revenue (Central Excise), added that, on a number of occasions, additional duties were imposed long after the budget had been passed. This resulted in wide variations between the original estimates and actuals. The witness added that out of the total variation of Rs. 130 crores under Central Excise during the period 1950-51 to 1960-61, variation of Rs. 41 crores was occasioned by this factor alone.

As regards variations under 'Customs', the Member, Central Board of Revenue (Customs), stated that the Customs Revenue was mainly linked up with the quantum of foreign exchange available, the precise position regarding which could not be forecast at the time the budget was drawn up. Import cuts made from time to time resulted in considerable variations between the estimates and actuals. Like-wise, the position regarding yield from export duties was also uncertain.

In regard to variations in respect of taxes on income, the Chairman, Central Board of Revenue, stated that as the budget was prepared long before the accounts of assessees for the relevant period were available some variation between the original estimates and actuals was inevitable. It was stated, in this regard, that the dividends to be declared by the Companies—which, *inter alia*, depended upon the Directors' appreciation of the future needs of the Companies—could not be estimated with accuracy at the time the budget was framed. The gap between the revised estimates and actuals was, however, narrower.

Alluding to the measures taken by the Central Board of Revenue to improve the standard of estimating the witness stated that at the Commissioners' Conferences held during the last two years, the need for ensuring accuracy of estimates had been emphasised. The Board had also insisted upon the scrutiny of each big case, before its revenue potentiality was included in the budget. The P.A.C's observations in the matter had also been brought to the notice of the Commissioners. The Comptroller & Auditor General suggested that, in case of big companies, the Income-Tax Officers might have prior informal discussions with the management as to the likely income of the companies during the ensuing financial year. The Chairman, Central Board of Revenue. stated that this could be done in big cases, but would not be worthwhile in small cases. The Secretary, Department of Revenue, did not think that this would improve the position.

The Committee then desired to know the reasons for the persistent over-estimating of expenditure. The Secretary, Department of Economic Affairs stated that in case of Plan Projects, the Ministry of Finance did not want to cut down the estimates put forward by the administrative Ministries lest they might feel that the Projects were being slowed down due to lack of adequate budgetary support. The Comptroller & Auditor General suggested that, in case of such of the grants where over-estimating had been found to be a recurring feature during the past few years, a lump sum cut should be imposed on the Grant as a whole without disturbing the detailed breakup of the Grant. The Joint Secretary (Budget), Department of Economic Affairs, stated that the suggestion would be feasible if savings were of a uniform pattern. In practice, however, the progress of expenditure varied from year to year, rising from a lower level in the first year of the Plan. Elucidating the suggestion, the Comptroller & Auditor General stated that the lump sum cut to be made in the case of each Grant would have to be worked out carefully, taking into account the progress of the various Projects included in the Grant. The Secretary, Department of Economic Affairs, promised to consider the suggestion.

The Committee then enquired about the feasibility of early announcement of likely savings by the Ministries so that the savings so announced could be utilised in time on other projects. The Secretary, Department of Economic Affairs, stated that as, *ex-hypothesi*, every project likely to be taken up during the course of the financial years, had already been provided for in the budget, there was not much scope for the utilisation of such savings on other projects. Pointing out other difficulties in the matter, the Secretary, Department of Expenditure stated that a number of projects were linked up with credits from foreign countries. In case a project tied up with foreign exchange credit from a particular country was not progressing according to schedule, the unutilised funds could not be diverted to another project tied up with foreign exchange credit from a different country.

The Committee then enquired about the views of the Ministry on another suggestion that, in view of the general under-estimating of revenue and over-estimating of expenditure a larger budgetary deficit might be allowed in the initial stage, which would eventually be covered. The Secretaries, Departments of Revenue and Expenditure and Economic Affairs, stated that this might give rise to inflationary trends. They also stated that in the context of the Plan, the concept of balancing the Annual Budget had lost much of its significance. The extent of additional tax revenue needed to finance the Plan was already laid down. In the background of deficit financing already undertaken, the under-estimating of revenue and over-estimating of expenditure had not significantly reduced the level of deficit financing over a period of years.

Earlier, in reply to a question as to the nature and extent of scrutiny exercised by the Ministry of Finance on the estimates received from the estimating authorities, it was stated that the estimates were subjected to a review first on the basis of six months' actuals and later on the basis of nine months' actuals. At the time of these reviews, the various factors that had led to variations in the past were also taken into account. As a result, significant alterations were made in the estimates received from the initial estimating authorities.

Arrears of tax demands—pages 3-4 (*para* 2) *and pages* 111-112 (*para* 92).

3. The Committee referred to arrears amounting to Rs. 32·16 crores in respect of cases pending before Certificate Officers, which were shown in the Audit Report as 'irrecoverable dues which will have to be written off ultimately'. The Committee desired to know the circumstances in which these dues had become irrecoverable. The Chairman, C.B.R., stated that in these cases, the Income-Tax Officers had issued recovery certificates to the Collectors, who, after recovering a part of the demand, could not locate any further assets from which to recover the balance. In some of the cases falling in this category, the demand might have been over-assessed. In reply to a question, the witness admitted that in some of the cases, due to delay in issuing recovery certificates*, the assets might have been transferred or concealed, but, the proportion of such cases, he added, would be very small. In reply to another question regarding safeguards against such transfers, the witness stated that one of the duties of the Income Tax Officers was to ascertain, from time to time, the position regarding the assets of assessees in arrears. As to preventive measures against over-assessment, the witness stated that if a particular officer was found to be inclined to make overssessments without proper reasons, his judgment would be marked as 'below average', and proper action taken against him.

*These certificates are required to be issued within one year from the end of the year of demand

Dealing with the delay in the write-off of these irrecoverable dues, the Chairman, Central Board of Revenue, stated that the Department was cautious in their approach to the matter. Before making any write-off, the Department wanted to be certain that all possibilities of recovery had been explored. The Committee desired to be furnished with a note indicating the amount of irrecoverable dues which had since been written off, as also a break-up of this amount, according to the levels at which the decisions to write-off were taken. The witness promised to furnish the requisite information later.

The Committee then referred to irrecoverable dues from companies in liquidation and desired to know the measures taken by the Department to safeguard Government's interests. The Chairman, Central Board of Revenue, stated that according to the Income Tax Law, as amended. before a liquidator parts with the assets of a company in liquidation, he must give notice to the Income Tax Department who would give an estimate of the tax likely to be due from the company. The liquidator was required to make provision for this.

Dealing with irrecoverable dues from the persons who had left India, the Chairman, Central Board of Revenue, stated that the assessees in these cases were mostly Pakistani nationals who had left India before recoveries could be effected. These dues were being gradually written off.

The Committee then referred to the cases in which the tax-collection had been held in abeyance, pending disposal of appeals filed by the assessees, and enquired whether under any rules the tax was required to be deposited by the assessees before going in for appeal. The Chairman, Central Board of Revenue. stated that prior deposit of tax demand, pending disposal of appeal by appellate authorities, was not obligatory under the law in these cases where the Income-tax Officers allowed extention of time for payment. Before granting such extension the Income Tax Officers satisfied themselves that there was substance in the appeals and the revenue was not endangered. In other cases, the Income Tax Officers could insist on adequate security being furnished by the assessees before any extension of time was allowed.

As to the latest position regarding dues coming in this category, it was stated that the amount had come down from Rs. 33·5 crores on 30-9-1961 to Rs. 30·8 crores on 30-6-1962. Keeping in view the fact that the total tax-demand had since gone up, the reduction in the arrears could be stated to be indicative of an improvement in position. In reply to a question, the Chairman, CBR. stated that due to some administrative complications, promotions to the posts of Appellate Assistant Commissioners could not be effected in time. The position had since been rectified and all the vacant posts filled up.

Central Government's control over the Reserve Bank of India

4. Explaining the extent of control exercised by the Central Government over the operations of the Reserve Bank, the Secretary,

Department of Economic Affairs, stated that the Reserve Bank was an autonomous statutory corporation, subject to Government control on a number of important points. The Governor and Deputy Governors of the Bank were appointed by the Central Government. There was also a representative of the Central Government on the Board of the Bank who had, however, no voting rights. The profits of the Bank—bulk of which accrued to Government—were disposed of with Government's knowledge and approval. A number of schemes, such as those pertaining to rural credit, were also operated by the Bank with the approval of the Central Government. The Bank acted in close collaboration with the Central Government. In its day-to-day working, however, the Bank was autonomous. This was not only in consonance with the intention of the statute setting up the Reserve Bank but also in accord with the practice obtaining in this behalf in other countries.

Asked whether Government exercised any control over growth of expenditure in the Bank, the Secretary stated that Government had no control over expenditure on the staff except at the top. The emoluments of the Governor and Deputy Governors were fixed by Government, and had been gradually reduced. As regards the staff at the middle and lower levels, the Reserve Bank. being the premier banking institution in the country, had to follow the traditions of the banking companies, as contradistinguished from Government Departmets. It had also to implement the Bank Tribunal's Award regarding emoluments of Bank employees.

The Committee referred to the revenue interest of Government in the Bank's working and enquired whether, in that context, it was not desirable to get its expenditure scrutinised by the Comptroller & Auditor General by making use of the provision under section 51 of the Reserve Bank of India Act. The Secretary, Department of Economic Affairs, stated that section 51 was only permissive, and not mandatory. Although the Act empowered the Central Government to entrust the audit of Accounts of the Bank to the Comptroller & Auditor General. the Government had not thought it fit to invoke this power during the last 28 years, during which the Bank had been in existence. The witness further stated that, according to the views held by Government all along, specialised financial institutions, such as the Reserve Bank, the State Bank and the Life Insurance Corporation, should be treated on a different footing from other industrial and commercial undertakings in the public sector, and that audit of their accounts should be kept outside the purview of the Comptroller & Auditor General. A reversal of policy at this juncture might be construed as a reflection on the working of the Bank. Another objection to entrusting the auditing functions to the Comptroller & Auditor General was that his Audit Reports on the Accounts of the Bank would have to be defended by Government which would affect the existing relationship between the Bank and Government in regard to the internal working of the Bank. This, in the opinion of the witness. would not be desirable. He, however, promised to study the practice obtaining in this behalf in other countries.

The Comptroller & Auditor General pointed out that under the Companies Act, the Comptroller & Auditor General had the following three powers in regard to audit of accounts of Government companies:—

(1) To advise Government as to the appointment of auditors;

(2) To issue directives to auditors regarding the manner of auditing of Accounts; and

(3) To conduct through his own officers a supplementary audit of accounts of such undertakings.

The Committee desired to know the views of the Ministry on the entrusting of the first two functions to the Comptroller and Auditor General, to the exclusion of the third function. The witness stated that while he was prepared to consider the question of entrusting the first function to the Comptroller & Auditor General, he had some reservations regarding the entrusting of the second function.

Earlier, in reply to a question regarding the activities of the Bank in respect of rural credit, the witness stated that the outlay of the Bank in the rural field had gone up from Rs. 5 crores in 1956-57 to Rs. 11 crores in 1961-62. An eminent economist had been appointed as Deputy Governor to deal specifically with the matter.

Expenditure on collection of Taxes, Duties, etc.—pages 4-5 *para* 3(*b*)

5. In a statement on page 4 of the Audit Report, the expenditure on collection of Taxes. Duties, etc. during 1960-61 was shown to have increased by 194 per cent over that in 1956-57. The Chairman, Central Board of Revenue, pointed out that, in arriving at the figure of increase, the States' share of Union Excise Duties had been taken as part of the cost of collection. If this were taken out, the increase would be only 74 per cent. The Comptroller & Auditor General pointed out that, in the budget, the amount of Excise Duties paid to States was shown as expenditure. The Joint Secretary (Budget), Department of Economic Affairs stated that from the year 1961-62 the States' share of Union Excise Duties had been taken out of cost of collection.

In reply to a question. the Secretary, Departments of Revenue and Expenditure, stated that the expenditure on the cost of collection was not rising materially; part of the increase was on account of the implementation of the Pay Commission's recommendations.

Increase in expenditure on collection of Taxes—page 4, *para* 3(*b*).

6. Under 'Customs', the revenue had not gone up beyond the level reached in 1956-57 and 1957-58. The cost of collection of Customs had, however, gone up from Rs. 2·86 crores in 1956-57 to Rs. 3·61 crores in 1960-61—an increase of 26 per cent. Part of the increase was in respect of charges paid to the Union Excise Department (Rs. 29·5 lakhs). Increase in expenditure on account of increase in staff (a) 'for collection of duty, etc.' was Rs. 14·7 lakhs, and (b) for preventing and detecting smuggling Rs. 11·1 lakhs.

Explaining the reasons for increase of Rs. 29·5 lakhs in the charges paid by the Customs to the Union Excise Department, the Member, Central Board of Revenues (Customs), stated that bulk of the increase under this Head (Rs. 15·1 lakhs) was on account of operation and maintenance charges of six launches, acquired by the Customs Department after 1956-57. Another Rs. 2 lakhs were paid towards the instalments of purchase price of some of these launches. The remaining payment was on account of a number of services rendered by the Union Excise Department on behalf of the Customs in minor ports and land customs.

As regards increase in expenditure amounting to Rs. 14·7 lakhs on account of 'increase in staff for collection of duty, etc.,' the witness stated that this was in respect of staff employed on activities other than detection and prevention of smuggling. In his opinion, the phrase 'increase in staff for collection of duty, etc.' had not been appropriately worded. The Committee desired to be furnished with a category-wise break-up of the above increase in expenditure. The witness promised to furnish the requisite information later.

To a question as to why increase in expenditure on staff had not been reflected in increase in revenue, the witness stated that part of the staff of the Department had been employed on non-revenue earning activities, such as, those connected with foreign exchange regulations, draw-back claims, etc.

7. *The Committee then adjourned to meet again at* 10·30 *hours on Wednesday, the* 16*th January,* 1963.

Proceedings of the Forty-Fifth Sitting of the Public Accounts Committee held on Wesdnesday the 16th January, 1963.

8. The Committee sat from 1.30 to 13.00 hours.

PRESENT

Shri Mahavir Tyagi—*Chairman*

MEMBERS

2. Shri Bhakt Darshan
3. Shri Hem Raj
4. Shri R. K. Khadilkar
5. Shri Mohan Swarup
6. Shri Prakash Vir Shastri
7. Shri Nawab Singh Chauhan
8. Shri Dahyabhai V. Patel
9. Shri Sonusing Dhansing Patil

Shri A. K. Roy, *Comptroller & Auditor General of India.*

Shri C. S. Menon, *Additional Deputy Comptroller & Auditor General (Com. & Rlys.).*

Shri G. Swaminathan, *Additional Deputy Comptroller & Auditor General (R).*

Shri P. V. R. Rao, *Accountant General, Central Revenues.*

Shri P. K. Sen, *Director of Commercial Audit.*

SECRETARIAT

Shri H. N. Trivedi—*Deputy Secretary.*

WITNESSES

Ministry of Finance (Department of Expenditure)

1. Shri V. T. Dehejia—*Secretary.*
2. Shri R. P. Padhi—*Joint Secretary.*
3. Shri S. S. Shiralkar—*Joint Secretary.*

Ministry of Finance (Department of Revenue)

Shri B. N. Banerji—*Member (Central Excise).*

Ministry of Finance (Department of Economic Affairs)

1. Shri L. K. Jha—*Secretary.*
2. Shri Shiv Naubh Singh—*Budget Officer.*
3. Shri A. Baksi—*Joint Secretary.*

4. Shri M. R. Yardi—*Joint Secretary.*
5. Shri K. S. Sundara Rajan—*Joint Secretary.*
6. Shri S. Krishnamurti—*Joint Secretary.*

AUDIT REPORT (CIVIL) 1962

Ministry of Finance

Central assistance to States—Page 6, Para 3(*d*)

9. The expenditure on grants-in-aid to States for social and developmental services increased from Rs. 28·27 crores in 1956-57 to Rs. 93·53 crores in 1960-61.

The representatives of the Department of Economic Affairs stated that the grants given by the Central Government to States for social and developmental services could be broadly divided into two categories: (i) Grants for Centrally-aided schemes; and (ii) Grants for Centrally-sponsored schemes. In the former case, the Central assistance was given on a contributory basis, the assistance in respect of individual schemes being limited by the overall ceiling of Central assistance. In the latter case, the schemes were wholly controlled by the Central Ministries and the Central assistance ranged between 75 per cent to 100 per cent. Before the grants were sanctioned, the Planning Commission, the administrative Ministries and the Financial Advisers concerned were consulted. Three-fourths of the Central assistance was released in advance in monthly instalments. The last instalment was paid in March on the basis of the actual performance for the first three quarters of the year and the estimated requirements for the last quarter. The final adjustment was required to be made, after the close of the year, on the basis of the audited actuals, as booked in the Accounts. As regards the use of grants. the State Governments had been allowed a certain degree of flexibility. They were generally left free to regulate the expenditure on different schemes within the same 'Head of Development', except in the case of schemes of all-India importance. The degree of flexibility was defined in the sanction itself, and the States could not alter the conditions subject to which the grants had been sanctioned, without the approval of the Central Government.

Asked what steps were taken to see that the grants were utilised only for the intended purposes, it was stated by the representatives of Department of Economic Affairs that two types of checks were exercised: (i) Administrative checks by the Planning Commission and the administrative Ministries; and (ii) Audit by the officers of the Comptroller & Auditor General. As regards the administrative checks, it was stated that a working group for each sector of development consisting of representatives of Planning Commission, the Ministries concerned and the State Governments reviewed the progress of the various Centrally-assisted schemes at the end of each year. An evaluation of the various projects in the Plan was also done by the Committee on Plan Projects and the Programme Evaluation Organisation. The Programme Advisers of the Planning Commission and Officers of the Ministries concerned also visited the States from time to time to acquaint themselves with the progress of the various schemes.

The Comptroller & Auditor General pointed out that as there was generally no correlation between the 'Heads of Development' under which the grants were sanctioned by the Central Government and the 'Heads of Accounts' under which the expenditure was booked by the State Accountants General, it was not possible for audit to certify that the grants given by the Central Government had been used for the purposes for which they were sanctioned. The position was further complicated by the following two factors:- (i) While sanctioning expenditure, no distinction was made by State Governments between the funds raised by the State Governments from their own resources, the funds advanced to the State Governments by the Centre in the form of grants, and the funds advanced to State Governments in the forms of loans, and (ii) the State Governments were usually free to regulate expenditure within the same 'Head of Development' which included a number of schemes. As a result, the Comptroller & Auditor General added, the final adjustment of grants which was required to be made on the basis of audited figures, had not so far been made in respect of any year. The representatives of the Ministry admitted that the position, as stated by the Comptroller & Auditor General, was correct, and that the existing procedure needed to be simplified. A step in this direction had already been taken by segregating 'Plan' and 'non-Plan' expenditure in Accounts with effect from 1959-60. Also, a circular regarding reporting of actuals by States, as certified, by the State Accountants General, had been prepared sometime back, in consultation with the C. & A. G. This could not, however, be issued as the matter was still under consideration, in consultation with the Planning Commission. The witnesses further stated that all the States except two had also been persuaded to book their expenditure according to 'Heads of Development'. The C. & A. G. stated that this would not solve the problem. The representatives of the Ministry promised to examine the matter in detail, in consultation with the C. & A. G. and the Planning Commission.

According to a note furnished by the Ministry at the instance of the Committee, the Planning Commission had issued a circular in August 1962, in which it had been stated: "in the past reporting of expenditure from quarter to quarter has been generally unsatisfactory". The Committee desired to know the nature of the shortcomings or defects which had been noticed in the evecution of the Centrally-assisted schemes. The representatives of the Ministry promised to furnish the requisite information later.

In reply to a question, it was stated that the grants given by the Centre to States accrued to them as a part of their revenue, and all expenditure therefrom was subject to the vote of the State Legislatures. As the expenditure incurred by State Governments was booked in the State Accounts, the wastes, irregularities and misappropriation in the disbursement of these grants, noticed during the course of audit, were included in the State Audit Reports, and as such, did not come within the purview of Parliament and the Central Public Accounts Committee. The Secretary to the Ministry stated that the question whether the grants given by the Centre had been usefully spent could be checked through progress reports, evaluation reports. etc. But whether these grants had been spent economically could not be examined through the existing checks employed by the Centre. The Committee desired to be furnished with a note setting forth the measures which might be taken by the Ministry to ensure that the grants had been usefully and economically spent.

Earlier, in reply to a question, it was stated that the interest liability on the development grants which had been capitalised, was entirely borne by the Central Government.

In reply to another question, it was stated that the 'devolution', covered by the Finance Commission's recommendations, largely related to requirements of State Governments for non-Plan purposes.

Increase of expenditure under Other Heads—Currency and Mint—Para 3(e), page 7.

10. In a note submitted to the Committee, the Department of Economic Affairs had stated that the value of metal coins destroyed during the three years ending 1961-62 was Rs. 2·24 crores. The amount realised during the same period by the sale of metals recovered from the uncurrent coins was 22·48 lakhs. The Committee enquired why the sale proceeds were comparatively so small. The representative of the Ministry of Finance stated that the metal which was recovered by withdrawing the coins could be utilised to make fresh coins to some extent. The practice had been that the withdrawn metal (old metal) and the virgin metal were normally used in the proportion of 50 : 50. He further added that whatever metal was recovered by the withdrawal of such coins again went into allegation. Whatever could not be so used for certain technical reasons etc. was sold through the D.G.S. & D.

To a question whether the change from the old system to the decimal system had resulted in any loss, the witness stated that when fresh coins were made from metal, the difference between the value of the coin and the cost of the metal was treated as a profit to Government and conversely, when coins were withdrawn and re-minted, the difference between the value of the coins so withdrawn and the quantity of metal so recovered was treated as a loss.

Debt Position—Pages 11-13, para 5.

Borrowing powers of Government

11. It was observed from para 6 of the Audit Report that during 1960-61, Government of India had to pay a sum of Rs. 188·48 crores as interest on debt. This formed almost 20 per cent. of the revenues of Government. The net burden of interest on revenue after deducting receipts on loans given by Government was Rs. 57·27 crores. The Comptroller & Auditor General pointed out that for practical purposes, the net burden had to be rated at a higher figure because barring the Railways, the parties in receipt of Government of India loans paid interest out of fresh borrowing from Government of India. The Committee enquired whether the burden of interest on

Revenues influenced the borrowing programme of Government. The representative of the Ministry of Finance stated that the borrowing policies of Government were not regulated merely by the interest element. The total requirement of funds was worked out in accordance with the planned programmes and policies as approved by Parliament. To some extent money was raised by taxation. The gap still left had to be filled by borrowings, the limits of which were set by what the market could be expected to absorb. The ultimate balance was covered by deficit financing.

In reply to a question regarding the necessity of legislation envisaged under Article 292 of the Constitution to regulate borrowing by Government, it was stated that the matter was discussed at length in Parliament. The question had also been examined by the Estimates Committee. The Government had taken the view that the provision in the Constitution was permissive and not obligatory. Parliament had ample opportunities to go through plans and targets of borrowing at two stages before Government made any commitments, *viz.* firstly when the Plan was discussed and approved and secondly when the annual budget proposals were discussed wherein the entire requirements of funds including those to be raised as per borrowing programme were laid down. Therefore, it was felt that if any limit were to be laid down by law for borrowing, both internal and external as well as deficit financing, the limits would have to be so wide as would hardly serve any practical purpose.

To an enquiry as to the total debt at present, the C. & A. G. informed the Committee that the figure as on 31-3-1962 was Rs. 5,178 crores, which did not include small savings collections, provident fund borrowings etc. Adding these, the figure would work up to Rs. 7000 crores approximately.

Referring to the size of the debt as mentioned above, the Committee put it to the representatives of the Ministry of Finance whether merely a general discussion of the plan and of the annual budgets without Parliament being specifically asked to vote for the borrowing programme of Government could be a substitute for a specific parliamentary legislation contemplated under Article 292 of the Constitution. The Secretary of the Ministry of Finance stated that the question raised was that of parliamentary privilege. He reiterated, however, his view that no advantage could be gained by fixing the limit of borrowing. The Secretary also emphasized that instead of fixing the limit on the quantum of borrowing, parliamentary scrutiny could be more usefully directed to the way in which the borrowed money was spent. As long as the debt incurred was invested in productive purposes, there was no cause for anxiety. On the other hand, the fixation of limit would circumscribe the size of future plans.

The C. & A.G. observed that the practice in some of the countries in regard to this matter was as follows:—

(1) *U.K.*—Statutory sanction was required for all loans raised by Government.

(2) *Canada.*—No money could be borrowed by the Government without the authority of Parliament; only treasury bills and cash advances upto 6 months could be taken by Government without the authority of Parliament.

(3) *U.S.A.*—The Congress alone had powers to borrow money. Limits were fixed by the Congress and the President could borrow within those limits.

(4) *Ceylon.*—Parliament had fixed a limit of Rs. 60 crores on rupee loans.

He added that the Estimates Committee of Lok Sabha had also recommended that it was desirable that Government should report to Parliament every time they went in for borrowing and that details of individual borrowings might also be brought to the notice of Parliament both before going to the market and after.

The Committee desired the Ministry of Finance to furnish a comparative note indicating the limits, if any. on the borrowing powers of Government in various democratic countries to enable the Committee to examine the matter further. The Secretary of the Ministry promised to study the problem and to submit the desired note to the Committee.

Amortisation of Debt

12. Asked about the Government's views on the adequacy of the existing arrangements for amortisation of debt, the Joint Secretary, Budget, stated that Government had at present no arrangement except to provide Rs. 5 crores every year. He added that this point was examined by the Committee in 1954-55 and the position was explained before them that to expect all the borrowings to be repaid by charge to revenue would be an impossible proposition. At that stage it was felt that it would mean a provision of Rs. 20 crores in the revenue budget every year. In the present trend of Government activities and expenditure, there should be a provision of Rs. 30 crores or more every year in the budget for debt redemption charges which would not be possible. He further stated that throughout the world it was not unusual for public debt of the Government to be repaid by fresh borrowings.

At this stage the question was raised as to what extent the debt incurred by Government was invested in remunerative enterprises. The Secretary, Department of Economic Affairs, stated that the Government had to their credit a fairly big sector of remunerative investment. Elucidating the matter further, Joint Secretary (Budget) observed that at the end of the current financial year (1962-63) the total debt obligations would be of the order of Rs. 7,900 crores out of which Rs. 7,000 crores would be productive part of the debt. The balance of Rs. 900 crores would include the value of government property, large grants given to the State Governments for development purposes, value of large stocks of foodgrains, fertilizers, iron and steel etc. with the Centre and so on. He added that the burden of Rs. 900 crores could not be considered to be excessive.

The C. & A. G. pointed out that this point was commented upon by the Finance Commission. Quoting the general views of the Finance Commission, he urged that the points made by the representative of the Finance Ministry that the bulk of Government's loans were being invested in productive lines and, therefore, there should be no fear about the repayment of loans in due course did not apply in respect of the irrigation and heavy power projects.

To a suggestion that the loans also should be incorporated in the Finance Bill like taxation measures included therein, the representatives of the Ministry stated that if the Finance Bill were to prescribe number of loans it would as well have to prescribe the rate of interest and such other relevant details. The C. & A. G. then remarked that prescribing the rate of interest would not be possible.

Loans from foreign countries

13. The Committee desired to have some information regarding loans received from foreign countries as also foreign exchange earnings.

Explaining the position in this regard, the representative of the Ministry stated that the earnings from foreign exchange were mainly from exports because the current invisibles which were resulting in a surplus till 1960-61 had started running in deficit since 1961-62. This was because of the foreign assets in the form of sterling balances and other balances having come down. The main earnings from exports were for Rs. 667 crores in 1961-62 according to Reserve Bank figures. In the current year, it was estimated to be about Rs. 692 crores. During 1960-61 the figure was about Rs. 631 crores. This would indicate the increase in India's export earnings.

To a question how export concessions compared with export earnings, etc. the Ministry promised to furnish the requisite information to the Committee in the form of a statement showing *inter alia* the export earnings consequent on export concessions during the last five years (1957-58 to 1961-62).

Loans and Advances by the Central Government, Pages 17-19, *para* 10.

Loans and Advances to State Governments

14. The Committee wanted to know the particulars of the loans the terms and conditions of which had not yet been finalised and the reasons for the delay in that regard. The representative of the Ministry of Finance stated that such loans pertained mostly to various multipurpose projects and some to small-scale industry. Except in the case of Hirakud Project, the terms and conditions in all the cases had since been settled. He added that some difficulty was experienced in distinguishing between the loans given for flood protection works and for other projects and this had since been resolved.

In regard to the loans of Rs. 33·69 crores given to Andhra Pradesh for Nagarjunasagar Project, the Committee were informed that the terms and conditions had since been laid down by the Ministry of Irrigation & Power in its letter dated 5th October, 1962. Interest charges would be recoverable right from the date from which the loans had been drawn by the State Government. In accordance with the normal procedure laid down in respect of irrigation projects, however, it was not unusual for the interest charges for the first five years to be capitalised.

Referring to their earlier recommendation contained in para 24 of the Fifteenth Report (1954-55), the committee enquired what steps had been taken to ensure regular repayment of loans by State Governments.

Explaining the position in this regard, the witness stated that the loans were sanctioned by the various Ministries and a watch was kept by the sanctioning authorities as well as by the Accounts Officers who were required to report defaults in repayment to the Ministries concerned. Some difficulties did arise in cases where either the terms had not been sanctioned or in a few others, where the State Governments were not in a position to repay their obligations. That, again, was a matter for mutual adjustment and settlement. In reply to a question, Secretary, Ministry of Finance, disagreed that defaults in repayment arose due to disinclination of the State Governments concerned to raise their tax effort. The Committee enquired whether Government of India would not be justified in recovering the overdue payments out of the subsequent releases of funds by the Centre. It was explained that sanctions of loans provided for levy of penal interest if repayment fell overdue. This acted as a deterrent and the cases of default were very few. The witnesses added that in considering the proposed way of enforcing recovery, it was necessary to examine its effect on the ways and means position of the States concerned. If the Centre were to press its dues to the points of realisation regardless of the financial position of the State, then the Centre would, in many instances, have to take over the financial administration of the States under the Constitution. Besides, it was incumbent on the Centre to give special assistance to weaker States. While the Centre should maintain pressure on the defaulting States, it would be advisable to refrain from taking extreme steps.

Loans to Private Institutions

15. Out of loans and advances given to private institutions, a sum of Rs. 83·60 crores was outstanding as on 31-3-1961. The Committee desired to have information from the Ministry of Finance as regards the procedure observed in the disbursement of loans to private institutions, the nature and extent of defaults in repayment and whether such defaults were looked into with strictness.

The C. & A. G. informed the Committee that in the next Audit Report, he would report certain cases of loans given to private parties in which amounts of principal and interest were in arrears. In view of this, the Committee deferred consideration of this issue.

Guarantees given by the Central Government, Page 19, Para 11(a).

16. The Secretary, Department of Economic Affairs, informed the Committee that while no final decision had been taken on the question of levying fee or charge for the risk involved in the case of guarantees given by Government, the Department's line of thinking on the subject was as follows: Unlike banks, Government did not guarantee loans for earning profits, but gave guarantees, only on one of the following considerations:—

(i) In the case of international loans, the statute governing the lending agency such as the International Bank for Reconstruction and Development (World Bank) stipulated the condition that without a governmental guarantee the loan might not be forthcoming. As guarantees of such loans served the Government's objective of inviting foreign exchange resources to India, it would not be appropriate to saddle the Indian borrowers with an additional charge on Government account over and above the interest charge payable by them to the foreign lenders.

(ii) To certain institutions, regarded by Government as deserving of special help, loans from the market on ordinary commercial terms would not be forthcoming. Rather than deploying their own money, Government guaranteed loans advanced by private institutions to such institutions. Development of the sugar industry in the co-operative sector was the major example of an achievement which had been made possible by guarantees given by the Central and State Governments, the money being advanced by the Industrial Finance Corporation. As the interest rates in such cases were quite high, and the aim was to help the co-operative movement, it would not have been consistent with Government's policy to have levied an additional charge on the money which was raised under governmental guarantees.

(iii) A third type of case used to arise when the Industrial Finance Corporation (IFC) was under a statutory obligation to obtain governmental guarantees in respect of loans above certain monetary limits. After an amendment of the I.F.C. Act, obtaining of governmental guarantees was no more obligatory. Accordingly, now, if in a case, the Industrial Finance Corporation considered it necessary to ask the applicant to get a guarantee, Government should take a decision on the merits and not let it be given free. But so long as the obtaining of a guarantee had been made compulsory by the law itself, Government felt that it would not be proper to charge a fee for it.

In the above background, the Secretary continued, it was proposed to issue instructions to the effect that where a Ministry had to give a guarantee to some party, the question whether a fee should or should not be levied should be specifically considered on merits and a decision taken with the concurrence of the Ministry of Finance. The Secretary assured the Committee that there would be no routine waiver of fees. However, inasmuch as Government did not make it their normal business to give guarantees and gave it only for exceptional reasons, there would not be a large number of cases in which Government would ask for a fee as consideration for the guarantee.

The Comptroller & Auditor General observed that the point envisaged was not merely a question of fees, but was about the kind of control that Government had on these companies to assure themselves that the guarantees were reasonably satisfactory.

Referring to the Indian Iron & Steel Company, the Tata Iron & Steel Company and the Tata Group of Hydro-Electric Companies, the representatives of the Ministry of Finance stated that the guarantees under-wrote the World Bank loan given to these companies. The World Bank took every care to see that it had got the first mortgage and title to the companies' assets and there was a good margin, and the tripartite agreements automatically provided that Government would step into the position of the World Bank in respect of any moneys paid by Government due to the default of the companies.

The Comptroller & Auditor General pointed out that where the guarantor was Government whose credit was unquestionable, the lender might not insist on the necessary security. Therefore, it was necessary to see as to how Government ensured that the borrower was continuing its work in a manner that would ensure that it would repay the loans borrowed from private parties which Government had guaranteed. The Secretary, Ministry of Finance stated that the point raised was legitimate to the second category of cases mentioned in para above where but for Government's stepping in as a guarantor the borrower—*e.g.*, a co-operative society—might not fulfil the conditions for grant of a commercial loan by the I.F.C. In the case of other loans given by the I.F.C. and in regard to the World Bank loans the lender went into the credit-worthiness, assets and liabilities, etc., of the company very thoroughly before lending money. Government's stake was only if the party defaulted and to the extent of default, it would get a complete mortgage of the assets with a very big margin, which was normally 50 per cent. With that margin, it was not considered desirable or necessary that Government should in fact watch the day to day working of the company in order to feel secure about their guarantees.

Government Opium Factories at Ghazipur and Neemuch, pages 159-160 para 113.

Ghazipur Factory

17. The total output and production cost of the year ending with 30th September, 1960 and of the previous year for the following items were stated to be as noted against each:—

Indian Medical Opium Powder/Cakes	Output in maunds		Production cost per maund in rupees	
	1959-60	1958-59	1959-60	1958-59
Powder	62·91	64.52	3006·73	3301·31
Cakes	21·29	27·08	2442·25	2167·41

One of the reasons for the increase in the production cost of Indian Medical Opium Cakes during the year 1958-59 was stated to be due to the fact that the manufacturing of both Indian Medical Opium Powder and Cake was carried out by the same labour and chemical staff in the same building of the alkaloid works and as such while distributing the labour in daily time sheets, more labour was shown to be employed for the manufacture of Indian medical opium cake which resulted in increase of cost of manufacture of Indian medical opium cake and reduction in the cost of manufacture of Indian medical opium powder.

To an enquiry as to how this happened when in fact both the cases should have common incidence, the representative of the Ministry of Finance (Department of Revenue) stated that so far as the issue price was concerned, it was the same whether it was Malwa opium or Banaras opium. But the cost of the raw opium varied slightly depending on whether more bonus was earned in one part of the country or another. In extenuation, he stated that it varied sometimes in the case of Banaras where it would cost a little more because of the large average yields whereby more people earn bonus.

Explaining the reasons for the variation in prices, the witness stated that in regard to fixing of bonus there was a sliding scale; and a cultivator having better yield and surrendering over 9 seers per bigha would get a higher price for the entire quantity than the other surrendering 5 seers per bigha. This method would also discourage illicit disposal of opium, he added.

As to the variation in labour charges, the witness stated that these should not really vary. The bulk of the transaction pertained to export opium and for purposes of pro forma account, such charges were shown as common.

Referring to the increase in the cost of inferior opium from Rs. 926.79 in 1958-59 to Rs. 980.09 in 1959-60, the Committee enquired whether the system of making the payment to cultivators on the basis of the good opium without first getting it analysed in the alkaloid works and for not effecting any recovery from the cultivators in the event of the quality of opium being found 'inferior' was not defective and whether some better method could not be devised to find out by analysis at the time when opium was obtained from the cultivator. The witness stated that when opium was collected from the cultivator, there was a rough and ready test by the District Opium Officer as well as the chemical assistant both on the point of purity and consistency. There was also a rough and ready test for added impurity such as starch, glucose and gums. At that time, subject to satisfactory tests, the grading of opium is done and payment is made roughly at 90 per cent. of the agreed price. The opium is then sent to the factory where it is re-checked by the control laboratory to secure proper chemical analysis. The witness further explained that at the weighment centre, a part payment was made according to the officer's judgment, unless a particular case was individually challenged. In such a case, the person had the right to go to the chemical laboratory at his own cost, and payment would be withheld till the result of the chemical examination was known. Otherwise, normally the balance of the payment was made next year at the time of the next year's licensing.

The Comptroller & Auditor General remarked that he had nothing to say if such a system were followed.

18. The Committee then adjourned till 10.30 hours on Friday the 18th January, 1963.

APPENDIX I

MINISTRY OF FINANCE

A broad comparison between the growth of Revenue from Direct taxes with growth of National Income.

The table below gives the data on national income (at current prices) and Centre's direct taxes for selected years since 1950-51.

	1950-51	1953-54	1955-56	1958-59	1960-61
1. Naitional Income (at current prices) (Rs.crores) . .	9,530	10,480	9,980	12,600	14,200
2. Centre's direct taxes (Rs. crores) . . .	173·1*	164·4	170·3	240·3	291·5
of which Income tax. . .	133·8	124·2	132·0	172·0	167·4@
Corporation tax . . .	39·3	40·2	36·5	54·3	11·0@
Wealth tax.	..	..	..	9·7	8·2&
Gift tax	..	..	..	1·0	0·9
Expenditure tax. . . .	..	..	..	0·6	0·9
Estate duty.	..	..	108	2·7	3·1
3. (2) as per cent of . .	1·8*	1·6	1·7	1·9	2·1
(i) of which Income & Copn. tax	1·8*	1·6	1·7	1·8	2·0

* The figures here reflect the Korean Boom.

@ The variations in income and corporation tax are the result of the changes in the scheme of company taxation introduced since 1959.

& The fall in wealth tax is due to the abolition of this tax on companies in 1960-61.

It will be seen that national income rose from Rs. 9,530 crores in 1950-51 to Rs. 14.200 crores in 1960-61, recording an increase of 49 per cent over the period. The annual rate of growth of national income on this basis, works out to 4.9 per cent. During the same period revenue from Centre's direct taxes went up from Rs. 173 crores to Rs. 292 crores. This gives an increase of 68.4 per cent over the period or 6.8 per cent annually. The faster rate of growth of revenue from Centre's direct taxes was responsible for raising its proportion to national income from 1.8 per cent in 1950-51 to 2.1 per cent in 1960-61.

The rise in the direct tax revenue was the combined effect of three factors: (1) integration of Part A and B States into the Central income tax scheme; (2) normal growth of revenue in response to national income and (3) measures of additional taxation during the first and the second plan.

APPENDIX II

PLANNING COMMISSION

Central assistance to States under the Second Plan—Basis on which grants were worked out.

Central assistance in relation to Plan Outlay.

Central assistance to the States is dependent upon the size of the State Plans. The size of the plan for each State is determined by a number of considerations, the important ones being its needs, past progress and lags in development, potential for growth and its contribution to financial resources. As conceived under the Second Five Year Plan from 1957-58 Annual Plans were drawn for each State under the general framework of their five years programmes. For financing the Annual Plan outlay State resources and Central assistance were determined on an overall basis.

Estimation of Loans & Grants.

Patterns of assistance have been laid down for certain schemes under different sectors of development such as agriculture, education, health etc. the object being to try to ensure that the important national priorities receive due attention. Before the practice of preparing Annual Plans was fully established, patterns of assistance served as the principal channel for passing assistance to States, specially in the form of grants related to specific purposes. Since the introduction of the system of Annual Plans from 1957-58, the total assistance for each State was determined on annual basis after a careful assessment of its resources and its requirements under different heads of development in accordance with the priorities and programmes accepted after full consideration in the Working Groups. The distribution of this amount between loans and grants under different heads of development was worked out on the basis of outlays approved under different programmes and the patterns of assistance broadly applicable to them. The total amount of grants to be made available had to be determined on the basis of the assessment of financial position of the Central Government, the various commitments which the Centre had to fulfil, flow of external resources and other relevant considerations.

Over the two plan periods these patterns had become too numerous and elaborate and added greatly to the administrative work both at the Centre and in the States. These patterns were simplified *vide* Planning Commission's letter No. PC(P)4(2)*/61 dated the 20th October, 1961 and have been further modified under Planning Commission letter of even number dated 4th August,@ 1962. Simpler proportions for patterns have now been introduced and the number of patterns has also been greatly reduced.

*Annexure I.

@Annexure II.

Arrangements for periodical review of Progress.

Basic information relating to progress in implementation is obtained annually through a set of forms prescribed for the purpose by the Planning Commission. In addition to (a) the progress of development expenditure and (b) information regarding achievements of physical targets in the various sectors, more detailed information is sought from the States/Union Territories regarding selected individual schemes and projects. Further more, a critical analysis of the impact of the plan on the national or local economy is also required to be furnished every quarter together with indication of the main bottlenecks and the methods adopted to overcome them in order to achieve prescribed targets.

On the basis of these periodic reports and other administrative reports and documents, the Planning Commission prepares periodic progress reports on the operation of the Plan.

Sometimes a special review or appraisal of the operations of the plan may become necessary if for example, a serious and grave situation arises adversely affecting the implementation of the plan as a whole. An assessment of international and external resources of the Second Plan was, for instance undertaken by the Planning Commission in May, 1958 to ensure the most effective utilisation of available resources. Such an enquiry had been necessitated by the sharp decline in foreign exchange reserves and resurgence of inflationary pressures at home.

Opportunity is also provided for reviewing the progress of the plan and its various programmes when the annual plans are formulated. In practice this amounts to mid-financial year review of progress and of prospects during the remaining period. Such an assessment not merely enables a realistic programme to be evolved for the following year but also provides an opportunity for assessing and if necessary making adjustments in the operations of the current annual plan so as to achieve maximum results.

With a view to following the progress of schemes at shorter intervals, identifying operational bottlenecks and suggesting necessary adjustments and measures for affecting better and timely implementation of the plan schemes, Members of the Planning Commission, its Programme Administration Advisers and other senior officers carry out special inspection and investigation from time to time. The Programme Advisers hold discussions with officers of the Ministries and State Governments and submit their tour reports to the Planning Commission.

In addition, there are two special bodies; (i) Committee on Plan Projects and (ii) Programme Evaluation Organisation, the main function of which is to undertake evaluation of various projects and programmes included in the Plan. The Minister for Home Affairs is the Chairman of the Committee on Plan Projects and the Deputy Chairman of the Planning Commission, Minister for Finance, two Chief Ministers of the States nominated by the Prime Minister and the Union Minister concerned with the project or class of projects under investigation are members. One of the most important functions of this committee is to set up teams for undertaking investigations and field inspections of important projects, both at the Centre and in the States. The Programme Evaluation Organisation, though administratively linked to the Planning Commission is, for all practical purposes an independent organisation. It was originally set up for making a systematic and periodic assessment of the methods and results of the community development programmes. But its functions are now being extended to cover a number of other important programmes especially in the field of rural development.

Lastly, the Comptroller and Auditor General, who is responsible for the audit of both the Central and the State Governments, is also expected to verify that the assistance provided to the States is utilised for the purposes for which it is given and the condition imposed thereon, if any, are duly observed.

ANNEXURE I.

No. PC(P) 4(2)/61

GOVERNMENT OF INDIA

PLANNING COMMISSION

NEW DELHI
October 20, 1961.

From

Shri Tarlok Singh,
Additional Secretary, Planning Commission.

To

All State Governments (State Planning Secretaries)

SUBJECT:—*Procedure and patterns for Central assistance to States— Annual Plans for* 1962-63.

Sir,

In consultation with the Ministry of Finance, the Planning Commission has been engaged in considering questions relating to the procedure and patterns for Central Assistance in the Third Plan. Discussions have been held with the States and with the Central Ministries. This letter sets out the conclusion which have been reached at this stage and will operate in relation to the annual plans for 1962-63 to be discussed during November-December 1961.

2. *Assistance for State Plans.* The total amount of Central assistance for financing the Plan of each State was agreed to in the course of discussions during August-November, 1960. This assistance forms part of the scheme of finance for State Plans. Implementation of these Plans is achieved through annual plans, which involve a careful assessment of the resources as well as development programmes of each State. The procedure and patterns set out in this letter are intended to assist in Planning from year to year the use of resources available under the Plan so as to ensure adequate attention to its major objectives, targets and priorities.

3. *Release of Central assistance.* The procedure for the release of Central assistance for Plan schemes was set out in Ministry of Finance, Department of Economic Affairs' letter No. F. 2(17) P-II/58 dated May 12, 1958. Broadly, this procedure will continue during the Third Plan. As in the past, assistance for the first nine months of the year will be released in monthly instalments. For multipurpose projects, however, as intimated in Ministry of Finance Department of Economic Affairs letter No. F. 2(17)PIII/61 dated

May 22, 1961 and subsequent correspondence, assistance will be released by the Ministry of Irrigation and Power on a quarterly basis. For the satisfactory working of this system of release of funds it is of the utmost importance that quarterly returns of expenditure should be made available unfailingly and at regular intervals. It is also essential that the estimates of expenditure in the last quarter of the year submitted at the end of December should be realistic, as these estimates constitute the basis for provisional payments of Central assistance which are made before the end of the financial year.

4. *Working of patterns of assistance in the Third Plan.* A large number of patterns of assistance were introduced during the First Plan and in the early years of the Second Plan. They became much too numerous and elaborate and added greatly to administrative work both in the States' and at the Centre. Before the practice of preparing annual Plans was fully established, patterns of assistance served as the principal channel for passing assistance to States, specially in the form of grants related to specific purposes. During the past four years, the total Central assistance due to each State for the year has been determined after a careful assessment of the resources of States and requirements under different heads of development in accordance with the programmes and priorties which are accepted after full consideration in working groups. During the Third Plan, the annual plans will continue to be drawn up, and it is hoped also to integrate the annual State plans more closely within the annual plan for the economy as a whole, which must include both Central programmes and development in the organised private sector. Within the assistance agreed to for the five-year period, a broad indication has already been given regarding the phasing for State plan outlays which will be adhered to, subject to changes in overall conditions and prospects and other developments which must the taken into account from year to year. The total amount of assistance which can be made available each year by the Central Government by way of grants has to be determined on the basis of the assessment of the financial position of the Central Government, the various commitments which the Centre has to fulfil flow of external resources and other relevant considerations. During the Third Plan the aim will be to indicate to the States each year in connection with the annual plan discussions not only the total amount of Central assistance, but also the amount which will be available in the form of grants.

5. In discussions with States and Ministries it has been agreed that in selecting schemes in the plans of States for which patterns may be prescribed, the major priorities and objectives of the National Plan should be stressed. It has also been agreed that the patterns of assistance as between the Centre and the States should be kept as simple as possible so as to reduce the burden of administrative work. In some fields assistance from the Centre to the States has followed the patterns on which assistance is given by State Governments to third parties such as individuals, cooperatives and other institutions. This practice has been adopted for instance, under Village and Small Industries and Cooperation. The Planning Commission is of the view that while it is useful for the Central Ministries and the All-India Boards to suggest the broad lines along

which, under different programmes, individuals, cooperatives and other institutions might be assisted so as to secure the maximum results, the magnitude and form of assistance by the Centre to the States, and the administrative procedures connected with it need not be determined on that basis. For making Central assistance available to States, more much simpler formulae will have to be devised. Efforts will therefore, continue to simplify patterns and procedures of assistance to individuals, cooperatives and other institutions, especially in these fileds in which the programmes are carried out with the help and guidance of the All India Boards.

6. Under the procedure for Central assistance introduced with Planning Commission's letter No. Plan/2/5/57 dated May 12, 1958, schemes under each head of development were divided into a number of groups. It was envisaged that within a group the State Government would be free to regulate the expenditure without reference to the Central Government. After the formulation of the annual plan, adjustments of outlays as between different groups could be made in consultation with the Ministries concerned. Where adjustments as between different heads of development were contemplated, they could take place in consultation with the Planning Commission or the Ministry concerned when the same Ministry deals with heads of development in question. It is proposed that, in future, under each head of development there should be generally only two groups, one comprising schemes for which there are specific patterns and the other including all the remaining schemes. After the annual plans have been drawn up, reappropriation of provisions from the group comprising schemes for which patterns are prescribed to the second group would take place only after reference to the Central Ministry concerned. Similarly, within the scope of the annual plan, reappropriation of provisions as between different heads of development could take place in consultation with the Planning Commission. However, under Village and Small industries, it would be more appropriate to continue to regard as separate groups Small Scale Industries, Handloom, Handicrafts, Khadi and Village Industries, Sericulture and Coir. Similarly, under Cooperation in view of the large number of schemes for which there are at present specific patterns, it is proposed that the following should be treated as separate groups: Credit. Marketing Processing, Farming, Consumers' Cooperatives, Cooperative Personnel and Training, and Miscellaneous.

7. As stated above, the assistance each year will be subject to the total ceiling and the ceiling for grants indicated for the annual plans. Assistance by way of grants will be determined under each head by the proportion of expenditure incurred in relation to the planned outlays on the group of schemes for which patterns are laid down. To the extent the assistance in grants on the basis of the patterns may fall short of the total amount of grant indicated for the annual plan, assistance which has not been assigned to specific schemes could be directed in consultation with the representatives of each State towards other priority schemes accepted for the States' annual plan.

8. *Patterns of Central assistance for State Plan schemes*: These are set out in Schedule 'A'. For these schemes, the State plans

provide the total outlay, including Central Assistance, and sanctions are issued by State Governments.

9. Patterns of assistance for Centrally sponsored schemes: These are set out in Schedule 'B'. For these schemes, State plans provide for the States' share of the cost wherever necessary. As at present for Centrally ponsored schemes which entail a total cost of Rs. 25 lakhs or less over the plan period or Rs. 10 lakhs during the year, approval will be given by the Central Ministries on the basis of a certificate from administrative departments concerned in the State to the effect that the schemes have been accepted by the Finance Department. For schemes costing more than these amounts, Central Ministries will intimate their approval after necessary scrutiny. It is of course essential that sufficient information should be made available to the Ministries to enable them to see that the schemes to be implemented followed the lines envisaged in the Plan.

10. *Assistance for State Plans for* 1961-62: Loans and grants for State Plans for 1961-62 already intimated by the Ministry of Finance, Department of Economic Affairs are based on patterns of assistance current during the Second Plan. Provisional and final payments of assistance for 1961-62 will also be determined on the same basis.

11. *Assistance for State Plans for* 1962-63. Assistance for State Plans for 1962-63 will be based on patterns of assistance set out in Schedules 'A' and 'B'. As stated earlier, it is hoped to continue the effort to bring about further simplification in consultation with the Ministries, the all India Boards and the States.

12. *Final payments of assistance for annual plans.* Hither to final adjustments of Central assistance have been on the basis of actuals as shown in the departmental accounts. This procedure has led to certain difficulties in adjusting accounts. The Ministry of Finance will shortly issue separate intructions on this subject.

Yours faithfully,

Sd/

(Tarlok Singh)

ANNEXURE II

No. PC(P)4/2/62

GOVERNMENT OF INDIA

PLANNING COMMISSION

New Delhi, August 4, 1962.

From

Shri Tarlok Singh,

Additional Secretary, Planning Commission.

To

State Planning Secretaries,

All State Governments.

SUBJECT:—*Patterns and Procedures for Central assistance to States.*

Sir,

Patterns for Central assistance in relation to the Annual Plan for 1962-63 were communicated with Planning Commission's letter No. PC(P)4(2)/61, dated October 20, 1961. Since the issue of this letter, a number of suggestions on the subject of patterns of assistance have been received from State Governments and Central Ministries. In the light of these suggestions, some revisions and additions have been made in Schedule A which sets out patterns of assistance for State Plan schemes and in Schedule B containing patterns of assistance for Centrally sponsored schemes. The revised schedules are enclosed. Central assistance under the Plan for 1962-63 has been worked out on the basis of the revised schedules. These schedules are intended to operate for a period of five years from 1962-63 to 1966-67, that is, upto the first year of the Fourth Plan.

2. Following the Report of the Third Finance Commission, it was agreed that a further effort should be made to simplify procedures relating to Central assistance. Keeping this consideration and the suggestions of State Governments and Central Ministries in view, the following changes are being introduced:—

(1) It was visualised in the letter No. PC(P)/4(2)/61, dated October 20, 1961 that under each head of development schemes would be divided into two groups, namely, those which carry patterns of assistance and those to which specific patterns are not attached. Reappropriation of provisions from the group comprising patterns to the second group was to take place only after reference to the Central Ministries concerned. To avoid complexity in the administration of Central assistance, it is proposed that loans and grants should be intimated for each head

of development as a whole, even though the amounts in question will be arrived at in the main on the basis of schemes for which patterns are provided. State Planning and Finance Departments will please ensure that except to the extent indicated by the Ministry of Finance, the assistance shown under each head of development is utilised only for schemes carrying patterns.

(2) Assistance by way of loans for specified river valley projects is released in quarterly instalments through the Ministry of Irrigation and Power. It is proposed that at the end of December each year State Governments should indicate definitely to the Ministry of Irrigation and Power (with copy to the Ministry of Finance and the Planning Commission) if any adjustments are called for on account of the actual physical progress in these projects. This will facilitate adjustments in the State Plans in case funds provided for river valley projects are not likely to be fully utilised.

(3) State Governments have been separately requested to earmark the assistance provided for (i) special schemes for girls' education under 'Education' and (ii) control of communicable diseases under 'Health' for utilisation on these programmes only. In view of the inadequate progress being made in girls education and the need to undertake the programme for control of communicable diseases as a national programme, it is considered essential that there should be no diversion of funds from these two programmes.

3. In the past, reporting of expenditure from quarter to quarter has been generally unsatisfactory. It is of the utmost importance for the proper functioning of Central assistance procedures that quarterly expenditures should be reported regularly within one month of the end of the quarter. Forms for reporting expenditures on State Plan and Centrally sponsored schemes are enclosed.

Yours faithfully,
(Sd/-) TARLOK SINGH.

Copy to: Ministry of Finance, Department of Expenditure.

APPENDIX III

MINISTRY OF FINANCE

FOREIGN AID UNDER P.L. 480

I. *Reasons for the apparently slow progress in drawing up project agreements for the aid earmarked by U.S. Government under P.L. 480 schemes and in drawing amounts against the project agreements executed so far.*

The P.L. 480 Agreements provide that out of the rupee funds accruing to the U.S. Government as a result of the sale of surplus commodities to India certain specified proportions will be made available by them as loans and grants to the Government of India for financing such projects to promote balanced economic development as may from time to time be mutually agreed. The position regarding the funds earmarked as loans and grants to the Government of India in P.L. 480 agreements and the pace of their utilisation as on the 30th June, 1962 is as follows:—

Total value of imports provided in PL 480.

Agreements signed to-date.

Rs. 1131·71 crores.

Funds earmarked for the Govt. of India in the PL 480 Agreements (To be made available as imports are made and funds get generated)		Amount	Amount for which project agreements were signed till 30.6.62 the list of projects is given in Statement V.	Amount actually received from the AID upto 30.6.62
As loan	Rs. 533·80 crores	Rs. 294·00 crores	Rs. 256·46 crores	Rs. 137·57 crores
As grant	Rs. 375·33 crores	Rs. 178·00 crores	Rs. 100·16 crores	Rs. 20·02 crores

The amounts shown under Col. (1) are the maximum amounts, which will be available only after the imports provided in all the PL 480 agreements are fully completed and paid for. The imports under the May 1962 Agreement are, however, still to run for at least another two years. The effective amounts available at any time are the amounts apportionable as loans and grants out of the total rupee funds generated at that time. On 30th June, 1962 the total funds generated (*i.e.*, the rupee deposits made in the U.S. Government account on account of imports) were Rs. 620 crores, out of which the amount apportionable as loans and grants to India was Rs. 294 crores and Rs. 178 crores respectively. Project agreements mutually agreed and drawn up for the utilisation of these funds amounted to

Rs. 256·46 crores and Rs. 100·16 crores respectively. It will be seen that *loan* funds available on 30-6-1962 were substantially covered by the project agreements signed till then—the residual balance of Rs. 37·54 crores (Rs. 294—256·46 crores) has since then been nearly covered by project agreements for Rs. 33·11 crores signed since then.

2. So far as the *grant* is concerned, the amount of project agreements signed till 30-6-1962 was Rs. 100·16 crores as against the availability of Rs. 178 crores on that date. A further grant project for Rs. 180 crores has been signed recently. Proposals for the signing of project agreements covering the balance of funds available on 30-6-1962 were sent to the A.I.D. in early 1962 and are pending clearance by them. There are a number of reasons why the entire available grant funds have not been covered by project agreements so far. In the first instance, the U.S.A.I.D. authorities in Washington must allocate the funds to the A.I.D. Mission, New Delhi, which they do on an annual basis with reference to the funds generated. There is a difference between the funds generated and the annual appropriations. They must also clear the individual projects. The field of selection of grant projects, in particularly is greatly circumscribed. Firstly, in order to ensure that expenditure of PL 480 rupees is incurred in such a way that its additional inflationary pressures are contained as far as possible, it has been decided that all expenditure out of PL 480 loan and grant funds will be confined to projects already in the Five Year Plan. Secondly, grant projects can lie mainly in the field of Agriculture, Education, Health, Roads, etc. In these fields bulk of the expenditure is being incurred by the State Governments through a number of small sub-projects carried out throughout the area of the States. The U.S. authorities, on the other hand, have desired that the rupee funds should preferably be concentrated upon few major projects involving expenditure of approximately Rs. 2 crores each. In Project agreements recently signed, the A.I.D. Mission has also indicated that the expenditure incurred only by the Central Government (and not by the State Governments) on the projects will qualify for reimbursement. The Central Government expenditure in the above-mentioned 'fields' has been surveyed and project agreements have been signed, covering broadly all the major expenditures in the fields of Agriculture, Health, Education, National highways, etc. The further proposals already sent to the A.I.D. Mission early in 1962 cover the balances available at the end of June, 1962.

II. *Position regarding the drawal of amounts against the project Agreements*

3. The project agreements specify the amount of loan or grant to be drawn on reimbursement basis as expenditure is incurred. Reimbursements are drawn on the basis of quarterly statements of actual expenditure received from the individual projects authorities. The last column of the statement in the statement shows the "final contribution date" *i.e.*, the date upto which the expenditure incurred on the project is reimbursable from PL 480 funds. It will be seen that some *loan* projects have their a 'final contribution dates' extending upto 1964 and 1965. The drawal against those projects will, therefore,

extend upto 1964 and 1965. That explains the reasons why the actual loan drawals so far are only a part of the total project amounts. The current year's budget has assumed loan receipts at Rs. 60 crores.

4. In the case of the *grant* funds, the 'final contribution dates', as shown in the annexure, are presently only upto 31-3-1963. The actual drawals have been proportionately less because many of the grant project agreements were signed somewhat recently and so far statements of expenditure incurred on them have not been received from most of the administrative Ministries. It is expected that the expenditure statements will be received soon, enabling substantial drawals in the current year. The current year's budget has assumed the *grant* receipts at Rs. 40 crores.

APPENDIX IV

GUARANTEES GIVEN BY THE CENTRAL GOVERNMENT TILL THE END OF 1960-61.

(*A*) *Guarantee for the repayment of principal with interest in respect of loans*. (None of these guarantees was invoked during 1960-61).

Parties on whose behalf guarantee was given	No. of cases	Limits upto which guarantee was given		Actual outstandings at the end of 1960-61 out of the sums guaranteed		To whom guarantee was given
		Rupees (in crores)	Other Currencies	Rupees (in crores)	Other Currencies	
1	2	3	4	5	6	7
(*i*) Government Companies.	83	56·02	\$17,177,153 £10,706,959 Lire 727,020,873 Yen 815,500,000 DM 209,731,831	25·09	\$10,249,093 £5,605,345 Lire 646, 240,776 Yen 815,500,000 DM 6,690,733	Mainly to State Bank of India.
(*ii*) Statutory Corporations	13	37·40	\$28,004,000 DFL 16,765,100 £72,365	22·32	\$14,644,000 DFL 6,692,000 £46,081	State Bank of India.
(*iii*) Joint Stock Companies in which Government have interest.	2	2·46	..	2·43	..	State Bank of India.
(*iv*) Ports .	2	..	\$ 43,000,000	..	\$14,287,021	I.B.R.D.
(*v*) State Co-operative Banks	3	0·44	..	0·25	..	Reserve Bank of India.
(*vi*) Co-operative Societies.	28	8·26	..	7·00	..	I.F.C.
(*vii*) Joint Stock Companies other than (*iii*) above—						
1. Indian Iron & Steel Co. Ltd.	2	..	\$49·2 million	..	\$39·4 million	I.B.R.D.
2. Tata Iron & Steel Co. Ltd.	2	..	\$107·5 „	..	\$97·3 „	Do.
3. Tata Group of Hydro-Electric Companies Ltd.	2	..	\$23·8 „	..	\$19·9 „	Do.

1	2	3	4	5	6	7
4. Industrial Credit and Investment Corporation.	3	..	$40·0 million	..	$8·8 million	I.B.R.D.
5. Dharangadhara Chemical Works Ltd.	1	1·42	..	1·22	..	I.F.C.
6. West Coast Paper Mills, Bombay.	1	1·50	..	1·50	..	I.F.C.
7. Other Companies.	2	0·37	..	0·12	..	I.F.C. and Bombay State Finance Corporation

(B) *Guarantees of other types*

Parties on whose behalf guarantee was given	No. of Cases	Nature of guarantee	Remarks
(*i*) Industrial Finance Corporation	1	Repayment of principal and payment of dividend at 2½% per annum in respect of the paid up share capital of Rs. 5 crores.	Guarantee was invoked and a total amount of Rs. 53 lakhs was paid by Government towards payment of annual dividend up to 1956-57. This amount is, however, being repaid to Government from the profits earned by the Corporation in subsequent years and a sum of Rs.25 lakhs only was outstanding at the end of 1960-61.
(*ii*) Branch Line Railway Companies.	6	Guarantee is limited to make up the net receipts of the companies upto 3½% per annum on the paid up share capital. (Total share capital issued Rs. 1·20 crores).	Guarantee was invoked in the case of four companies and a total amount of Rs. 10 lakhs had to be paid by Government upto 1960-61.
(*iii*) State Finance corporations.	2	Repayment of the paid up share capital and payment of annual dividend at the minimum rate of 3½% in one case and 3½% in the other. (Total share capital Rs. 67 lakhs). The guarantee was given jointly by the State Government concerned and the Central Government in the ratio of 2 : 1	Upto 1960-61 the share of the Central Government towards payment of dividend at the minimum rate amounted to Rs. 83,496.

APPENDIX IV

Summary of Conclusions/Recommendations

S. No.	Para No.	Ministry/ Department concerned	Conclusions/Recommendations
1	2	3	4
1	1	Finance	While the Committee appreciate the force of the contention that the budget of the year is to be viewed in the context of the Plan wherein both the total expenditure and resources are assessed for the Plan period, they nevertheless feel that these annual estimates are significant stages towards the achievement of the Plan targets. Further, the annual budget is the main instrument of financial control by Parliament. To the extent there are shortfalls in planned expenditure under estimating of revenue, the economy would seem to indulge in exaggerated inflationary expectation implicit in the deficits shown in the annual budget estimates. In the Committee's view, it is obvious that the situation calls not only for greater drive to achieve the planned targets of developmental expenditure but also for a closer estimate of resources and expenditure.
2	2	Finance	The Committee recognise that to deal with stresses and strains, and disparities arising in a process of planned economic growth, fiscal measures have to be taken in the course of the year which may not be foreseen at the time of framing the Budget. Consequently there may be variations. They gathered the impression however, that by and large, the variations were due to other factors, mainly, lack of firm statistical basis and conservatism in assessment of revenue. The Committee have dealt with these aspects in

1	2	3	4
			regard to Customs Revenue in para 4 of their Sixth Report (1962-63) on Revenue Receipts. They feel that the same deficiencies are noticeable in respect of estimates of Excise Revenue and of the Income and Corporation taxes.
3	3	Finance	In the Committee's Opinion the fact that 76 per cent of the total under-estimate was attributed to higher production than anticipated in respect of items already under excise underlines the need for basing the estimates on better statistical data as regards trends of production of excisable goods.
4	4	"	The Committee trust that the Ministry will keep under constant watch the reported tendency among Revenue Officers to under estimate the collection of revenue so that it does not prejudice framing of accurate estimates. In the opinion of the Committee an overall variation exceeding 3 to 4 per cent should be regarded as a matter of concern requiring special remedial measures.
5	5	"	The Committee feel that the administrative ministries should be asked to work out the details of the various projects and scheme included in the Plan well in advance of their inclusion in the budget estimates and that Finance Ministry should not relax its scrutiny to see that only such of the schemes and projects are included in the budget estimates as have a reasonable prospect of being carried through during the financial year.
6	6	"	The Committee would commend the suggestion of the Comptroller & Auditor General *viz*, imposition of a lump sum cut by the Ministry of Finance in respect of overall provision under a grant, in respect of which savings are a recurring feature to the Ministry of Finance, as it appears to hold a prospect of reaching the over-all net targets laid down in the estimates. In the implementation of this suggestion, it would be necessary to see during the periodical

1	2	3	4
			review of the progress of expenditure that shortfalls in expenditure anticipated in respect of individual schems are declared in time so as to avoid the contingency of going for unnecessary supplementary grants.
7	7	Finance	The Committee feel that for having a true basis for comparison of the growth of national income and the increase in revenue from direct taxes over the decade, it would be necessary to compile the figures of taxes on income earned during the respective years, irrespective of whether they were actually assessed in the same or in the subsequent years. Further, as agricultural incomes were not subject to income tax, the comparison should really be made with the growth of non-agricultural income during the period. The Committee feel that a study conducted on these lines in the Finance Ministry would be useful so as to see how far the collection of taxes has kept pace with the growth of non-agricultural incomes. They would like to be apprised as to how far as tudy of this nature has been feasible and of the results thereof.
8	8	,,	The Committee trust that Central Bo d of Revenue will exercise due vigilance to see that all the necessary steps for recovery of Tax-demand are taken with sufficient promptitude to avoid the arrears of Tax being eventually declared as irrecoverable.
9	1	,,	From the facts placed before them, the Committee have not been able to satisfy themselves that expenditure on revenue earning and other activities of the Customs Department was kept fully under control. They hope that when the accounts for 1961-62 are taken up for examination the Department will be in a position to present a complete appraisal of the expenditure against the results achieved.

1	2	3	4
10	12	Finance	The Committee desired to know the nature of the shortcomings or defects in the reporting of expenditure on Grant-in-aid pointed out by the Planning Commissione. The Ministry promised to furnish the information, which is still awaited.
11	13	„	The Committee are constrained to observe that this betrays an unsatisfactory state of affairs. Due to inability of Government to take a decision in regard to issue of a circular drafted two years ago grants-in-aid to States worth crores of rupees have continued to escape audit check as regards their utilisation in the manner prescribed. The Committee would urge that the lacunae referred to by the Comptroller and Auditor General should be removed without further delay.
12	14	„	The Committee desire that the position in regard to entrusting the following two functions to the C. & A.G. regarding the Reserve Bank of India may be examined and a decision in this regard communicated to them in due course :— (i) To advise Government as to the appointment of auditors ; and (ii) To issue directives to Auditors regarding the manner of auditing of accounts.
13	15	„	(i) The Committee feel that the existing manner of getting parliamentary approval to the borrowing programme of Government does not provide satisfactory opportunity of an intelligent appraisal in Parliament of the issue involved, which would be afforded, if there were a specific debate thereon. They understand that the practice established in the United Kingdom, Canada, Ceylon and the United States of America was to obtain the approval of the legislature either specifically before going to market for loans or to restrict the borrowing programme to the limits prescribed by the legislature. The Committee, therefore, suggest that a study might be made of the

1	2	3	4
			procedures followed in this regard in various democratic countries (as agreed to by the Secretary, Ministry of Finance during evidence) so as to arrive at a method of obtaining specific approval of Parliament to the borrowing programmes that would suit the needs of our developing economy. The result of this study should be communicated to the Committee at an early date. Meanwhile, the Committee would invite the attention of Government to the observation of the Estimates Committee in their Sixth Report (Second Lok Sabha) with which they are in agreement, regarding laying a copy of the loan notification on the Table of Parliament, while in session. (ii) The Committee also note that in replying to an earlier recommendation of the Estimates Committee on this subject, the Ministry of Finance had stated—"If the Parliament is in session, a copy of the loan notification can be laid on the Table of Parliament, immediately after it is issued. After the loan is closed, a further report on the results thereof can be laid on the Table of Parliament giving the amount of the subscriptions received in cash and in conversion separately for each loan, for which press notes are usually issued". The Committee understand that even this proposal as accepted by the Ministry o Finance has not yet been implemented. The Committee recommend its early implementation.
14	16	Finance	The Committee learnt during the course of evidence that the net burden of interest on revenue had to be rated at a much higher figure than shown above, because barring the railways, the parties in receipt of the Government of India loans paid interest out of fresh borrowing from Government of India. The Committee noted this with surprise. They would like to know the principle, if any, on the

1	2	3	4
			basis of which this practice had to be resorted to in such a large measure. The Committee are of the view that, when the recipients utilised the loans on projects involving long period of gestation, it would be more correct to provide in the sanctions to the loans themselves that payment of interest would commence after a specified period. They urge that healthy practice must be set up in regard to recovery of loans and interests.
15	17	Finance	(i) In view of the fact that mobilisation of resources for investment purposes so as to raise the levels of living in the country is an immense task necessitating even recourse to deficit financing within certain limits, the Committee consider that there is force in the views of the Ministry of Finance that in the present trend of Government activities and expenditure, there should be surplus of Rs. 30 crores or more every year in the budget for debt redemption charges, which was not practicable. However, Parliament and the Public Accounts Committee have to see that loans are essentially utilised on productive investments, so that they would generate their own means of repayments. (ii) Keeping in view the observation of the Third Finance Commission and the fast pace at which the public debt is growing, the Committee suggest that the Explanatory Memorandum to the Budget should give a more detailed account of the utilisation of borrowed moneys and indicate to what extent it has been ensured that the investments would be self-financing in course of time.
16	18	Do.	The Committee are glad to note from the Audit Report that instalments of principal and interest which fell due during and upto 1960-61 in respect of foreign loans were all paid on due dates.
17	19	Do.	The Committee trust that the Ministry of Finance will ensure that the foreign aid under the PL480 schemes is fully utilised as per schedule.

1	2	3	4
18	20	Finance	The Committee note that the settlement of terms and conditions of loans granted to States for rehabilitation of displaced persons has been pending too long. They would like to be informed of the settlement reached in this regard. The Committee would also suggest for future guidance that terms and conditions of loans should be settled first before any loans are actually given by the Central Government.
19	21	Do.	The Committee feel that in the matter of repayment of loans and interest the Centre and State Governments should on no account deviate from the terms and conditions already settled. In case, the ways and means position of a particular State at any time needs to be strengthened, the Centre should consider the question independently and render such assistance in a direct manner instead of permitting defaults in the repayment of contracted loans. The Committee see from a note earlier submitted to them that the Ministry of Finance were thinking over the matter on these lines. They hope that steps will be taken accordingly to enlist the co-operation of State Governments in this regard.
20	22	Do.	The Committee were informed by the C. & A.G. that he would report in the next Audit Report certain cases of loans given to private parties in which loans were in arrears. They, therefore, deferred consideration of this issue.
21	23	Do.	The Committee are inclined to agree with the Comptroller & Auditor General that where the guarantor was a Government, whose credit was unquestionable, the lender might not insist on a detailed scrutiny of the borrower's financial position. Therefore, it is necessary for the Government as a guarantor to ensure that the borrower would conduct its affairs in such

1	2	3	4
			a manner that there was no default in the repayment of the loans. The Committee suggest that the question may be reviewed in the light of the above observations and suitable measures devised to safeguard Government's interest in giving these guarantees.

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