P.A.C. 98

PUBLIC ACCOUNTS COMMITTEE
1963-64

TWENTY-SECOND REPORT

(THIRD LOK SABHA)

**[Finance Accounts of Central Government, 1961-62—
Chapter I of Audit Report (Civil), 1963]**

LOK SABHA SECRETARIAT
NEW DELHI

March, 1964/Phalguna, 1885 (Saka)
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(1963-64)

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*Declared elected on the 29th November, 1963 *vice* Shri Bhakat Darshan ceased to be a Member of the Committee on his appointment as Deputy Minister.

†Declared elected on the 29th August, 1963 *vice* Shri Nawab Singh Chauhan.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf, this Twenty-second Report on the Finance Accounts of the Central Government, 1961-62 and connected Audit Report (Civil), 1963 (Chapter I).

2. The Audit Report (Civil), 1963 and Finance Accounts, 1961-62 were laid on the Table of the House on the 18th April, 1963 and 29th April, 1963, respectively. The Committee examined them at their sitting held on the 31st January, 1964. A brief record of the proceedings of the sitting of the Committee has been maintained and forms Part II of the Report.

3. The Committee considered and finalised this Report at their sitting held on the 7th March, 1964.

4 A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report (Appendix II). For facility of reference these have been printed in thick type in the body of the Report.

5. 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.

They would also like to express their thanks to the officers of the Ministry of Finance for their co-operation in giving detailed information to the Committee during the course of evidence.

NEW DELHI; MAHAVIR TYAGI,

March, 9, 1964. *Chairman*,

Phalguna, 12, 1885 (*Saka*). *Public Accounts Committee.*

I. GENERAL

AUDIT REPORT (CIVIL), 1963

Para 1, *page* 1,

The Budget estimates and actuals for 1961-62 under Revenue and Capital Accounts, as compared with the corresponding figures for 1956-57 and 1960-61, are given below:

(In crores of rupees)

		Receipts			Expenditure		
		Budget	Actuals	Variations	Budget	Actuals	Variations
Revenue Account	1956-57 .	527·39	591·15	+63·76	545·43	497·89	—47·54
	1960-61 .	919·65	971·77	+52·12	980·35	921·93	—58·42
	1961-62 .	1017·95	1136·74	+118·79	1023·52	1011·88	—11·64
Capital Account	1956-57 .				316·75	275·87	—40·88
	1960-61 .				444·41	406·43	—37·98
	1961-62 .				528·87	436·33	—92·54

The excess of actuals over the budget estimates under 'Revenue Receipts' and the shortfall in 'Expenditure on Capital Account' as compared with the budget provision have been substantially greater in 1961-62 than during the two earlier years shown above.

Taking receipts and expenditure on Revenue Account together, a deficit of Rs. 5.57 crores was converted into a surplus of Rs. 124.86 crores in 1961-62, showing a total variation from the budget of Rs. 130 crores. The corresponding variation in 1960-61 was Rs. 111 crores.

In evidence, the representative of the Department of Economic Affairs stated that while every effort was being made to achieve approximation between estimates and actuals in respect of both receipts and expenditure numerous variable factors which were inherent in the system made it extremely difficult to avoid large variations. The Committee pointed out that Parliament approved taxation proposals of Government with reference to the revenue needed to meet the expenditure for the year, so it was required of the Finance Ministry to place correct estimates of receipts from the various taxes. In extenuation of the wide gap between anticipations and actuals, the

Secretary, Department of Revenue and Expenditure stated that the rates of taxes were fixed not on the basis of the expenditure on Revenue Account alone, but after taking into account the entire expenditure on Revenue and Capital Accounts. An analysis of the last few budgets showed that deficit financing had been proceeding at a much higher rate than what was assumed in the Third Plan. The Secretary, Department of Economic Affairs agreed that it was desirable to be as accurate as possible in framing estimates, but urged that, in spite of the best efforts, wide variations occurred. All the same, the witness held the view that these variations were economically in the right direction. **The Committee think that if the estimated gap between resources and expenditure closely approximates to the actual gap, it would be more beneficial to the economy. A wider gap shown in the estimates tends to release inflationary trends. Realistic estimates in respect of both resources and expenditure are, therefore, imperatively necessary.**

2. The Committee will now discuss the measures to improve estimating of revenue receipts and expenditure.

(i) *Revenue Estimates*

While examining the Audit Report (Civil) on Revenue Receipts, 1963, the Committee had discussed, with the representative of the Department of Revenue, the reasons for wide variations between budget estimates and actuals in respect of Customs, Union Excise Duties and Income-tax and Corporation-tax (c.f. paras 1, 6, 22 and 38 of the Twenty-first Report of the Public Accounts Committee—Third Lok Sabha). The Committee were then informed that the question of improving the system of estimating Revenue Receipts was being dealt with by the Department of Economic Affairs. The Committee, therefore, took the opportunity of discussing this matter further with the Secretaries of the Department of Economic Affairs and the Departments of Revenue and Expenditure.

The variations between the estimates and actuals in respect of the Union Excise Duties (Rs. 54·69 crores during 1961-62) were attributed to (i) new items brought under taxation every year in respect of which adequate statistical data were not available; (ii) duties levied during the course of the financial year which could not be fore-seen, such as additional duty levied in September, 1961 on certain petroleum products to wipe out profits on the import of crude oil which resulted in considerable increase in revenue and (iii) collection in the month of March of new duties announced in the budget proposals on the last day of February. It was urged that the variation in respect of the items that were already subject to duty, for which statistics were available, had been of the order of about 5% only, in spite of variations in industrial production, consumption pattern, prices etc. Asked to state the steps taken to collect adequate statistical data, the Secretary, Departments of Revenue and Expenditure stated that the question of compulsory submission of information by a large number of industrial units had been recently considered by a Committee appointed by Government.

With regard to Customs Duties, it was stated that variations between Estimates and Actuals occurred due to change in the import policy of the Government and issue of *ad hoc* import licences during the course of the year. As regards Income-tax and Corporation-tax, the increased collection was attributed to a special drive undertaken during the course of the last three years to expedite assessments and recoveries. It was urged that the result of these steps could hardly be fore-seen at the time of framing the estimates. Asked if the local officers *viz.*, Collectors of Central Excise and Customs, and Commissioners of Income-tax had not a tendency to under-estimate revenue in order to take credit for more collections than estimated, the Secretary, Department of Revenue and Expenditure stated that no officer earned appreciation on that account. Moreover, the Ministry did not entirely depend on the estimates received from the local officers. Actually 3 or 4 studies from different points of view were made to arrive at the amount of revenue likely to be collected.

The Committee drew attention to the decreasing percentage of variations between budget estimates and actuals in this regard in U.K. (as indicated in para 1 of the Twenty-first Report of the Public Accounts Committee—Third Lok Sabha) :

Year	Percentage of variation of *Exchequer Receipt to Budget & Estimates	
	Inland Revenue	Customs and Excise
1959-60	5·4 (excess)	6·1 (excess)
1960-61	2·0 (less)	0·8 (less)
1961-62	1·3 (excess)	1·7 (less)

(As a matter of interest, the Committee would like to mention here that in the case of U.S.A. the variation of actuals to estimates† of Administrative Budget Receipts for the year ending 30th June, 1962 worked out to—1·1%. In Canada, the variation of actuals to budget forecast‡ of Revenue for the year ending 31st March, 1962 came to only —0·61%).

*The Exchequer receipt includes unrealised remittances brought forward from the previous year.

†Estimates of January,16, 1961.

‡Budget forecast of June 20, 1961.

In para 1 of their Twenty-first Report (Third Lok Sabha) on Revenue Receipts, the Committee have already expressed their concern over under-estimating of Revenue Receipts as compared to the actuals to the tune of 12% (Rs. 118·79 crores) during the year 1961-62 and 15% (Rs. 204·37 crores)* during 1962-63. Two main factors widen the gap between etsimates and actuals *viz.,* lack of sound statistical basis and conservatism in estimating. It was urged by the Secretary, Department of Economic Affairs that in the context of the developing economy in India with new taxes of sizeable order levied every year and with inadequate statistical surveys, the variation was bound to be wider than in countries which had already reached a certain level of development and stability. The Committee were assured that the Ministry would endeavour to achieve closer approximation between estimates and actuals, but no tangible results could be expected in the next one or two years, as new factors responsible for variations were being suddenly injected. While the Committee appreciate this, they emphasise the need for adequate and detailed statistical surveys in regard to industrial production, personal and company incomes, etc., and for re-orientation in the approach of the officers to avoid undue conservatism in estimating.

(ii) *Over-estimating of expenditure*

3. The total saving in the grants for capital expenditure was Rs. 92·54 crores (17·5 per cent) in 1961-62 as against Rs. 37·98 crores (8·5 per cent) in 1960-61. The broad headings under which the savings occurred are indicated below:

(In crores of rupees)

Heads	Budget estimates	Actuals	Savings
Schemes of Government Trading .	27·06	2·24	24·82
Railways	160·00	144·91	15·09
Delhi Capital Outlay . . .	12·30	4·93	7·37
Defence Capital Outlay . . .	32·01	22·95	9·06
Transfer of Development Assistance from U.S.A.	74·70	58·86	15·84
Public Works	39·87	36·70	3·17
Broadcasting	3·30	1·12	2·18
Agricultural Improvement and Research	7·72	5·23	2·49
Other Miscellaneous Heads . .	171·91	159·39	12·52
	528·87	436·33	92·54

In evidence, the representative of the Department of Economic Affairs stated that one of the causes leading to savings was delay or failure in procuring stores from abroad. Also if book adjustments of expenditure incurred were not made for some reason or the other

*The figure of Rs. 212·43 crores shown in para 1 of the Twenty-first Report of the P.A.C. (Third Lok Sabha) was provisional.

savings occurred. Explaining the measures taken to avoid large savings, the witness stated that the administrative Ministries were required to make a constant review of expenditure during the course of the year and maintain a record of likely debits as recommended by the Public Accounts Committee. It was urged that in spite of all possible efforts it was extremely difficult to achieve closer approximation of actuals and estimates.

The Committee feel concerned at large savings in the Capital expenditure during 1961-62 (Rs. 92·54 crores). This indicates that the administrative Ministries are over-optimistic about the implementation of the various schemes. The Committee reiterate the observations made in paras 5 and 6 of their Ninth Report (Third Lok Sabha) that the administrative Ministries should work out details of the various projects and schemes included in the Plan in advance of their inclusion in the Budget, and that only such schemes should be included in the Budget as have a reasonable prospect of being carried out during the year. The Committee have also recommended the imposition of a lumpsum cut in respect of the overall provision under a grant in respect of which savings are a recurring feature, allowing the administrative Ministry to obtain a Supplementary Grant later, if necessary. The Committee desire that an early decision should be taken in the matter.

The Committee also note that in spite of delegation of powers made some years back to the administrative Ministries to incur expenditure, large savings continue to occur. The Committee desired the Ministry of Finance to examine the feasibility of making the financial control exercised through the Financial Advisers attached to the various Ministries more effective. The Secretary, Department of Economic Affairs promised to review the position in this regard. The Committee would like to know the outcome of this review.

The Committee have an apprehension that owing to delegation of more powers and the provision of funds on a liberal basis, there has been a tendency to overlook avoidable expenditure. When more funds are available, there is the usual rush to spend the amount towards the end of the financial year, so that funds may not lapse. This tendency requires to be curbed.

Contingent Expenditure

4. The Committee would like to mention here that they have a feeling that there is a scope for economy in expenditure that is usually incurred by the various departments of Government under

the nomenclature "contingent expenditure". Contingent expenditure has been defined as "all incidental and other expenditure including expenditure on stores, which is incurred for the management of an office, for the working of technical establishment such as a laboratory, workshop, industrial installation, store depot, and the like but does not include any expenditure which has been specifically classified as falling under some other head of expenditure, such as 'Works', 'Stock', 'Tools and Plant'."

The Committee would like the Ministry of Finance to examine carefully the various items of expenditure that are included by different Ministries and Departments under this nomenclature with a view to ascertaining whether any amendment in the definition of this nomenclature is necessary to clarify the nature of expenditure included thereunder. The powers delegated to different authorities to incur expenditure under the nomenclature "contingent expenditure" should also be reviewed with the object of achieving economy. In this connection the Committee also recommend that the provision on certain items such as inaugural ceremonies, laying of foundation stones, etc. should be exhibited separately in the budget with a view to apprising Parliament of the quantum of such expenditure. The Committee also feel that during the period of emergency, expenditure on such items should be substantially curtailed if not eliminated altogether.

II. EXPENDITURE ON REVENUE ACCOUNT

Page 2, *para.* 3.

5. The expenditure on revenue account during the year 1961-62 showed an increase of about 10 per cent. over that in 1960-61 and 103 per cent. over that in 1956-57. The increase is analysed below:

(In crores of rupees)

	1956-57	1960-61	1961-62	Increase during the six years ending 1961-62
(*i*) Collection of Taxes, Duties and other Principal Revenues . . .	18·10	31·57	28·76	10·66
(*ii*) Administrative Services .	38·02	58·66	59·18	21·16
(*iii*) Social and Development Services . . .	93·22	214·63	155·92	62·70
(*iv*) Public Works . .	14·39	21·46	20·23	5·84
(*v*) Defence Services . .	192·14	247·55	289·54	97·40
(*vi*) Debt Services . .	31·74	72·09	77·85	46·11
(*vii*) Other heads . .	110·28	275·97	380·40	270·12
TOTAL . .	497·89	921·93	1011·88	513·99

Expenditure on Administrative Services—para 4(*b*), *page* 3.

The expenditure on the Administrative Services during the year 1961-62 showed an increase of Rs. 21·16 crores (56%) over that in 1956-57, as indicated below:

In crores of rupees

	1956-57	1960-61	1961-62	Increase during the six years ending 1961-62	
				Amount	Percentage
General Administration . .	14·07	16·61	19·23	5·16	37
Police	6·42	11·74	18·76	12·34	192
External Affairs . . .	7·01	9·77	11·92	4·91	70
Other heads . . .	10·52	20·54	9·27	—1·25	—12
TOTAL . .	38·02	58·66	59·18	21·16	56

Explaining the reasons for the increase of expenditure on Police from Rs. 6·42 crores in 1956-57 to Rs. 18·76 crores in 1961-62, the representative of the Department of Economic Affairs stated, in evidence, that the responsibility for maintaining law and order in the border areas being that of the Centre, it was conducted by a combined agency, and the Central Government had to suggest various measures to increase the efficiency of the State Police in the border areas. **The Committee desired to be furnished with a note stating the break-up of expenditure on Police for the border areas and other territories for the years 1956-57, 1960-61 and 1961-62. The information is still awaited.**

Expenditure on Social and Development Services—pages 3-4, *para.* 4(*c*).

6. Service-wise analysis of the expenditure on Social and Development Services during the years 1956-57, 1960-61 and 1961-62 is given below:

(In crores of rupees)

	1956-57	1960-61	1961-62	Increase during the six years ending 1961-62	
				Amount	Percentage
Scientific Departments	11·05	21·36	23·00	11·95	108
Education	19·44	43·79	26·01	6·57	34
Medical	2·87	8·57	6·10	3·23	113
Public Health	3·35	5·11	3·81	0·46	14
Agriculture	7·46	13·60	7·57	0·11	1
Co-operation	0·74	3·27	2·26	1·52	205
Industries & Supplies	20·83	63·21	48·63	27·90	134
Community Development	9·35	23·34	2·00	—7·35	—79
Others	18·13	32·38	36·44	18·31	101
TOTAL	93·22	214·63	155·92	62·70	67

The figures for 1956-57 and 1960-61 mentioned above include grants-in-aid paid for development purposes (i) to State Governments and (ii) to non-Government institutions. On the other hand, the figures for 1961-62, include only the grants paid to non-Government institutions. Grants-in-aid paid to State Governments from 1961-62 onwards are being booked separately under a new Major

Head; the amount so booked during 1961-62 was Rs. 194·98 crores consisting of Rs. 81·79 crores for Social and Developmental Services, Rs. 43·41 crores paid as annual grants-in-aid under Article 275 of the Constitution and Rs. 69·78 crores for miscellaneous purposes. The details for the grants of Rs. 81·79 crores relating to Social and Development Services are given below:

(In crores of rupees)

Scientific Department	3·22
Eduacation	25·31
Medical	1·67
Public Health	11·01
Agriculture	9·43
Co-operation	0·57
Industries and Supplies	3·80
Community Development	19·85
Others	6·93
TOTAL	81·79

Taking into account the expenditure of Rs. 81·79 crores detailed above, the actual increase under "Social and Developmental Services" in 1961-62 as compared to 1956-57 amounted to Rs. 144·49 crores or 155 per cent.

Grants-in-aid sanctioned to State Governments.

In para. 13 of their Ninth Report of the Public Accounts Committee (Third Lok Sabha), the question of checks exercised by the Central Government to ensure that the 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, was dealt with. It was then pointed out by the Comptroller and Auditor General that it had not been possible for him to conduct the first check 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 Accountants General, 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 Governments. The Committee were then informed that steps were being taken to simplify the accounting procedure. A step in this direction had been taken by segregating 'Plan' and 'non-Plan' expenditure in accounts with effect from 1959-60. All States except two had been pursuaded to book expenditure by "heads of development". Also a circular regarding reporting of actuals by States as certified by the State Accountants General had been prepared in consultation with the Comptroller and Auditor General which could not be issued as the matter was under consideration with the Planning Commission. This circular has not yet been issued.

The Committee enquired how in the absence of any correlation between the heads of development in the Central assistance and the heads of accounts in the States, the Department checked the utilisation of grants for development expenditure and regulated future grants. The representative of the Department of Co-ordination stated in evidence that State Plans were reviewed by the Planning Commission in consultation with the Finance Ministry and the State Governments concerned. In response to the feeling that the State Governments should have a certain amount of freedom to incur expenditure within the Plan heads of development according to the local needs, the Government of India had agreed to allow the State Governments to draw the total amount of assistance in proportion to the total development expenditure for the year. The State Governments had thus been given certain powers to re-appropriate funds from one scheme to another. The quantum of assistance to the States was worked out on the basis of the administrative figures supplied by the State Governments. Therefore, the basic question to be considered was whether the classification of expenditure by the States into 'Plan' and 'non-Plan' was correct or not. It was added that where assistance due on the basis of the total expenditure exceeded that calculated under the heads, the difference was to be met by means of additional loan under the head 'Miscellaneous Loans'. According to a recent circlar issued by the Planning Commission, only in respect of certain schemes, that had been given an over-riding priority, the expenditure specifically relating thereto was to be taken into account, and this was not to be included in calculating the overall assistance.

The Secretary, Department of Economic Affairs stated that, regardless of the fact that the State Governments had been given certain amount of freedom to re-appropriate funds between development schemes, the Finance Ministry agreed with the Comptroller and Auditor General that it was necessary to verify the accounts in respect of the grants in the light of the conditions governing them. It was, however, difficult to reconcile the figures booked in the

Accounts Offices with those communicated by the State Governments. Because of the difficulty in devising methods of reconciliation of the Accounts office figures with the State Governments' figures of expenditure by heads of development, the circular prepared in consultation with the Comptroller and Auditor General regarding reporting of actuals by the States as certified by the Accountants-General had not been issued. It was now proposed to furnish Audit with details of the various items falling under each head of development to enable them to reconcile them with booked figures. The matter was still under discussion with the Comptroller and Auditor General and the Planning Commission. The Comptroller and Auditor-General pointed out that the basic data did not exist in the offices of the Accountants General, and unless the lacunea pointed out already were removed it would not be possible to reconcile these accounts with the figures supplied by the State Governments. The Comptroller & Auditor General also pointed out that, if it was the policy of Government to relate grants to the expenditure incurred and to the purpose of their utilisation, it was necessary to maintain accounts accordingly. The Department concerned should be able to obtain figures of expenditure on the various schemes from the Accounts in order to regulate future grants. The Comptroller & Auditor General also informed the Committee that at present no intimation regarding reappropriation of funds by the State Governments from one scheme to another was received in Audit.

The Committee (1962-63) were critical about the unsatisfactory state of affairs arising from grants-in-aid to States worth crores of rupees continuing to escape audit check in regard to their utilisation, due to the lacunae pointed out by the Comptroller and Auditor General. The Committee feel concerned to note that no head-way has been made in removing these lacunae and the position continues to be unsatisfactory. The circular prepared in consultation with the Comptroller and Auditor General more than 3 years ago regarding reporting of actuals by the States, as certified by the respective Accountants General, has still not been issued. It is understood from Audit that Accountants General are unable, in several cases, to obtain information from State Governments regarding the exact schemes on which the funds made available by the Centre have been or are proposed to be utilised and that the departmental figures of expenditure met from loans and grants as furnished to the Government of India are not often supported by any details in the departmental records which can be verified by audit. The Committee are unable to understand why the Government of India are unable to insist on information being given to them and to Audit about the

schemes on which the Central assistance is actually utilised and the expenditure incurred on each such scheme so that the departmental figures could be test checked from their own initial records even if there are difficulties in reconciling the departmental figures with the figures as booked in the accounts. It seems clear that the present situation under which the Government of India determine the quantum of assistance finally admissible to State Governments on the basis of figures which are not verifiable either from departmental records or from the accounts maintained by the Accountants General calls for immediate remedial action.

The Committee desire the Ministry of Finance to take vigorous steps to devise a method that would enable the Comptroller and Auditor-General to exercise proper checks in regard to the Central assistance made available to the States and to apprise Parliament of the results of these checks. The Committee hope that the matter would be finalised without further delay.

III. DEBT POSITION

Para 8, page 9

7. (a) The total debt outstanding at the end of each of the six years ending 1961-62 was as shown below:

(In crores of rupees)

	31-3-57	31-3-58	31-3-59	31-3-60	31-3-61	31-3-62
(*i*) Market Loans*	1648	1717	2197	2460	2598	2716
(*ii*) Floating Debt	1048	1503	1430	1570	1380	1453
(*iii*) Loans from foreign sources .	120	145	336	513	761	1009**
(*iv*) Unfunded Debt—						
(*a*) Small Savings collections .	633	702	781	870	971	1059
(*b*) Provident Fund, etc. . .	202	223	243	265	310	350
(*c*) Deposits by U.S. Government of their Counterpart Funds created under P.L. 480 etc. . .	..	..	..	..	241	295
TOTAL . .	3651	4290	4987	5678	6261	6882

(b) Details of the debt transactions of the year 1961-62 are given below:

(In crores of rupees)

	Receipts during the year	Repayments during the year	Net increase during the year
(*i*) Market Loans . . .	256·52	137·88	118·64
(*ii*) Floating Debt . . .	(A)4,405·26	(A)4,333·13	72·13
(*iii*) Loans from foreign sources .	314·33	65·62	248·71
(*iv*) Unfunded Debt—			
(*a*) Small Savings Collections .	351·38	263·93	87·45
(*b*) Provident Fund, etc. . .	76·68	36·48	40·20
(*c*) Deposits by U.S. Government of their Counterpart Funds created under P.L. 480, etc. .	127·18	73·05	54·13
TOTAL . .	5,531·35	4,910·09	621·26

*Excludes a sum of Rs. 20·62 crores representing unexpired liabilities for British Government 5% War Loan, 1929—47, the liability for which remains suspended.

**The loans drawn during 1961-62 included a sum of Rs. 34·20 crores representing value of Indian Currency Notes and Coins withdrawn from Kuwait area and treated as a loan from the Government of Kuwait. This amount is repayable in sterling in 11 annual instalments with interest at 4-3/4% with effect from 1-7-1961. The amount of the loan outstanding on 31-3-1962 was Rs. 31·56 crores.

(A) The outstanding *ad hoc* Treasury Bills amounted to Rs. 1077·16 crores at the beginning of the year 1961-62 and Rs. 1146·19 crores at the end of the year. As they have a currency of 91 days only, they are repaid and renewed three or four times during the year. Thus, although the amount of Treasury Bills outstanding at any time during the year was of the order of about Rs. 1100 crores, the total receipts and repayments exceeded Rs. 4,000 crores.

In para 15 of their Ninth Report (Third Lok Sabha), the Committee (1962-63) had discussed the question of fixing a limit on borrowing by Government by a law passed by Parliament under Article 292 of the Constitution. It was urged before the Committee that Parliament had ample opportunity to examine the plan 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 included. The Committee (1962-63) felt that the existing manner of getting Parliamentary approval to the borrowing programme of Government did not provide a satisfactory opportunity for an intelligent appraisal in Parliament of the issues involved, which would be afforded if there were a specific debate thereon. They, therefore, suggested that a study might be made of the procedures followed in this regard in various democratic countries, so that a method of obtaining the specific approval of Parliament for the borrowing programmes that would suit the needs of our developing economy may be devised.

Explaining the action taken pursuant to the recommendation of the Committee, the Secretary, Department of Economic Affairs stated in evidence that the Ministry of External Affairs had addressed a number of countries in the matter, but a final report was awaited. As regards laying before Parliament of copies of notifications of loans already floated and further reports about the subscriptions received, it was stated that requisite information was being laid on the Table of the House. **The size of the debt as on 31st March, 1963, was stated by the Comptroller & Auditor General to be Rs. 7,621 crores out of which the market borrowing amounted to Rs. 2,871 crores.**

The Committee note that although a year has elapsed since they suggested that a study should be made of the procedures followed in various democratic countries for obtaining parliamentary approval to Government borrowing, not much headway has been made in this regard. The Committee trust that the Ministry of Finance would vigorously pursue the matter and apprise the Committee of the outcome of their study before they consider the next year's accounts.

8. In reply to a question, the representative of the Department of Economic Affairs stated that in the case of foreign loans, both interest and principal were invariably repaid from the country's own resources. The only exception was the German loans for the Rourkela Steel Project in which case there was an agreement that,

when a payment fell due under the old loans, a part of it—the bulk—would be converted into a longer loan and only the balance repaid. **The Committee are glad to note that there has been no default in the payment of the principal or of the interest on foreign loans.**

IV. LOANS AND ADVANCES BY THE CENTRAL GOVERNMENT

Paras 17-18, *Pages* 14—16

9. Details are given below of the loans and advances outstanding against State Governments, Foreign Governments, etc. at the end of 1955-56, 1960-61 and 1961-62. The statement does not include the amount due from the Government of Pakistan on account of their share of pre-partition debt.

(In crores of rupees)

Name of loanee	Amount outstanding on 31-3-1956	31-3-1961	31-3-1962	Net increase during the six years
State Governments . .	832·75	1909·58	2219·14	1386·39
Foreign Governments .	0·11	29·17	22·75	22·64
Local Funds, Municipalities, etc.	26·72	52·62	61·02	34·30
Railway Development Fund .	..	29·40	..*	..
Government Corporations etc.	36·83	419·29	415·01	378·18
Non-Government Institutions, etc.	41·16	83·60	189·89	148·73
Government Servants .	4·18	5·32	8·05	3·87
Cultivators . . .	1·54	5·47	5·97	4·43
TOTAL . . .	943·29	2534·45	2921·83	1978·54

*The loans to the Railway Dedvelopment Fund were completely repaid in the year 1961-62.

An analysis of the transactions under 'Loans and Advances' during the year 1961-62 is given below:

(In crores of rupees)

	Loans paid during the year	Loans repaid during the year	Net outgoings during the year
(*i*) State Governments . .	443·47	133·91	309·56
(*ii*) Foreign Governments . .	6·18	12·60	—6·42
(*iii*) Local Funds, Municipalities etc.	9·83	1·43	8·40
(*iv*) Railway Development Fund .	..	29·40	—29·40
(*v*) Government Corporations and non-Government institutions	122·03	20·02	102·01
(*vi*) Government Servants .	6·10	3·37	2·73
(*vii*) Cultivators . . .	0·60	0·10	0·50
TOTAL . .	588·21	200·83	387·38

Even though the terms and conditions of the repayment of loans were revised at the instance of the State Governments concerned and the dates of repayment were extended in a number of cases, some of the State Governments have not been regular in making repayments of the loans advanced to them by the Central Government. The amounts of principal and interest which remained overdue from the State Governments at the end of 1961-62 and as on 31st March, 1963 are given below:—

(In crores of rupees)

Name of the State Government	Amount of principal outstanding on		Amount of interest outstanding on		Earliest period to which the arrears as on 31-3-1963 relate
	31-3-1962	31-3-1963	31-3-1962	31-3-1963	
Andhra Pradesh	..	..	..	5·26	1956-57
West Bengal	2·17	1·39	0·33	0·16	1955-56
Rajasthan	..	..	0·90*	1·95	1960-61
Jammu and Kashmir	12·22	14·25	3·84	3·75	1955-56
Madhya Pradesh	1·90	1·95	3·13	4·32	1954-55
Bihar	0·08	0·23	1·96	3·32	1962-63

*This relates to the loan given for financing the Chambal Project. Fresh loans have been given for repayment of the interest till 1961-62.

Explaining the reasons for delay in repayment of principal and interest by the State Governments, the representative of the Department of Economic Affairs stated during evidence that in some cases representations were made by the State Governments or there might be ways and means difficulties at their end. All the same, the Finance Ministry were keen that the States must repay their loans as they fell due. Last year, the State Governments were asked to issue standing instructions to their Accounts Officers to make an assessment as and when their commitment was to be discharged. But the State Governments were reluctant to do so. The State Governments were even warned that if they failed to repay their obligations, these would be adjusted against their entitlements from the Central Government. It was, however, added that there were some genuine cases where the State Governments might be justified in holding up the repayments. All these cases were, however, being actively pursued by the administrative Ministries concerned, whose duty it was to take necessary action as soon as defaults in payments were brought to their notice by the Accounts Officers.

The Committee feel concerned over the delay in repayment of principal and interest by some of the State Governments. They reiterate the view expressed in para 21 of their Ninth Report (Third Lok Sabha) that in the matter of repayment of loans and interest, the Central 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.

Para 19, *page* 17

10. In the following cases, fresh loans were given to the State Governments during 1961-62 to pay back the principal or interest or both in respect of earlier loans.

(In crores of rupees)

Name of State Government	Amount of fresh loans	Remarks
Punjab . .	3·95	Interest on 57 loans.
Rajasthan . .	7·84	Rs. 6·51 crores in respect of principal and Rs. 1·33 crores towards interest.
Orissa . .	5·40	To pay back interest charges of Hirakud Dam Project loans.
West Bengal .	3·30	The Central Government has been giving loans to the Bihar and West Bengal Governments to enable them to contribute their share of the capital funds to the DVC.
Bihar . .	1·16	The amounts required for payment of interest thereon have also been advanced by the Government of India to these State Governments.

In para 16 of their Ninth Report (Third Lok Sabha), the Committee questioned the justification for grant of loans to repay the interest and principal in respect of old loans. The representative of the Department of Economic Affairs stated in evidence that this practice was resorted to only in the case of the River Valley Projects.

where it was accepted by both the Comptroller & Auditor General and Government that there were no other resources to repay the interest liability during the period of construction. The capitalized interest payments were treated as a first charge on the surplus receipts or revenue earnings of the Project as soon as it started operation.

In reply to a question, the representative of the Department of Economic Affairs stated that the revenues of the States were not enough to meet the repayment of loans; they had either to borrow from the market or from the Centre. The witness added that at the last conference of the Finance Ministers, the desirability of establishing sinking funds or amortisation funds was also stressed. But the difficulty was that if the States were to earmark a part of their revenue for this purpose, there would be a wider gap in their revenues necessitating a further devolution from the Central Revenues. The Committee enquired whether it was not desirable to let the States repay from their own revenues or by borrowing from the market instead of the Centre advancing fresh loans for repayment of interest. The Secretary, Department of Economic Affairs stated that in the cases of some of the less developed states which were already heavily burdened with debts and which did not have substantial revenue, loans were advanced to them to enable them to attain a level of prosperity or to reduce their dependence on subventions. Withdrawal of the process of granting loans to these States would only perpetuate their state of under development. It was admitted that even in these less developed States there was wasteful expenditure which was a matter of concern, but the Central Government could not effectively deal with the problem, as it concerned the day to day working of their administration. On the other hand the States were also aware of the Centre's anxiety not to let any part of the country remain without development. The witness added that this question would be placed before the next Finance Commission which was expected to be set up shortly.

Asked if in order to ensure repayment of interest, it was not possible to advance loans to the State Governments for only productive projects, the Secretary, Department of Economic Affairs replied that this would not solve the problem unless the condition of repayment was commensurate with the expected income from the Project. The Secretary, Department of Revenue & Expenditure stated that even if the States were to borrow from market for non-productive projects, at the time of repayment of interest it would not be possible to ensure that income from a productive project was not utilised for repayment of an unproductive loan. It was urged that in the present stage of the country's resources it was not possible to have water-tight distinction between Central ability and State ability. The capacity of the States to borrow from the market was limited. Large scale borrowing from market by individual States would affect the entire gilt-edged market. The Government of India, therefore, helped the States within reasonable limits. Asked if it was not more appropriate for the Central Government to undertake construction of big projects in the States instead of advancing large loans to them for the purpose, the Secretary, Department of Economic Affairs stated that the question was under Government's consideration.

The Committee had already taken note of the difficulty in repayment of loans during the period of construction of river valley projects etc. They would like to reiterate the view expressed in para 16 of their Ninth Report (Third Lok Sabha) that when the recipients utilised the loans on projects involving long periods of gestation, it would be more appropriate to provide for a specified period of moratorium in the loan sanction itself. The Committee object in principle to the practice of advancing fresh loans to the States for repayment of interest and principal in respect of earlier loans; otherwise this practice tends to increase not only their debt liability but also lethargy in tapping their own resources for the purpose. According to the Ministry's own admission there is wasteful expenditure even in the less developed States, and there is a tendency to take advantage of the Centre's anxiety not to let any part of the country remain without development. The Committee regard this as a matter of concern. They were glad to be informed that this question was proposed to be placed before the next Finance Commission.

The Committee trust that an early decision will be taken on the question of the Central Government themselves undertaking construction of the major projects in the States instead of advancing them loans for the purpose considering all the difficulties that are being experienced in repayment.

Rehabilitation Loans—Para 18, *page* 16

11. According to the revised terms prescribed by the Government of India in 1958 on the recommendation of the Finance Commission, rehabilitation loans were to be grouped into two categories, namely (i) Loans for re-lending and (ii) Loans for constructions. In respect of the former category, the State Governments had to pay the amounts actually realised from displaced persons from time to time plus 10 per cent of the shortfall between the equated instalments which fell due for payment up to the 31st March, 1957 and the

amount actually collected from displaced persons and paid to the Central Government upto that date. The latter category of loans had to be repaid in accordance with the original terms. Some of the States *viz.*, Gujarat, Maharashtra, Madhya Pradesh, Rajasthan, Mysore, Assam, West Bengal, Orissa and Jammu & Kashmir did not accept the revised terms and had been paying only the amounts actually realised from displaced persons.

In evidence, the representative of the Department of Economic Affairs stated that in the case of loans relating to the Western sector, orders had been issued on the 1st January, 19[illegible]4, that no recovery was to be made in excess of the amounts that the States themselves had been able to realise. As regards the loans relating to the Eastern Sector the matter was still under consideration.

The Committee desire that early decision should be taken regarding repayment of the loans relating to the eastern sector and the Committee informed.

Non-settlement of terms of loans advanced to State Governments—para 20, *pages* 17-18.

12. The terms and conditions of repayment in respect of some of the loans advanced to State Governments have not yet been settled No repayment has been made in respect of these loans either towards principal or interest. The total amounts of such loans outstanding against the State Governments are indicated below:—

(In crores of rupees)

Name of State Government	Number of loans	Total amount of loans	Earliest period to which the amounts relate
Bihar	10	0·24	1958-59
Gujarat	13	0·74	1954-55
Andhra Pradesh	10	0·10	1958-59
Kerala	24	1·60	1956-57
Madras	22	1·82	1958-59
Maharashtra	8	0·60	1954-55
Punjab	22	2·77	1953-54
West Bengal	15	2·31	1958-59
Uttar Pradesh	10	0·37	1958-59
Rajasthan	37	25·46	1954-55
Jammu & Kashmir	19	0·99	1957-58
Mysore	22	0·97	1957-58
Assam	24	1·16	1959-60
Orissa	20	0·82	1955-56
Madhya Pradesh	40	2·54	1954-55

In evidence, the representative of the Department of Economic Affairs stated that these loans had been sanctioned by the Administrative Ministries concerned and they were answerable for the delay in the settlement of the terms. The Ministry-wise break-up of the loans was stated to be as follows:—

(In crores of rupees)

Ministry of Irrigation & Power	26·54
Ministry of Works, Housing and Supply	1·37
Ministry of Commerce & Industry	9·62
Ministry of Food & Agriculture	·55
Other Ministries	4·41

The loans given by the Ministry of Commerce and Industry related mainly to the Handloom Industry, Handicrafts and Co-operative Societies where there was difficulty in obtaining the details of utilisation from the State Governments. It had since been agreed that in the case of Handicrafts and Co-operative Societies, loans utilised on Co-operative Schemes would be repayable in 10 equated instalments and in other cases in 5 equated instalments. It was added that in regard to the Handloom Industry, the matter was still under correspondence with the State Governments. As regards, the loans given by the Ministry of Irrigation & Power it was stated that these related to the Beas Dam in Punjab and the Rajasthan Canal Project, the terms of which were under consideration of the Ministry.

Asked if it was not desirable to settle the terms in advance of the grant of loans, the witness stated that, as far as the Finance Ministry were concerned, they were certainly in favour of the terms being settled in advance. The Secretary, Department of Expenditure urged that in the case of loans for certain emergencies it would be difficult to settle the terms in advance. The Secretary, Department of Economic Affairs agreed that as a rule the terms of loans should be settled in advance unless there were good reasons for departure from this principle.

The Committee regret to point out that although the loans were granted to the States more than four years ago and in certain cases even ten years ago, the terms and conditions have not yet been settled and no repayment has been made, either towards principal or interest. The Committee desire the Finance Ministry to lay down a procedure whereby the administrative Ministries should settle the terms and conditions of loans before advancing them, except where

loans are made to meet certain emergencies. Even in the cases of loans given for emergencies, the settlement of the terms and conditions should not be unduly delayed after sanctioning them.

Loans and Advances granted to Government owned Corporations, private institutions etc.—Para 21, pages 18-19

13. In the case of loans and advances granted to Government owned Corporations, private institutions, etc., the amounts of principal and interest which remained in arrears at the end of 1961-62 and 1962-63 are shown below:—

(In lakhs of rupees)

Name of the Loanee	Amount of principal outstanding		Amount of interest outstanding		Earliest period to which the arrears relate
	as on 31-3-62	as on 31-3-63	as on 31-3-62	as on 31-3-63	
(a) Government Companies					
1. Loans to Hindustan Machine Tools Ltd.	..	..	8·01	..	1959-60
(b) Private Companies and Institutions					
2. Loans to Educational Institutions	1·26	0·66	0·12	0·15	1958-59
3. Loans to Municipalities in Assam	0·68	1·46	0·16	2·10	1958-59
4. Loans to the Kamaran Quarantine Station Fund	1·97	1·97	..	..	1945-46
5. Loans to Settlers in Andamans	0·13	0·13	0·05	0·05	1955-56
6. Loans to Cooperative Craft Schools in Delhi	3·43	3·40	1·12	1·14	1953-54
7. Criminal Tribes Welfare Board	0·25	..	..	..	1954-55
8. Loans to Tibbia College	1·70	2·00	..	..	1955-56
9. Thakkar Bapa Multipurpose Cooperative Society	0·09	0·12	0·06	0·07	1958-59
10. Delhi Municipal Corporation	0·12	0·12	90·05	0·05	1954-55
11. Loans for Rehabilitation Schemes for Industrial Institutions	1·48	16·68	1·10	0·58	1958-59

(In lakhs of rupees)

Name of the Loanee	Amount of principal outstanding		Amount of interest outstanding		Earliest period to which the arrears relate
	as on 31-3-62	as on 31-3-63	as on 31-3-62	as on 31-3-63	
12. Loans for Development of Small Scale Industries .	4·17	4·26	0·50	0·92	1954-55
13. Cantonment Board, Almora	0·14	0·14	..	..	1955-56
14. Postal Cooperative Housing Society Ltd., Bombay .	..	..	0·30	0·30	1960-61
15. United Council for Relief and Rehabilitation welfare .	0·10	0·12	..	..	1954-55
16. Salwan Education Trust	0·30	0·30	0·03	0·03	1951-52
17. Harijan Sewak Sangh .	0·52	0·37	0·31	0·32	1949-50

In evidence, the representative of the Department of Economic Affairs stated that for these loans too, the direct responsibility lay with the Administrative Ministries, who sanctioned them.

Referring to the arrears outstanding in respect of the Co-operative Craft Schools in Delhi, the witness stated that, of these Craft Schools which were initially started by the Ministry of Rehabilitation, 7 had been taken over by the Ministry of Education, 5 had been closed down and 3 converted into ordinary schools. The question of recovery of outstanding loans was being pursued by the Ministry of Education. The loans relating to the schools which have closed down had been written off.

The Committee desired to be furnished with a detailed note indicating—

(a) the reasons for the loans and advances mentioned in this para remaining outstanding;

(b) steps for their recovery; and

(c) the present position regarding their recovery.

The Committee defer consideration of the matter till the requisite information is made available to them. All the same, the Committee desire that Ministries concerned should make vigorous efforts to recover the old arrears of principal and interest, and not allow them to accumulate in future.

V. GUARANTEES GIVEN BY THE CENTRAL GOVERNMENT

Para 22, *pages* 19-20

14. A detailed statement of guarantees given by Central Government is given in Appendix I. During the year 1961-62, the Government of India issued fresh guarantees in 39 cases involving a total sum of Rs. 84 crores. The sums guaranteed by Government outstanding at the end of 1961-62 amounted to Rs. 215 crores (including Dollar, Sterling, West German, Italian and Japanese currencies, etc.) in respect of loans raised by 9 Joint Stock Companies, 21 Government Companies, 4 Statutory Corporations, 2 Ports, 3 Co-operative Banks, 34 Co-operative Societies, 5 State Corporations and 2 State Financial Corporations.

The Committee enquired about the position regarding the assurance given to them last year (cf. para 23 of Ninth Report—Third Lok Sabha) that it was proposed to issue instructions that when a Ministry had to give a guarantee to some party the question whether a fee should be levied, should be specifically considered on merits and a decision taken with the concurrence of the Ministry of Finance. The Secretary, Department of Economic Affairs stated that the Ministry had since made a re-assessment of the position regarding issue of guarantees and it was found that there was no category of cases where charging of a fee was desirable. It was urged that giving guarantees was not a commercial activity of Government. In the case of loans from international institutions the statute governing the lending bodies prescribed a guarantee by the respective Government. This amounted to transfer of a certain right to Government, that if the borrower defaulted, Government would take over his entire property. Considering the fact that Government themselves encouraged industry to seek foreign loans for implementation of their projects, which itself was a costly proposition, it would be a little harsh to the Industry if there was an additional Governmental charge. It was enough for Government to have a full mortgage of the assets of the Company so that if it defaulted Government could take it over.

Referring to another type of guarantee *viz*., in respect of loans given by the Industrial Finance Corporation to Co-operative Sugar Mills, it was stated that by giving such guarantees, the Central Government and State Governments made it possible for a number of sugar factories to be set up in the Co-operative sector in which they were interested. Any charge for giving such a guarantee might thwart the development. It was added that out of 7 per cent interest, charged by the Industrial Finance Corporation, Government received ½ or 1 per cent by way of insurance.

As regards the Government guarantees required by the Industrial Finance Corporation, for certain loans under the Industrial Finance Corporation Act, it was stated that the Act had since been amended and this type of guarantee had virtually disappeared. Government now gave guarantees to public sector undertakings, in which Government themselves were the sole or major share-holder, in respect of loans raised from the market, because Government guarantee was rather attractive for market loans. If a fee was imposed on Government's own companies for this guarantee, the advantage of the saving in interest charges in borrowing from the State Bank of India would be lost to the Company.

Asked whether a decision had been taken to lay down a procedure for obtaining the concurrence of the Finance Ministry in issuing guarantees, the witness stated that a procedure had already been laid down.

In para 23 of their Ninth Report (Third Lok Sabha), the Committee had suggested that suitable measures should be devised to safeguard Government's interest in giving guarantees, as the lender might not insist on a detailed scrutiny of the borrower's financial position when the guarantor was a Government whose credit-worthiness was unquestionable. According to the Ministry's own admission the risk would legitimately arise in the case of loans to co-operative societies. The Committee desire that in every case where it is decided to give Government guarantee for the loans taken by private institutions; the Ministry of Finance should before according their concurrence satisfy themselves that Government interests are duly safeguarded.

MAHAVIR TYAGI,
Chairman,
Public Accounts Committee.

NEW DELHI;
March, 9, 1964.
Phalguna, 12, 1885 (*Saka*).

PART II
PROCEEDINGS

Proceedings of the 67th sitting of the Public Accounts Committee held on Friday, the 31st January, 1964.

The Committee sat from 10.00 to 12.30 hours.

PRESENT

Shri Mahavir Tyagi—*Chairman*

MEMBERS

2. Shri J. B. S. Bist
3. Shri Gajraj Singh Rao
4. Sardar Kapur Singh
5. Shri Prakash Vir Shastri
6. Shri Ravindra Varma
7. Shri Vishram Prasad
8. Shrimati K. Bharathi
9. Shrimati Maya Devi Chettry
10. Shri Sadiq Ali
11. Pandit S. S. N. Tankha

Shri A. K. Roy—*Comptroller and Auditor General of India.*

Shri G. Swaminathan—*Additional Deputy Comptroller and Auditor General.*

Shri R. K. Khanna—*Accountant General, Central Revenues.*

SECRETARIAT

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

Shri Y. P. Passi—*Under Secretary.*

WITNESSES

Ministry of Finance

(Department of Economic Affairs)

1. Shri L. K. Jha—*Secretary.*
2. Shri Shiv Nath Singh—*Joint Secretary.*

(Department of Revenue and Expenditure)

3. Shri V. T. Dehejia—*Secretary.*

(Department of Co-ordination)

4. Shri P. C. Mathew—*Additional Secretary.*

(Department of Revenue)

5. Shri D. P. Anand—*Member, Central Board of Excise and Customs.*

2. The Committee took up consideration of Chapter I of the Audit Report (Civil), 1963 relating to the Finance Accounts, 1961-62.

Page 1, Para 1—Variations between budget estimates and actuals of Receipts and Expenditure

3. Referring to the fact that the Revenue collected exceeded the estimated amount by 118·79 crores and the expenditure fell short of the Budget estimates by Rs. 104·18 crores (Revenue Accounts, Rs. 11·64 crores and Capital Accounts, Rs. 92·54 crores) during the year 1961-62, the Committee enquired about the steps taken to achieve closer estimate of receipts and expenditure as recommended by them in their 9th Report (Third Lok Sabha). The representative of the Department of Economic Affairs stated that while every effort was being made to achieve approximation between estimates and actuals, numerous variable factors made it extremely difficult to avoid large variations in respect of both receipts and expenditure. It was urged that there was no attempt to under-estimate revenue receipts. One of the factors contributing to variation was collection in the month of March, of new customs and excise duties announced on the last day of February in the budget proposals for the following year. As regards the short-fall in expenditure, the witness stated that one of the causes was delay or failure in procuring stores from abroad. Also if book adjustments of expenditure incurred were not made for some reason or the other savings occurred. Explaining the measures taken to avoid large savings, the witness stated that the administrative Ministries were required to make constant review of expenditure during the course of the year and maintain a record of likely debits as recommended by the Public Accounts Committee. It was urged that in spite of all possible efforts it was extremely difficult to achieve closer approximation of actuals and estimates.

Referring to the statement made in the Audit para that if Supplementary Grants were taken into account the variation between anticipations and actuals of receipt and expenditure on Revenue Account would amount to Rs. 177 crores in 1961-62 as against Rs. 116 crores in 1960-61, the witness pointed out that it was not correct to take into account supplementary grants as a factor in increasing the variations. In a number of cases Supplementary Grants were taken as a result of change in classification of expenditure already booked under another head. In some cases Supplementary Grants were obtained to transfer excess collections of cesses or grants received under P.L. 480 to the Funds, in question, which were also included under Revenue Receipts. Thus, inclusion of Supplementary Grants for the purpose would lead to double accounting.

The Committee pointed out that Parliament approved taxation proposals of Government with reference to the revenue needed to meet the expenditure for the year; so it was required of the Finance Ministry to place correct estimates of receipts from the various taxes. The Secretary, Department of Revenue and Expenditure stated that the rates of taxes were fixed not on the basis of the expenditure on Revenue Account alone but took into account the entire expenditure on Revenue and Capital accounts. He added that an analysis of the last few budgets showed that deficit financing had been proceeding at a much higher rate than that assumed in the Third Plan.

The wide variations between the estimates and actuals of excise duties were attributed by the Secretary, Department of Revenue and Expenditure partly to (i) new items brought under taxation every year in respect of which adequate statistical data were not available; and (ii) duties levied during the course of the financial year which could not be foreseen, such as, additional duty levied in September, 1961 on certain petroleum products to wipe out profits on the import of crude oil which resulted in considerable increase in revenue. It was urged that the variation in respect of the items that were already under duty, for which statistics were available, had been of the order of about 5 per cent only, in spite of variations in industrial production, consumption pattern, prices etc. Asked to state the steps taken to collect adequate statistical data, the witness stated that the question of compulsory submission of information by a large number of industrial units had been recently considered by a Committee appointed by Government. The Secretary, Department of Economic Affairs stated that additions of items to the dutiable list and change in the pattern of taxation were more frequent in India than in other countries which led to a higher percentage of variation between estimates and actuals. Giving the break-up of the variations of Rs. 54 crores during 1961-62 in respect of excise duties, the Secretary, Department of Revenue and Expenditure stated that new items accounted for Rs. 12·77 crores, additional duty levied on Petroleum products in September, 1961 account for Rs. 7·80 crores, cesses administered by other Ministries, Rs. 4·67 crores, and already existing items, Rs. 29·39 crores.

With regard to customs duties, the representative of the Central Board of Excise and Customs attributed variations between estimates and actuals to change in the import policy of Government and issue of *ad hoc* licences, such as, in the case of P.O.L. products. As regards direct taxes, the increased collection was explained as due to a special drive undertaken during the course of the last three years to expedite assessments and recoveries. It was urged that the result of these steps could hardly be foreseen at the time of framing the budget estimates.

Asked if the local officers *viz.*, Collectors of Central Excise and Customs, and Commissioners of Income-tax had not a tendency to under-estimate revenue in order to take credit for more collections than estimated, the Secretary, Department of Revenue and Expenditure stated that no officer earned appreciation on that account. Moreover, the Ministry did not entirely depend on the estimates received from the local officers. Actually, 3 or 4 studies from different points of view were made to arrive at the amount of revenue likely to be collected. The Secretary, Department of Economic Affairs agreed that it was desirable to be as accurate as possible in framing estimates, but urged that, in spite of the best efforts, wide variations occurred. All the same, the witness held the view that these variations were economically in the right direction.

The Committee drew attention to the decreasing percentage of variations between budget estimates and actuals of inland Revenue Receipts in U.K. (1·3 per cent in 1961-62). The Secretaries, Department of Revenue and Expenditure and Department of Economic Affairs stated that, in the context of developing economy in India with new taxes of sizeable order levied every year, but with statistical surveys not being adequate as in U.K., variations were bound to be wider. The Committee assured that the Ministry would endeavour to achieve closer approximation between estimates and actuals. But it was added that no tangible results could be expected in the next one or two years, as new factors responsible for variations were being suddenly injected. The impact of new taxes and changing economy would leave a slightly bigger margin of variation than in countries which had already reached a certain level of development and stability.

The Committee enquired whether the estimates of expenditure could not be improved by making more effective the financial control exercised through the Financial Advisers attached to the various Ministries. The Secretary, Department of Economic Affairs promised to review the position. The Secretary, Department of Revenue and Expenditure stated that delegation of the powers some years back had led to increase in expenditure. He added that as desired by the Committee at a previous sitting, it was proposed to review the delegation of powers.

Referring to the expenditure booked by the administrative Ministries under the head 'contingency', the Committee suggested that the Finance Ministry should examine the desirability of exhibiting separately in the budget, expenditure on certain items such as, opening ceremonies etc. with a view to apprising Parliament of the quantum of such expenditure.

Page 3, para 4(b)—Administrative Services—Police

4. Explaining the reasons for the increase of expenditure on Police from Rs. 6.42 crores in 1956-57 to Rs. 18.76 crores in 1961-62, the representative of Department of Economic Affairs stated that the responsibility for maintaining law and order in the border areas being that of the Centre, it was conducted by a combined agency, and the Central Government had to suggest various measures to increase the efficiency of the State Police in the border areas. The Committee desired to be furnished with a note stating the break-up of expenditure on Police for border areas and other territories for the years 1956-57, 1960-61 and 1961-62.

Pages 3-4, paras 4(c) and (d)—Grant-in-aid paid to State Governments and Non-Government institutions for social and development services etc.

5. The Committee enquired if any action had been taken by Government to remove the lacunae pointed out in para 13 of their Ninth Report (Third Lok Sabha) in checking the utilisation of Grants paid to the State Governments. The representative of the Department of Co-ordination stated that the annual State Plans were reviewed by the Planning Commission in consultation with the Finance Ministry and the State Governments concerned. The State Governments were allotted certain funds by the Centre which could be drawn by them by fully implementing the particular year's programme. In response to the feeling that State Governments must have a certain amount of freedom to incur expenditure

within the Plan according to the local needs, the Government of India had agreed to allow the State Governments to draw the total amount of assistance in proportion to the total development expenditure for the year. The State Governments had thus been given certain power to re-appropriate funds from one scheme to another. Therefore, while it is not possible to make a scheme-wise check of these grants, a check could be exercised under the various heads of development. To a question, how it was possible for the Department to check the utilisation of grants in the absence of any co-relation between the heads of development in Central assistance and heads of accounts in the States, the witness replied that the quantum of assistance was worked out on the basis of the administrative figures supplied by the State Governments in regard to Plan expenditure. Therefore, he added, the basic question to be considered was whether the classification of expenditure by the States into plan and non-Plan was correct or not. In reply to another question, the witness stated that where the assistance due on the basis of the total expenditure exceeded that calculated under the heads, the difference was to be met by means of additional loan under the head 'Miscellaneous Loans'. It was added that the Planning Commission had recently issued a circular that in the case of certain schemes that had been given a over-riding priority, only the expenditure relating to them would be taken into account, and this would not be included in calculating the over-all assistance. Asked about the justification of issuing such circulars by the Planning Commission instead of by the Ministry of Finance, the Secretary, Department of Economic Affairs stated that the Commission was closely associated in matters of policy regarding quantum of assistance to the States for planning purposes, but the power to sanction the amounts remained with the Government of India.

The Secretary, Department of Economic Affairs stated that regardless of the fact that the current policy was to issue Grants on an over-all performance basis, the Finance Ministry agreed with the Comptroller and Auditor-General that it was necessary to verify the accounts in respect of the Grants in the light of the conditions governing them. The witness informed the Committee that some figures had been received which were subject to verification. The question had been recently discussed with the Comptroller and Auditor-General. It was, however, difficult to reconcile the figures booked in the Accounts Offices with those communicated by the State Goverments. The Comptroller and Auditor-General pointed out that the basic data did not exist in the Offices of the Accountants General, and unless the lacunae pointed out already were removed, it would not be possible to reconcile these accounts with the figures supplied by the State Governments. The representative of the Department of Economic Affairs stated that the matter was under consideration, and instructions were expected to be issued shortly. Explaining further difficulties, the witness added that two States *viz.*, Madras and West Bengal had not adopted the standard pattern of exhibiting the Plan expenditure which, to some extent, stood in the way of reconciliation of accounts.

Referring to the manner of utilisation of the Central grants, the Comptroller and Auditor-General referred to para 19 of the Report of the Madhya Pradesh Public Accounts Committee for the year 1962-63, stating that in some cases money had been drawn by the State Government at the fag end of the financial year in order to secure grant or subsidy from the Government of India during the year. The Government of Madhya Pradesh had stated in their note that as a certificate of utilisation had to be furnished in order to entitle the State Government to claim the necessary assistance, the Department was more or less compelled to issue such a certificate. In extenuation, the Secretary, Department of Revenue and Expenditure stated that such irregularities might not exist in other States.

In reply to a question, the representative of the Department of Economic Affairs stated that the proposed circular referred to in para 13 of the Ninth Report of the Public Accounts Committee (Third Lok Sabha) had not yet been issued. The difficulty was in devising methods of reconciliation of book figures with heads of development. It was now proposed to furnish to Audit details of the various items falling under each head of development to enable them to reconcile them with book figures. The matter was still under discussion with the Comptroller and Auditor-General and the Planning Commission. The Comptroller and Auditor-General pointed out that if it was the policy of Government to relate grants to the expenditure incurred and to the purpose of their utilisation, it was necessary to maintain accounts in that manner. The Department concerned should be able to obtain figures of expenditure on the various schemes from the accounts in order to regulate future grants. The Comptroller and Auditor-General further pointed out that at present no intimation regarding diversion of funds from one scheme to another was received in Audit.

With regard to the grants issued to the private institutions, the representative of the Department of Economic Affairs stated that it was the duty of the Department as well as Audit to verify that the conditions attached to them were satisfied.

Page 9, para 8—Debt Position

6. Referring to their recommendation contained in para 15 of their Ninth Report (Third Lok Sabha), the Committee enquired about the action taken to study the procedures followed in various Democratic countries for obtaining approval of Legislature to the borrowing programmes of Government. The Secretary, Department of Economic Affairs stated that the Ministry of External Affairs had addressed a number of countries in the matter, but no final report had yet been received.

As regards informing Parliament about the position of loans already floated by Government, it was stated that the requisite information was being laid on the Table of the House.

With regard to the question of enacting a law under Article 292 of the Constitution, the representative of the Department of Economic Affairs reiterated the Ministry's earlier views that Government borrowing was done within the actual resources approved by Parliament for financing the Plan. The approval of Parliament was also obtained at the time of passing the annual budget every year. There were certain practical difficulties in fixing the limits by law, for either such a limit would be too wide or the law would have to be frequently amended to meet the changing needs. The present procedure provided sufficient opportunity to Parliament to approve or disapprove of any policy of Government involving raising of money. As regards taking permission of Parliament to raising of market loans it was stated that the terms of Government borrowing depended upon the market trends from time to time, and the details of the proposed borrowing could not be announced in advance for reasons of secrecy. The Secretary, Department of Revenue and Expenditure expressed the view that the Parliament might pass a law, if necessary, when the borrowing reached very high limits, but the present debt position need not cause anxiety to Parliament. The size of the debt as on 31st March, 1963, was stated by the Comptroller and Auditor-General to be Rs. 7,621 crores out of which the market borrowing amounted to Rs. 2,871 crores.

In reply to a question, the representative of the Department of Economic Affairs stated that in the case of foreign loans, both interest and principal were invariably repaid from the country's own resources. The only exception was the German loan for the

Rourkela Steel Project in which case there was an agreement that, when a payment fell due under the old loans, a part of it—the bulk—would be converted into a longer loan and only the balance repaid.

Page 15, para 18—Loans and Advances by the Central Government

7. Explaining the reasons for delay in repayment of principal and interest by the State Governments, the representative of the Department of Economic Affairs stated that in some cases representations were made by the State Governments, or there might be ways and means difficulties at their end. All the same, the Finance Ministry were keen that the States must repay their loans as they fell due. Last year, the State Governments were asked to issue standing instructions to their Accounts Officers to make an assessment as and when their commitment was to be discharged. But the State Governments were reluctant to do so. The State Governments were even warned that if they failed to repay their obligations, these would be adjusted against their entitlements from the Central Government. It was, however, added that there were some genuine cases where the State Governments might be justified in holding up the repayments. All the cases were, however, being actively pursued. It was the duty of the Ministry concerned to take necessary action as soon as defaults in payments came to their notice from the Accounts Officers.

Explaining the present position regarding the outstandings mentioned in the Audit para, the witness stated that in some cases repayments were made subsequently. In the case of Kerala and Punjab, the arrears had since been recovered. Out of the total outstanding of Rs. 2·5 crores due from West Bengal in 1961-62, a sum of Rs. 1·63 crores had been recovered and the recovery of the balance was being pursued by the Ministry concerned. As regards the repayment of interest of Rs. 90 lakhs by Rajasthan, it was stated that this related to the loan given for financing the Chambal Project. On a representation made by the State Government, fresh loans had been given for repayment of the interest due till 1961-62.

On his attention being drawn to the observation of the Committee made in para 16 of their 9th Report (Third Lok Sabha), questioning the justification for grant of loans to repay the old ones, the representative of the Department of Economic Affairs stated that this practice was resorted to only in the case of the River Valley Projects, where it was accepted by both Comptroller and Auditor-General and Government, that there were no other resources to repay the interest liability during the period of construction. The capitalized interest payments were treated as a first charge on the surplus receipts or revenue earnings of the Projct as soon as it started operating. In the case of the public sector enterprises, the Ministry's view was that since loans were given by Government out of moneys borrowed by them, it was but proper that these enterprises paid interest thereon. In these enterprises it had been agreed in principal to subscribe loan and equity capital in the ratio of 50:50. The release of equity Capital might not run parallel with the release of loan Capital during the period of construction. If the undertaking agreed to take a loan during this period it must assume the liability for the payment of interest.

In reply to a question, the representative of the Department of Economic Affairs stated that the revenues of the States were not adequate to meet the repayment of loans. They had either to borrow from the market or from the Centre. The witness added that at the last conference of the Finance Ministers, the desirability of establishing sinking funds or amortisation funds was also stressed. But if the States were to earmark a part of their revenue for this purpose, this would merely result in a wider gap in their revenue necessitating a further devolution from the Central revenues. The Committee enquired whether it was not desirable to let the States repay from their own revenues or by borrowing from the market, instead of the Centre advancing fresh loans. The Secretary, Department of Economic Affairs stated that certain of the less developed States were already heavily burdened with debts, and these had also not substantial revenue. Loans were advanced to them to enable them to attain a level of prosperity or to reduce their dependence on subventions. Withdrawal of the process of granting loans to these States would only perpetuate their state of backwardness. The witness admitted that even in these backward States there was wasteful expenditure which was a matter of concerns, but the Central Government could not effectively deal with the problem, as it concerned the day to day working of their administration. On the other hand the States took advantage of the Centre's anxiety not to let any part of the country remain without development. This question would be placed before the next Finance Commission which was expected to be set up shortly.

The Committee asked if in order to ensure repayment of interest, it was not possible to advance loans to the State Governments for only productive projects. The Secretary, Department of Economic Affairs stated that the idea of advancing loans for only productive purposes would not solve the problem unless the condition of repayment was commensurate with the expected income from the

Project. The Secretary, Department of Revenue & Expenditure stated that even if the States were to borrow from the market for non-productive projects, at the time of repayment of interest it would not be possible to ensure that income from a productive project was not utilised for repayment of an unproductive loan. The witness further stated that at the present stage of the country's resources it was not possible to have water-tight distinction between Central ability and State ability. The representative of the Economic Affairs Department stated that the capacity of the States to borrow from the market was limited. Large scale borrowing from the market by individual States would affect the entire gilt-edged market. The Government of India, therefore, helped the States within reasonable limits. Asked if it was not more appropriate for the Central Government to undertake construction of big projects in the States instead of advancing large loans to them for the purpose, the Secretary, Department of Economic Affairs stated that the question was under Government's Consideration.

With regard to the Rehabilitation loans, the representative of the Department of Economic Affairs stated that in the case of loans relating to the western sector, orders had been issued on the 1st January, 1964, that no recovery was to be made in excess of the amounts that the States themselves had been able to realise. As regards the loans relating to the eastern sector the matter was still under consideration.

Pages 17-18, *para* 20

8. The Committee asked about the reasons for non-settlement of terms and conditions of the Loans granted more than 4 to 10 years ago and for not recovering interest from the respective State Governments. The representative of the Department of Economic Affairs stated that these loans had been made by the Administrative Ministries concerned. The Ministry-wise break-up of the loans was stated to be as fololws:

(i)	Ministry of Commerce & Industry	.... 9·62 crores
(ii)	Ministry of Irrigation & Power	.... 26·54 ,,
(iii)	Ministry of Works, Housing & Supply	.... 1·37 ,,
(iv)	Ministry of Food & Agriculture	.... ·55 ,,
(v)	Other Ministries	.... 4·41 ,,

The loans given by the Ministry of Commerce & Industry related mainly to the Handloom Industry, Handicrafts and Co-operative Societies, where there was difficulty in obtaining the details of utilisation from the State Governments. It had since been agreed that in the case of Handicrafts and Co-operative Societies, loans utilised on Co-operative Schemes would be repayable in 10 equated instalments and in other cases in 5 equated instalments. It was added that in regard to the Handloom Industry, the matter was still under correspondence with the State Governments. As regards, the loans given by the Ministry of Irrigation & Power it was stated that these related to the Beas Dam in Punjab and the Rajasthan Canal Project, the terms of which were under consideration of the Ministry. The Comptroller & Auditor General pointed out that although the loans for the Rajasthan Canal Project were granted 9 years back, the terms had not yet been settled. The Secretary, Department of Economic Affairs suggested that as the terms of these loans were settled by the Ministries concerned, they could best explain the reasons for delay in this behalf and expedite settlement.

Asked if it was not desirable to settle the terms in advance of the grant of loans, the witness stated that, as far as the Finance Ministry were concerned, they were certainly in favour of the terms to be settled in advance. The Secretary, Department of Expenditure urged that in the case of emergent loans it would be difficult to settle the terms in advance. The Chairman suggested that exceptional cases could be allowed. The Secretary, Department of Economic Affairs agreed that as a rule the terms of loans should be settled in advance, unless there were good reasons for departure from this principle.

Pages 18-19, *para* 21—*Loans and Advances granted to Government owned Corporations, private institutions etc.*

9. The representative of the Department of Economic Affairs stated that these loans too were made through the Administrative Ministries concerned. According to Audit, the amount of principal/interest outstanding as on 31-3-63 had been more than the corresponding amount at the end of the previous year, in respect of two parties viz., Tibbia College and Thakkar Bapa Multi-purpose Co-operative Society. Similar was the position in regard to loans for Rehabilitation Schemes for Industrial Institutions and loans for Development of Small Scale Industries. The representative of the Department of Economic Affairs stated in explanation that the loan was repayable in equated instalments, so that the outstanding amount increased as a result of next year's instalment falling due; there was no fresh loan given.

Referring to the arrears outstanding in respect of the Co-operative Craft Schools in Delhi, the witness stated that, of these Schools which were initially started by the Ministry of Rehabilitation, 7 had been taken over by the Ministry of Education, and 5 had been closed down. The question of recovery of outstanding loans was being pursued by the Ministry of Education. The loans relating to the schools which had closed down had been written off. This matter had also been discussed in para 34 of the Eighth Report of the Public Accounts Committee (Third Lok Sabha).

With regard to the arrears of Rs. 0·14 lakhs due from the Cantonment Board, Almora, the witness stated that the Cantonment Board had not been able to realise their dues from the Municipal Board, Almora. The matter was under correspondence with the U.P. Government; never-the-less, the Cantonment Board had been asked to discharge their liability. The Committee desired to be furnished with a detailed note indicating—

(a) the reasons for the loans and advances mentioned in this para remaining outstanding;

(b) steps taken for their recovery; and

(c) the present position regarding their recovery.

Pages 19-20, para 22—Guarantees given by the Central Government

10. The Committee enquired about the position regarding the assurance given to them last year (c.f. para 23 of Ninth Report—Third Lok Sabha), that it was proposed to issue instructions that when a Ministry had to give a guarantee to some party the question whether a fee should be levied, should be specifically considered on merits and a decision taken with concurrence of the Ministry of Finance. The Secretary, Department of Economic Affairs stated that the Ministry had since made a re-assessment of the position regarding issue of guarantees. It was urged that giving guarantees was not a commercial activity of Government. In the case of loans from international institutions, there was a statutory condition attached that these must be guaranteed by the respective Government. There was, in consequence transfer of a certain right to Government that if the borrower defaulted, Government would take over his entire property. Considering the fact that Government themselves desired the industry to seek foreign loans for implementation of their projects, which itself was a costly proposition, it would be a little harsh to the industry, if there was an additional Government charge. It was enough for Government to have a full mortgage of the assets of the Company, so that if it defaulted Government could take it over.

Referring to another type of guarantee viz., guarantee given to Co-operative Sugar Mills for the loans obtained by them from the Industrial Finance Corporation, the witness stated that by giving such guarantees, the Central Government and State Governments made it possible for a number of sugar factories to be set up in the Co-operative sector in which they were interested. Any charge for giving such a guarantee might have thwarted the development. It was added that out of 7 per cent interest, charged by the I.F.C., Government received ½ or 1 per cent by way of insurance. The witness further stated that at one time it was provided in the I.F.C. Act, that certain loans should not be given except when there was a Central Government guarantee. But the Act had since been amended and this type of guarantee had virtually disappeared. Government now gave guarantees to public sector undertakings, in which Government themselves were the sole or major share-holder, in respect of loans raised from the market, because Government guarantee was rather attractive for securing market loans. If a fee was imposed on Government's own companies for this guarantee, the advantage of the saving in interest charges in borrowing from the State Bank of India would be lost to the Companies.

Asked whether a decision had been taken to lay down a procedure for obtaining the concurrence of the Finance Ministry in issuing guarantees, the witness stated that a procedure had already been laid down. It had been considered whether the Financial Advisers could be rather restrictive in the matter but it was found that there was no category of cases where charging a fee was desirable.

11. Before the Committee adjourned, they thanked the representatives of the Ministry of Finance for their co-operation.

Proceedings of the 74th sitting of the Public Accounts Committee held on Saturday, the 7th March, 1964

12. The Committee sat from 14·30 to 15·00 hours.

PRESENT

Shri Mahavir Tyagi—*Chairman.*

MEMBERS

2. Shri J. B. S. Bist
3. Sardar Kapur Singh
4. Shri Mathura Prasad Mishra
5. Shri Ravindra Verma
6. Shri Vishram Prasad
7. Shrimati K. Bharathi
8. Shri B. D. Khobaragade
9. Shri Dahyabhai V. Patel
10. Shri Sadiq Ali
11. Pandit S. S. N. Tankha

Shri R. K. Khanna—*Accountant General Central Revenues.*

Shri N. C. Khanna—*Deputy Director (Reports) C. & A. G's. Office.*

SECRETARIAT

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

Shri Y. P. Passi—*Under Secretary.*

13. The Committee took up consideration of their Draft Twenty-second Report on Finance Accounts of Central Government, 1961-62 —Chapter I of Audit Report (Civil), 1963 and approved it with a few modifications here and there.

14. The Committee authorised the Chairman to sign the Report on their behalf and present it to the House. The Committee also authorised Shri Vishram Prasad to present the Report to the House in the absence of the Chairman, P. A. C.

The Committee also authorised Pandit S. S. N. Tankha/Shri Sadiq Ali to lay a copy of the Report on the Table of Rajya Sabha.

15. The Committee then adjourned.

2353 (Aii) LS—4.

APPENDICES

APPENDIX I

GUARANTEES GIVEN BY THE CENTRAL GOVERNMENT

A statement indicating the guarantees given by the Central Government under Article 292 of the Constitution in respect of loans raised by Government Companies, Corporations, Railway Companies, Local Bodies and Joint Stock Companies, etc. and outstanding as on 31st March, 1962 is given below. Parliament has not fixed the limits within which the Government can give guarantees.

Joint Stock Companies—

(*i*) Guarantees given in pursuance of Agreements entered into by the Government of India with the International Bank for Reconstruction and Development during the period 1952-1961 in regard to payment of principal, interest, commitment charges, etc., on the loans and also of the principal and interest on the bonds and premium, as set forth in the loan agreements:—

Names of the Private Companies		Maximum amount guaranteed	Sums guaranteed outstanding on 31-3-1962
		$	$
Indian Iron and Steel Company Ltd. .	(i)	29,2[illegible]2,888	21,340,000
	(ii)	20,000,000	14,316,717
	(iii)	19,500,000	Nil
Tata Iron and Steel Company Ltd. .	(i)	75,000,000	62,655,000
	(ii)	32,500,000	23,500,000
Tata Group of Hydro Electric Company Ltd. . . .	(i)	1[illegible],950,000	10,872,582
	(ii)	9,800,000	8,393,273
Industrial Credit and Investment Corporation of India Ltd. .	(i)	10,000,000	8,347,330
	(ii)	1[illegible],[illegible]00,000	4,070,114
	(iii)	20,000,000	2,068,415
	(iv)	20,000,000	Nil

(*ii*) Guarantees given for the repayment of principal and interest to the Industrial Finance Corporation in respect of loans given by the Corporation during the period 1950-1959:—

	Rs.	Rs.
Dharangadhara Chemical Works Ltd.	1,42,50,000 and Interest thereon	1,08,00,000
West Coast Paper Mills, Bombay (Factory at Dandeli in Mysore State) .	1,50,00,000	1,44,00,000

(*iii*) Guarantees given to the State Bank of India in respect of cash credit accommodation/advance granted by it:—

	Rs.	Rs.
Oil India Ltd. . . .	6,66,00,000	6,66,00,000
Bolani Ores Ltd. . . .	80,00,000	67,16,000

(*iv*) Guarantees given to the Bombay State Financial Corporation in respect of loan given by it to private individuals in April, 1960:—

Name of the private individual	Nature of guarantee	Rate of interest	Maximum amount guaranteed	Sums guaranteed outstanding on 31-3 62
			Rs.	Rs.
Kanwar Raj Nath	Entire loan of Rs. 7 lakhs has been guaranteed in the shape of second mortgage on the property, (First mortgage being in favour of Government of India in respect of Rs. 48,1[illegible],000 due to the Government from the individual)	6½% per annum	7,00,000	3,72,900

Government Companies/Corporations—

(*v*) Guarantees given for the repayment of principal and interest to the State Bank of India in respect of cash credit facility, letters of authority, etc. given by the Bank to Government Companies during the period 1955-1962:—

1. Cash Credit facility, *i.e.*, the maximum limit upto which the Companies have been permitted to overdraw from the Bank.

Name of concerns on whose behalf guarantee was given	Maximum amount guaranteed	Sums guaranteed outstanding on 31-3-1962
	Rs.	Rs.
Bharat Electronics Ltd., Mazagon Dock Ltd., Garden Reach Workshop Ltd., National Industrial Development Corporation Ltd., State Trading Corporation of India Ltd., Hindustan Steel Ltd., Hindustan Shipyard Ltd., National Projects Construction Corporation Ltd., National Small Industries Corporation Ltd., Indian Handicrafts Development Corporation, Indian Oil Company Ltd., and National Buldings Construction Corporation Ltd.	29,69,00,000	16,79,96,600

2. Letters of credit, *i.e.*, an authorisation by the Bank to an exporter to draw on it for funds within a stated amount and time in payment for specified goods to be shipped to India:—

Heavy Engineering Corporation Ltd., Indian Oil Company Ltd., Indian Refineries Ltd., Neyveli Lignite Corporation Ltd., National Coal Development Corporation Ltd., and Regional Subsidiaries of the National Small Industries Corporation Ltd.	Lire 11,261,343,450 Rs. 3659,67,021	Lire 11,261,343,450 Rs.13,08,08,451

3. Guarantees to the State Bank of India who have issued letter of guarantee to Company's suppliers for deferred payment:—

Fertilizer Corporation of India, Naya Nangal	£	3,826,959	1,680,580
	$	13,674,653	4,051,750
	Lire	727,020,873	315,398,022
	D.M.	8,378,304	4,263,863

4. Indemnity to indemnify the State Bank of India against all claims in respect of a guarantee given to a British Firm:—

Heavy Electricals Ltd.	£	2,720,000 and interest thereon (Rs. 36·04 millions)	2,256,8 4

(*vi*) Guarantee to the Export and Import Bank of Japan for repayment of principal and interest in respect of loans given by it to a Government Company:—

The Shipping Corporation of India Ltd.	Yen	Yen
	815,500,000 plus interest @5¾% per annum	815,500,000

(*vii*) Guarantees to the Foreign consultants/contractors for repayment of principal and interest and fulfilment of payment obligations in pursuance of agreement/letters of acceptance with the following Government Companies:—

Heavy Electricals Ltd., Heavy Engineering Corporation Ltd. and Hindustan Steel Ltd.	Rs.	17,92,31,775	2,37,82,134
	£	4,160,000	677,416
	$	3,502,500	421,250
	D.M.	207,111,457	20,687,205

(*viii*) Guarantee given for the repayment of loan and interest to the Industrial Finance Corporation in respect of loans given by it to the following Government Company:—

Fertilizers and Chemicals Ltd., Travancore	Rs.	2,95,94,400	2,42,02,25

(*ix*) Guarantees given to Development Loan Authority for repayment of principal, interest and other charges in respect of loans given by it to the following Government Companies:—

Fertilizer Corporation of India Ltd. and National Small Industries Corporation Ltd.	$	40,000,000	40,000,000

(*x*) Guarantees given for the repayment of paid up share capital and payment of minimum annual dividend as well as repayment of redeemable debentures raised/issued by the following State Financial Corporations (Guarantee liability is shared in prescribed ratio by the Central Government/Union Territory concerned and the State Government):—

Punjab Financial Corporation and Assam Financial Corporation . . .	Rs.	1,74,99,999	1,72,34,665

Note.—Upto 1961-62 the Central Government had to bear a total expenditure of Rs. 66,828 towards payment of guaranteed dividend in respect of Punjab Financial Corporation.

(*xi*) Guarantees to the Foreign firms for repayment of principal, interest and other charges in pursuance of contracts entered into with the following State Corporations:—

Uttar Pradesh State Electricity Board, Madras S are Electricity Board, Madhya Pradesh State Electricity Board, Andhra Pradesh State Electricity Board and Mysore Electricity Board	Rs.	50,47,000	50,47,000

(*xii*) Guarantees given to International Bank for Reconstruction and Development/Development Loan Authority/Foreign Commercial Banks for repayment of principal, interest and other charges in respect of loans given by them to the following Statutory Corporations during the period 1957-1961:—

Air India International Corporation and Industrial Finance Corporation .	$	30,420,800	23,709,800

(*xiii*) Guarantee given for repayment of share caiptal, minimum annual dividend and repayment of bonds/notes with interest thereon issued by the following Statutory Corporations:—

Industrial Finance Corporation, Indian Air Lines Corporation, Air India International Corporation and Central Warehousing Corporation . . .	Rs.	47,90,46,060	32,15,20,620

Note.—Guarantee was invoked in respect of the Industrial Finance Corporation and a total amount of Rs. 53 lakhs was paid by Government up to 1956-57 towards payment of guaranteed dividend. A portion of this amount (Rs. 35 lakhs) has since been repaid to Government out of profits of the Corporation earned upto 1961-62. The repayment has been completed in 1962-63.

Government have also given guarantees for a maximum of DFL 36,846,100 for supplies made to the Indian Airlines Corporation by the foreign suppliers. The actual guaranteed amount outstanding on 31-3-1962 was DFL. 14,411,102.

Port Trusts—

(*xiv*) Guarantees given to the International Bank for Reconstruction and Development during 1958-61 for payment of principal, interest and commitment charges in respect of the loans granted by it to the following Ports:—

Calcutta Port Commissioner and Madras Port Trust . . .	$	64,000,000	19,743,933

Co-operative Societies—

(*xv*) Joint Guarantees by the Central Government with the respective State Governments on 50:50 basis, given to the Industrial Finance Corporation for repayment of principal, interest and other moneys in respect of loans granted by the Corporation to the following Co-operative Sugar Mills:—

34. Co-operative Sugar Mills.

Haryana Cooperative Sugar Mills Ltd., Panipat Cooperative Sugar Mills Ltd., Janta Cooperative Sugar Mills Ltd., Bazpur Cooperative Sugar Factory Ltd., Bagpat Cooperative Sugar Mills Ltd., Bellary Central Cooperative Stores Ltd., Pandavapura Sahakari Sakkar Karkhana Ltd., Assam Cooperative Sugar Mills Ltd., Madurantakam Cooperative Sugar Mills Ltd., Amaravati Cooperative Sugar Mills Ltd., North Arcot District Cooperative Sugar Mills Ltd., Malegaon Sahakari Sakkar Karkhana Ltd., Ashok (Karegaon) Sahakari Sakkar Karkhana Ltd., Ganesh (Rahata) Sahakari Sakkar Karkhana Ltd., Sri Chhatrapati Shivaji Sahakari Sakkar Karkhana Ltd., Shri Shriram Sahakari Sakkar Karkhana Ltd., Girna Sahakari Sakkar Kark ana Ltd., Bhogwari Sahakari Sakkar Karkhana Ltd., Shri Warna Sahakari Sakkar Karkhana Ltd., Shri Panchganga Sahakari Sakkar Karkhana Ltd., Krishna Sahakari Sakkar Karkhana Ltd., Shetkari Sahakari Sakkar Karkhana Ltd., Shri Khedut Sahakari Khand Udyog Mandli Ltd., Kodinar Khand Udyog Khedut Sahakari Mandli Ltd., Chodavaram Cooperative Agricultura and Industrial Society Ltd., Amadalavalasa Cooperative Agricultural and Industrial Society Ltd., Palakole Cooperative Agricultural and Industrial Society Ltd., Chittoor Cooperative Sugars Ltd., Morinda Cooperative Sugar Mills Ltd., Batala Cooperative Sugar Mills Ltd., Kishan Cooperative Sugar Factory Ltd., Haranya Kashi Sahakri Sakkar Karkhana Ltd., Nizamabad Cooperative Sugar Mills Ltd., and Aska Cooperative Sugar Industries Ltd.	Rs.	11,01,75,000	7,38,24,386

State Co-operative Banks—

(*xvi*) Guarantees given to the Reserve Bank of India for the repayment of loans and interest due on the promissory notes executed by the following State Co-operative Banks:—

Tripura State Cooperative Bank,

Manipur State Cooperative Bank and

Pondicherry State Cooperative Bank Rs. 45,00,000 35,50,000

In the case of contracts originally entered into with the following Railway Companies during 1917 to 1923 the amount of guarantee is limited to the amount required to make up the net receipts of these companies up to 3½ per cent per annum on their paid up share capital:—

Names of the Companies	Paid up share Capital	Amount of subsidy paid to the Companies during 1961-62 in pursuance of the guarantees
Burdwan-Katwa Light Railway Company Ltd.	Rs. 17,80,000	Rs. 3·15 lakhs
Ahmedpur-Katwa Railway Company Ltd.	Rs. 17,24,000	Rs. 2·27 lakhs
Futwah-Islampur Railway Company Ltd.	Rs. 11,49,900 (Less Rs. 200 representing forfeited shares)	Rs. 89,485
Bankura-Damodar River Railway Company Ltd. . . .	Rs. 34,00,000	Rs. 5·55 lakhs
Chaparmukh-Silghat Railway Company Ltd., ...	Rs. 31,00,000	Nil
Katakhal Lala Bazar Railway Company Ltd.	Rs. 8,91,100	Nil

APPENDIX II

Summary of main Conclusions/Recommendations

Serial No.	Para No.	Ministry/Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1	1	Finance	The Committee think that if the estimated gap between resources and expenditure closely approximates to the actual gap, it would be more beneficial to the economy. A wider gap shown in the estimates tends to release inflationary trends. Realistic estimates in respect of both resources and expenditure are, therefore, imperatively necessary.
2	2	Finance	In para 1 of their Twenty-first Report (Third Lok Sabha) on Revenue Receipts, the Committee have already expressed their concern over under-estimating of Revenue Receipts as compared to the actuals to the tune of 12 per cent (Rs. 118·79 crores) during the year 1961-62 and 15 per cent (Rs. 204·37 crores) during 1962-63. Two main factors widen the gap between estimates and actuals *viz.*,

			lack of sound statistical basis and conservatism in estimating. It was urged by the Secretary, Department of Economic Affairs that in the context of the developing economy in India with new taxes of sizeable order levied every year and with inadequate statistical surveys, the variation was bound to be wider than in countries which had already reached a certain level of development and stability. The Committee were assured that the Ministry would endeavour to achieve closer approximation between estimates and actuals, but no tangible results could be expected in the next one or two years, as new factors responsible for variations were being suddenly injected. While the Committee appreciate this, they emphasise the need for adequate and detailed statistical surveys in regard to industrial production, personal and company incomes, etc., and for re-orientation in the approach of the officers to avoid undue conservatism in estimating.
3	3	Finance	(*i*) The Committee feel concerned at large savings in the Capital expenditure during 1961-62 (Rs. 92·54 crores). This indicates that the administrative Ministries are over-optimistic about the implementation of the various schemes. The Committee reiterate the observations made in paras 5 and 6 of their Ninth Report (Third Lok Sabha) that the administrative Ministries should work out details of the various projects and schemes included in the Plan in advance of their inclusion in the Budget, and that only such schemes should be included in the Budget as have a reasonable prospect of being carried out during the year. The Committee have

1	2	3	4
			also recommended the imposition of a lumpsum cut in respect of the overall provision under a grant in respect of which savings are a recurring feature, allowing the administrative Ministry to obtain a Supplementary Grant later, if necessary. The Committee desire that an early decision should be taken in the matter. (*ii*) The Committee also note that in spite of delegation of powers made some years back to the administrative Ministries to incur expenditure, large savings continue to occur. The Committee desired the Ministry of Finance to examine the feasibility of making the financial control exercised through the Financial Advisers attached to the various Ministries more effective. The Secretary, Department of Economic Affairs promised to review the position in this regard. The Committee would like to know the outcome of this review. (*iii*) The Committee have an apprehension that owing to delegation of more powers and the provision of funds on a liberal basis, there has been a tendency to overlook avoidable expenditure. When more funds are available, there is the usual rush to spend the amount towards the end of the financial year, so that funds may not lapse. This tendency requires to be curbed.

4	4	**Finance**	The Committee would like to mention here that they have a feeling that there is a scope for economy in expenditure that is usually incurred by the various departments of Government under the nomenclature "contingent expenditure". Contingent expenditure has been defined as "all incidental and other expenditure including expenditure on stores, which is incurred for the management of an office, for the working of technical establishment such as a laboratory, workshop, industrial installation, store depot, and the like but does ont include any expenditure which has been specifically classified as falling under some other head of expenditure, such as 'Works', 'Stock', 'Tools' and 'Plan'." The Committee would like the Ministry of Finance to examine carefully the various items of expenditure taht are included by different Ministries and Departments under this nomenclature with a view to ascertaining whether any amendment in the definition of this nomenclature is necessary to clarify the nature of expenditure included threunder. The powers delegated to different authorities to incur expenditure under the nomenclature "contingent expenditure" should also be reviewed with the object of achieving economy. In this connection the Committee also recommended that the provision on certain items such as inaugural ceremonies, laying of foundation stones, etc. should be exhibited separately in the budget with a view to apprising Parliament of the quantum of such expenditure. The Committee also feel that during the period of emergency, expenditure on such items should be substantially curtailed if not eliminated altogether.

1	2	3	4
5	5	Finance	The Committee desired to be furnished with a note stating the break-up of expenditure on Police for the border areas and other territories for the years 1956-57, 1960-61 and 1961-62. The information is still awaited.
6	6	Do.	The Committee (1962-63) were critical about the unsatisfactory state of affairs arising from grants-in-aid to States worth crores of rupees continuing to escape audit check in regard to their utilisation, due to the lacunae pointed out by the Comptroller & Auditor General. The Committee feel concerned to note that no head-way has been made in removing these lacunae and the position continues to be unsatisfactory. The circular prepared in consultation with the Comptroller and Auditor General more than 3 years ago regarding reporting of actuals by the States, as certified by the respective Accountants General, has still not been issued. It is understood from Audit that Accountants General are unable, in several cases, to obtain information from State Governments regarding the exact schemes on which the funds made available by the Centre have been or are proposed to be utilised and that the departmental figures of expenditure met from loans and grants as furnished to the Government of India are not often supported by any details in the departmental records which can be verified by audit. The Committee are unable to understand why the Government of India are unable to insist on

			information being given to them and to Audit about the schemes on which the Central assistance is actually utilised and the expenditure incurred on each such scheme so that the departmental figures could be test checked from their own initial records even if there are difficulties in reconciling the departmental figures with the figures as booked in the accounts. It seems clear that the present situation under which the Government of India determine the quantum of assistance finally admissible to State Governments on the basis of figures which are not verifiable either from departmental records or from the accounts maintained by the Accountants General calls for immediate remedial action.
			The Committee desire the Ministry of Finance to take vigorous steps to devise a method that would enable the Comptroller & Auditor General to exercise proper checks in regard to the Central assistance made available to the States and to apprise Parliament of the results of these checks. The Committee hope that the matter would be finalised without further delay.
7	7	Finance	The Committee note that although a year has elapsed since they suggested that a study should be made of the procedures followed in various democratic countries for obtaining parliamentary approval to Government borrowing, not much head-way has been made in this regard. The Committee trust that the Ministry of Finance would vigorously pursue the matter and apprise the Committee of the outcome of their study before they consider the next year's accounts.

1	2	3	4
8	8	Finance	The Committee are glad to note that there has been no default in the payment of the principal or of the interest on foreign loans.
9	9	Do.	The Committee feel concerned over the delay in repayment of principal and interest by some of the State Governments. They reiterate the view expressed in para 21 of their Ninth Report (Third Lok Sabha) that in the matter of repayment of loans and interest the Central 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.
10	10	Do.	(i) The Committee had already taken note of the difficulty in repayment of loans during the period of construction of river valley projects etc. They would like to reiterate the view expressed in para 16 of their Ninth Report (Third Lok Sabha) that when the recipients utilised the loans on projects involving long periods of gestation, it would be more appropriate to provide for a specified period of moratorium in the loan sanction itself. The Committee object in principle to the practice of advancing fresh loans to the States for repayment of interest and principal in respect of earlier loans; otherwise this practice tends to increase not only their debt liability but also lethargy in tapping their own resources for the purpose.

			According to the Ministry's own admission there is wasteful expenditure even in the less developed States, and there is a tendency to take advantage of the Centre's anxiety not to let any part of the country remain without development. The Committee regard this as a matter of concern. They were glad to be informed that this question was proposed to be placed before the next Finance Commission. (ii) The Committee trust that an early decision will be taken on the question of the Central Government themselves undertaking construction of the major projects in the States instead of advancing them loans for the purpose, considering all the difficulties that are being experienced in repayment.
11	11	Finance	The Committee desire that early decision should be taken regarding repayment of the loans relating to the eastern sector and the Committee informed.
12	12	Do.	The Committee regret to point out that although the loans were granted to the States more than four years ago and in certain cases even ten years ago, the terms and conditions have not yet been settled and no repayment has been made, either towards principal or interest. The Committee desire the Finance Ministry to lay down a procedure whereby the administrative Ministries should settle the terms and conditions of loans before advancing them, except where loans are made to meet certain emergencies. Even in the cases of loans given for emergencies, the settlement of the terms and conditions should not be unduly delayed after sanctioning them.

1	2	3	4
13	13	Finance	The Committee desired to be furnished with a detailed note indicating— (a) the reasons for the loans and advances mentioned in this para remaining outstanding; (b) steps taken for their recovery; and (c) the present position regarding their recovery. The Committee defer consideration of the matter till the requisite information is made available to them. All the same, the Committee desire that Ministries concerned should make vigorous efforts to recover the old arrears of principal and interest, and not allow them to accumulate in future.
14	14	Finance	In para 23 of their Ninth Report (Third Lok Sabha), the Committee had suggested that suitable measures should be devised to safeguard Government's interest in giving guarantees, as the lender might not insist on a detailed scrutiny of the borrower's financial position when the guarantor was a Government whose credit worthiness was un-questionable. According to the Ministry's own admission the risk would legitimately arise in the case of loans to co-operative societies. The Committee desire that in every case where it is decided to give Government guarantee for the loans taken by private institutions, the Ministry of Finance should, before according their concurrence, satisfy themselves that Government interests are duly safeguarded.

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