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STANDING COMMITTEE ON FINANCE (1998-99)

TWELFTH LOK SABHA

MINISTRY OF FINANCE

DEMANDS FOR GRANTS (1996-97)

[Action taken by the Government on the recommendations contained in the Second Report (Eleventh Lok Sabha) of the Standing Committee on Finance on Demands for Grants (1996-97) of the Ministry of Finance]

SIXTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

July, 1998/Asadha, 1920 (Saka)

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Laid in Rajya Sabha on 27 July, 1998

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1. Dr. A. K. Pandey — *Additional Secretary*
2. Smt. P. K. Sandhu — *Director*
3. Shri N.S. Hooda — *Assistant Director*

INTRODUCTION

I, the Chairman, Standing Committee on Finance (1998-99) having been authorised by the Committee to submit the Report on their behalf, present this Sixth Report on action taken by Government on the recommendations contained in the Second Report of the Committee (Eleventh Lok Sabha) on Demands for Grants (1996-97) of the Ministry of Finance.

2. The Second Report was presented to Lok Sabha/laid in Rajya Sabha on 9 September, 1997. The Government furnished the replies indicating action taken on all the recommendations on 22 February, 1997. The Draft Action Taken Report was considered and adopted by the Standing Committee on Finance at their sitting held on 21 July, 1998.

3. An analysis of action taken by Government on recommendations contained in the Second Report (Eleventh Lok Sabha) of the Committee is given in the Appendix.

NEW DELHI;
22 *July*, 1998
31 *Asadha*, 1920 *(Saka)*

MURLI DEORA,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by the Government on the recommendations contained in their Second Report (Eleventh Lok Sabha) on Demands for Grants of the Ministry of Finance for 1996-97 which was presented to Lok Sabha on 9 September, 1996.

2. Action Taken Notes have been received from the Government in respect of all 22 recommendations contained in the Report. These have been categorised as follows:—

(i) Recommendations/Observations which have been accepted by the Government:

Sl. Nos. 1, 3, 6, 7, 11, 12, 14, 20 and 21

(Chapter II—Total 9)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies:

Sl. Nos. 2, 8, 9, 13, 15, 16 and 17

(Chapter III—Total 7)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and commented upon in Chapter I of the Report:

Sl. Nos. 4, 18 and 22

(Chapter IV—Total 3)

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:

Sl. Nos. 5, 10 and 19

(Chapter V—Total 3)

3. The Committee desire that final replies in respect of the recommendations for which only interim replies have been given by the Government should be furnished to the Committee expeditiously.

The Committee will now deal with the action taken by Government on some of their recommendations.

Security Paper Mill, Hoshangabad
(Machinery and Equipment)

(Recommendation Sl. No. 4, Para No. 14)

4. The Committee in their original recommendation had expressed astonishment over the fact that the Ministry of Finance (Department of Economic Affairs) had not finalised procurement action as a result of which the Ministry had to surrender a large part of budgetary provisions during 1993-94 and 1994-95. They had also observed that the Ministry had not explained the reasons for the non-utilisation of budgetary allocation made during 1995-96. The Committee had deplored the laxity of the Government in finalisation of procurement action in respect of machinery and equipment for Security Paper Mill (SPM) Hoshangabad and had desired to know the reasons for the same. They had also observed that budgetary allocations under this Head were increased during 1995-96 and 1996-97 and believed that increasing allocations were only made in order to offset the cost escalation which might have taken place due to delayed finalisation of procurement action. The Committee wanted to be apprised of the cost of the project when the budgetary provisions were made during 1993-94 and final estimated cost. In the event of cost escalation due to delay in procurement action, the Committee had recommended that the responsibility should be fixed for delay in procurement action.

5. Ministry of Finance in their Action Taken reply have stated as under:

Details of under-utilisation of budgetary allocation for the year 1993-94, 1994-95 and 1995-96, are as under:

1993-94

6. The budget grant received for procurement of various Machinery & equipment during 1993-94 was for Rs. 6.01 crores. Assessing the progress of procurement activity, supply position and likely payments

during the said financial year, the SPI. had, at the stage of Revised Estimate itself, asked for a reduced provision of Rs. 3.00 crores only. However, the actual expenditure incurred was Rs. 87.62 lakhs only resulting in a saving of Rs. 2.12 crores. The savings occurred were on the Machinery/Equipment as detailed below:

Name of Machinery		Savings
1. Stamping Press Unit	:	Rs. 1,00.00 lakhs
2. Fire Hydrants		Rs. 42.00 lakhs
3. Computer		Rs. 20.00 lakhs
4. Fabrication of Foam Tender		Rs. 7.50 lakhs
5. Automatic Detection System		Rs. 5.00 lakhs
6. Mould Cleaning System		Rs. 5.00 lakhs
7. LLD Fan		Rs. 5.85 lakhs
8. Electric Motors		Rs. 6.00 lakhs
9. Sludge Treatment Plant		Rs. 4.00 lakhs
10. Furniture for CISF		Rs. 4.00 lakhs
11. Dispensary Equipment		Rs. 5.00 lakhs
12. Telephone Exchange		Rs. 5.00 lakhs
13. L.T. Cable	:	Rs. 3.00 lakhs

Reasons for under-Utilisation/non-Utilisation

7. Major portion of savings relates to items like Stamping Press Unit, Fire Hydrants, Computer, Sludge Treatment Plant etc., details of which are as under:

Stamping Press Unit

8. The SPH had included a lump-sump provision of Rs. 1.00 crore for procurement of Stamping Press Unit in anticipation of Govt. sanction. However, the Govt. sanction was received by them only on

15.03.1995 and as such procurement, and expenditure thereon could not be incurred during 1993-94.

Fire Hydrants

9. Provision for this purpose was included as per demand of CISF Fire Wing. However, ultimately procurement and installation activities were deferred and subsequently decided to carryout the same through CPWD. Hence the saving.

Computer System

10. A lump-sump provision was made for anticipated expenditure on computer procurement. The SPM had placed the supply order on the firm on 29.12.93. As per terms and conditions stipulated therein, the firm was required to complete the supplies by 27.03.1994 and the installation and commissioning was to be carried out by 31.05.1994. The payment was to be made stage by stage depending upon the supply position and further progress of installation and commissioning. However, there was delay on the part of the supplier in executing the order and therefore, it was necessitated to allow extended time limit, without involving any additional expenditure. As a result of the aforesaid delay in executing the order, no payment could be made to them. Hence the saving.

Sludge Treatment Plant

11. A token provision was included in R.E. 1993-94 in anticipation of Govt. sanction and finalisation of contract. It was a work to be carried out on Turn-key basis. However, due to delayed Govt. sanction, the contract could not be entered into as expected resulting in saving of the token provision. The work was subsequently awarded and the firm has successfully carried out the same by end of March, 1995. Therefore, the major portion of expenditure was incurred during 1994-95 and the left over balance *i.e.* final payment made during 1995-96.

LLD Fan

12. The SPM had approached for Govt. sanction in September, 1993 and simultaneously made provisions in R.E. 1993-94 in anticipation of sanction. However, Govt. sanction was received by SPM on 12.01.1994. Since the delivery period was 4/5 months after placement of order, and as the payment was to be made on receipt of material, the provision for this purpose could not be utilized in 1993-94.

13. As regards other items like Telephone Exchange, Mould Cleaning System etc., the provision included in our R.E. 1994 was only token provision in anticipation of finalisation of contracts but could be finalised only in 1994-95.

1994-95

14. The SPM had received a budget grant of Rs. 2.90 crores which was subsequently reduced to Rs. 2.59 crores in R.E. 1994-95. However, the actual expenditure was Rs. 87.56 lakhs only resulting in a saving of Rs. 171.44 lakhs. Details of major saving with reference to R.E. 1994-95 allotment are as under:

	Name of Machinery	Savings
1.	Telephone Exchange	: Rs. 45.00 lakhs
2.	3 System (Modification to Main Paper Making Machine)	: Rs. 76.50 lakhs
3.	Sludge Treatment Plant	: Rs. 5.20 lakhs
4.	Ticko Press Label Printing Machine	: Rs. 4.36 lakhs
5.	Fork-Lift Truck	: Rs. 8.00 lakhs
6.	Alumina Pallets	: Rs. 3.00 lakhs
7.	Computer	: Rs. 3.84 lakhs
8.	CISF Vehicles	: Rs. 3.00 lakhs
9.	Dispensary Equipment	: Rs. 2.00 lakhs
10.	Lab Equipment for ETP/WTP	: Rs. 2.20 lakhs
11.	Bowl Welding Machine	: Rs. 5.00 lakhs
12.	Transformer	: Rs. 3.66 lakhs
13.	Mould Cleaning Shower System	: Rs. 6.00 lakhs
14.	Capacity Meter for Moisture Contents	: Rs. 1.65 lakhs

Reasons for Under-utilisation/Non-utilisation

15. It may thus be seen from above details that the major savings was on account of Telephone Exchange and 03 systems, reasons of which are as under :

Telephone Exchange

16. Provision in R.E. 1994-95 was made in anticipation that the work could be completed by 1994-95. It was a programme involving supply, erection and commissioning on turnkey basis. Therefore, detailed technical clarifications were required in Govt. interest before entering into the contract. After getting all technical aspects cleared and detailed examination, the proposal was sent to Ministry for approval on 15.11.1994. Govt. sanction was however issued on 23.01.95. Since the delivery period was 3/4 months for completion of work, the payment was not possible in 1994-95 as expected. However, the delay did not have any extra expenditure on Govt.

03 Systems

17. This is an item involving Modifications to Main Paper Making Machines for improved Security Features, consequent to Govt. decision to introduce "New Family Notes". This includes both imported and indigenous machinery/equipments. As per the original programme, printing of New Family Notes by the presses was anticipated by December, 1995. Therefore, the 03 systems was planned to be procured during 1994-95 and 1995-96. Accordingly, to meet with the initial expenditure, a lump sum provision of Rs. 76.50 lakhs was provided in R.E. 1994-95 and the balance amount provided in 1995-96. However, the programme of printing "New Family Notes" was subsequently postponed to 1996. Consequent to the delay in the said programme by the Presses and also due to delay in getting Govt. sanction for procurement of 03 systems, the lump-sum budgetary provision made in 1994-95 resulted in saving.

Other Items :

Fork Lift Truck :

17A. For the procurement of Fork-Lift Truck, the SPM had approached DGS&D for Rate Contract and in anticipation simultaneously made provision in R.E. 1994-95. However, valid contract could be received on 6.4.1995 only, as a result the aforesaid provision resulted in saving.

Transformer

18. As the SPM could get the old transformer repaired economically, the procurement action of new transformer was deferred.

Ticko-press Label Printing Machine

19. The provision included in R.E. 1994-95 for Rs. 10.00 lakhs was only anticipated expenditure and before ascertaining the prevailing market rate at that time. However, the actual procurement expenditure was only Rs. 5.64 lakhs and hence the excess provision resulted in saving.

Sludge Treatment Plant

20. Since the contractor completed the work by end of March, 1995 only the final payment through originally expected to be made during 1994-95 could not be made and the provision on that account resulted in saving.

21. As regards other minor items, the budget allotments could not be utilized due to : (1) Non-completion/delay in execution of order by supplier resulting in non-payment and (2) Deferring of procurement for want of Govt. sanction etc.

1995-96

22. The SPM had received a budget allotment of Rs. 10.00 crores against which they had asked for a revised provision of Rs. 11.6775 crores in R.E. 1995-96. The R.E. 1995-96 allotment was however restricted to Rs. 10.00 crores. Actual expenditure incurred in 1995-96 was Rs. 2.1971 crores only. The major saving when compared with our R.E. proposal are as under:—

Name of Machinery	Savings
1	2
1. Mould Cylinder	: Rs. 166.31 lakhs
2. 03 Systems (Modification of Main Paper Making Machine)	: Rs. 657.98 lakhs

1	2
3. CCTV	: Rs. 61.19 lakhs
4. Telephone Exchange	: Rs. 12.88 lakhs
5. Colour Measuring Equipment	: Rs. 8.00 lakhs
6. Centricleaner System	: Rs. 20.00 lakhs
7. Fork-Lift Truck	: Rs. 6.00 lakhs
8. L&T Primary Pump	: Rs. 6.00 lakhs
9. Size Boiling Tank	: Rs. 3.50 lakhs
10. OCB	: Rs. 5.00 lakhs

Reasons for under-utilization/Non-utilization are as under:

Mould Cylinder

23. This is an import item for which the SPM placed order on the overseas supplier on 19.07.1995. However, the despatch documents were received only during 1996-97 and hence the payment was not possible in 1995-96 which resulted in saving.

03 Systems

24. Though the order was placed on the overseas supplier in August, 1995, the despatch documents were received only on 14.10.1996. As the payment is to be made only on receipt of documents the provision made for this purpose during 1995-96 resulted in saving. The entire expenditure on this item is now expected during the current financial year *i.e.* 1996-97.

CCTV

25. The order was placed on the supplier on 25.10.95 and as per terms of the order, the entire supply and commissioning was to be

completed by 31.01.96. However, the supplier has requested to extend the delivery period as they were not in a position to complete the work within the stipulated period. Accordingly, the Delivery period has been extended for completion of the work upto 30.11.1996 without any financial implications. Therefore, only part payment could be made to the supplier during 1995-96 to the extent of supplies made and work done and the balance amount is now expected to be paid during 1996-97.

Telephone Exchange

26. The saving is due to payment withheld as a result of grant of extension in time to the supplier for completion of work, without any financial repercussion.

Colour Measuring Equipment

27. Through the tenders were invited and case processed, the procurement proposal could be finalized and proposal sent to Govt. for approval on 1.03.1996 only. Govt. sanction has been issued on 22.07-96, as such the allotment available during 1995-96 resulted in saving.

Centricleaner System

28. The Centricleaner System could not be procured in 1995-96 for want of Govt. sanction. Though the SPM had approached Govt. in August, 1995 and simultaneously made provision for this purpose, the expenditure could not be incurred due to delayed sanction from Govt.

Fork-Lift Truck

29. Though the order was placed on 23.11.1995, the supplier could not arrange the supply in time due to non-availability of Railway Wagon. Consequently the provision existed in 1995-96 for this item resulted in saving.

L & T Primary Pump

30. A tentative provision was made to purchase these pumps in 1995-96 but the final decision after technically feasibility could be taken only after sometime in the later part of the year. Hence the provision resulted in saving.

31. From the details given above, it would be seen that in no case, payment was made on account of cost escalation. Higher budgetary provision has been asked for meeting the present requirement of the Mill, and not for offsetting any cost escalation.

32. The Committee are not satisfied with the reasons adduced by the Ministry for meagre utilisation of budget provisions which include delayed sanction by the Government leading to delay in finalisation of the contracts, delay on the part of the suppliers in executing the orders, delay in receipt of despatch documents etc. The Committee take serious note of the fact that though in most of the cases the delay in procurement had occurred due to the late receipt of the sanction by the Government yet no reasons have been advanced as to why it took inordinately long time for such sanctions. The reply is also silent with regard to the fact whether any penal action was taken against those suppliers which were instrumental in causing delays and sought extensions of delivery schedule time and again.

The Committee, therefore, conclude that their recommendation has not been taken seriously by the Ministry and desire that the reasons which caused the delay in procurement of the machinery should be thoroughly investigated and responsibility fixed on those who were responsible for such delays. They would also like to be informed of the amount of penalty imposed on suppliers both local and foreign for delay in execution of orders. The Committee further suggest that in future, at least all steps should be taken to ensure that no avoidable delay takes place and the provisions made in the Budget are purposefully utilised within that year only with a view to make the budgetary exercise more meaningful one.

Modernisation of Government of India Mints

Recommendation (Sl. No. 5, Para No. 19)

33. The Government of India in order to eliminate coin shortage had approved the project for modernisation of mints located at Bombay, Calcutta and Hyderabad in March, 1989 with the date of completion as March, 1992 with an estimated cost of Rs. 118.28 crores. During examination of the above demand, the Committee were informed that when the project was originally approved, it was a plan scheme but during 1990-91 and 1991-92 all schemes of mints and presses were

funded as non-plan. However, in October, 1992 it was again decided by Planning Commission to fund the project as 'plan' Project. The uncertainty about getting the upward cost revision, *via* 'plan' route had resulted in time overrun of 17 months. As a result the project cost had also gone up to Rs. 348.80 crores and the target date of completion was revised to 30 November, 1996.

34. The Ministry of Finance had apprised the Committee that every effort was being made to ensure completion of the project of modernisation of Government of India mints as per the revised schedule of completion. However, in the light of the observations of the monitoring agency *i.e.* Department of Programme Implementation, in their Annual Report, 1995-96, the Committee had expressed an apprehension that this project might not be completed as per the revised schedule.

35. The Committee had, therefore, urged to the Ministry of Finance to take adequate steps and other measures required to ensure the completion of the project by November, 1996 as envisaged in the revised schedule. The Committee had also underlined the fact that plan/non-plan nomenclature should have a rational basis and should not be arbitrary.

36. The Government have stated in their reply as under:

1. The Government sincerely appreciate the concern of the Honourable Committee. It is submitted that every effort is being made to ensure that the project is completed as per the revised schedule.

2. In all the 3 mints at Mumbai, Calcutta and Hyderabad, all efforts are on to complete the ferritic stainless steel stream production and start the ferritic stainless steel stream by the end of November, 1996 as scheduled. In respect of cupro nickel stream, due to the constraints on civil fronts including the foundation works of the machinery, there is likely delay by about 4 months in Mumbai and Calcutta mints only.

3. It is pertinent to record here that Civil agencies like CPWD, NBCC and HSCL are constantly being persuaded to complete the civil works on Top Priority basis.

4. It is expected that by June, 1997, even the CN stream envisaged in the modernisation will be completed and trial runs made to achieve the targets of modernisation.

5. As regards classification of expenditure as plan/non-plan, a copy of the recommendations of the Committee has been endorsed to the Planning Commission. Department of Expenditure and Budget Division of Department of Economic Affairs for taking appropriate action.

37. The Committee note that modernisation of Government of India mints could not be completed even as per revised schedule of completion *i.e.* by November, 1996. The dates of completion were again revised to the end of 1997 as stated by the Ministry in their reply to the recommendations made in this regard in the Third Report (Eleventh Lok Sabha) of the Committee. As stated by the representative of the Ministry during the discussion on the Demands for Grants of the Ministry for the year 1998-99 with the Committee, the dates of completion of modernisation of mints at Calcutta and Mumbai have further been revised to March, 1999. Despite all the claims made by the Ministry, the apprehensions of the Committee in this regard have come out to be true. Though the Ministry have stated that Civil agencies like CPWD, NBCC and HSCL are being constantly persuaded to complete the civil works on top priority basis, yet from the reply the Committee find that constraints of the civil work still continue to be there which admittedly gives an impression that the efforts so far made by the Ministry have not had their desired impact on the completion of the civil work particularly at Calcutta and Bombay. The Committee, therefore, desire that every concerted effort including close monitoring needs to be made in order to ensure that the modernisation work undertaken is completed as expeditiously as possible. The Committee would like to be apprised of the progress made in the completion of the project at the earliest. They also find that with regard to the observations of the Committee that plan/non-plan nomenclature should not be arbitrary but have a rational basis; the Ministry have not informed the Committee whether any decision has been taken in this regard or not except sating that the recommendations of the Committee have been endorsed to the Planning Commission, Department of Expenditure and Budget Division of Department of Economic Affairs for taking appropriate action. The Committee take a serious view of such a casual approach on the part of the Ministry and would like to be apprised of the exact decision taken in this regard without further delay.

Direct Taxes

Measures to augment Internal Resources

Recommendation (Sl. No. 17, Para No. 49)

38. In the light of burgeoning servicing of interest on internal and external taxes which is a big drain on the exchequer, the Committee had observed that there was an urgent need to augment the internal resources and to shape the Government's fiscal and economic policies and programmes to achieve the objective of making India an independent economy by raising internal resources. The Committee had, therefore, recommended that greater thrust should be put in the area of augmenting direct taxes. The Committee had also expressed a desire that steps should be taken to curb the black money. In view of the fact that the proportion of resources raised from indirect taxes is far greater than the resources raised from direct taxes in contrast to the trend of tax collections prevalent in development countries, the Committee had stressed the need to widen the tax net. The Committee had desired that the break-up of all assessee and the amount of income tax collected from each category of assessees since 1991-92 to 1995-96 (year-wise) should be furnished.

39. The Committee had further recommended that one of the measures that could be taken in this regard would be curbing the circulation of black money by taking up for examination certain common documented items of expenditure such as electricity and telephone bills, vehicles, house tax etc. which would in turn bring a number of people under the tax net. The Committee had also desired that the Ministry of Finance should undertake a study to identify measures by which the tax base is widened, black money is controlled. Tax evasion is minimised and tax collections are maximised. This objective should be achieved with the existing infrastructure available in coordination with concerned Departments/State Government bodies and Ministries. They had desired that a report in this regard might be submitted to the Committee within a month of presentation of the Report.

40. The Government in their reply have stated as under:

The observations of the Committee are noted. The examinations of common documented items of expenditure is already being done by the Income Tax Department. The Central Information Branch (CIB) working under the Investigation Directorate collects information from various sources including *inter-alia* Telephone Departments. Sales Tax Departments, RTO's Electricity Boards/Undertakings. These informations are processed and sent to the Jurisdictional assessing officer for necessary action. In the event of a person who is found to be not assessed until that point of time, a statutory notice is issued and he is asked to file his return of income. Copy of the list of codes under which information is collected by the Department is enclosed. As is clear, information is being collected both from Government and non-Government agencies.

In the recently concluded conference of Chief Commissioners of Income Tax, Board has asked Directorate of Income Tax Organisations and Management Services (DOMS) to conduct a study on methodology of CIB information.

The statistical data of income tax collected from each category of assessees since 1991-92 to 1995-96 (year-wise) is not available as the same is not being maintained.

List of Codes to Sources of Information

Sl. No.	Code	Source	Items
1	2	3	4
1.	001	Central Excise Deptt.	New Registrations, excise payments including fines and penalties.
2.	002	Customs Department	Confiscation of goods, duty paid including fines & penalties.
3.	003	Registrar of Companies	New Registration, Certificate of commencement of business.
4.	004	Telephone Deptt./MTNL	Telephone bills.
5.	005	Enforcement Directorate	Confiscation, fine & penalties.

1	2	3	4
6.	006	State Trading Corporation	Sale of imported cars.
7.	007	Income-tax Department	(i) TDS—all returns filed to cross check with payees. (ii) Appropriate Authority—transfer of immovable property.
8.	008	Sales Tax Department	New Registration, Sales tax paid including penalty.
9.	009	RTO	Registration of vehicles.
10.	010	Electricity Boards/ Undertakings.	Electricity bills.
11.	011	Land Acquisition authority	Compensation paid for acquisition
12.	012	Lottery Commission/ State Governments	Payment of winnings from lotteries commission paid to agents.
13.	013	Directorate of Industries	Registration of new industries.
14.	014	State Excise Deptt.	New registration excise payments including fines & penalties.
15.	015	Registrar of Property	Transfer of immovable property.
16.	016	Housing Building Authority/Housing Board	Names and address of allottees.
17.	017	Local Authorities	Public Place contracts, approval of building plan, New shops, bars, restaurants, cinema house clubs.

1	2	3	4
18.	018	Banks	Cash transaction & declaration of assets for loan & CD facilities.
19.	019	Register to Issue of shares & Debentures (may be obtained from SEBI)	Names & addresses of Investors.
20.	020	Public Sector Under-takings/Financial Institutions	Deposits & Investment in Bonds.
21.	021	Insurance Companies	Insurance claims & premia.
22.	022	Export Promotion Councils/DGFT	Names & addresses of exporters.
23.	023	Telephone Directory/ Yellow Pages/Journals Trade	Nursing homes, clinics, Gyms, interior decorators, study circles, coaching classes, guest houses.
24.	024	Turf Club	Names & addresses of race hours owners trainers, jockeys bookings, race winners & purchase or seller of horse.
25.	025	Hotels/Clubs/Caterers	Expenditure incurred at these places.
26.	026	Builders & Contractors/ Housing Co-operative Societies.	Names & addresses of persons who have entered into agreement for purchase.
27.	027	Chit fund companies/ Committees	Investment made.

1	2	3	4
28.	028	Travel Agents/Airlines	Cost of Package tours.
29.	029	Transport Agencies	Names & addresses of Consignor Consignees.
30.	030	Professional Institutes/ Bodies	Names & addresses of doctors, Lawyers, Chartered Accountants, Cost Accountants, Architects, Engineers etc.
31.	031	Advertising Agencies, Newspapers, T.V. Channels etc.	Advertisement Expenditure incurred by Political Parties.
32.	032	Stock Exchanges	Names and Addresses of the investors and persons who have entered into share transactions.
33.	033	Mutual Funds	Names and addresses of investors and person.

41. The Committee regret to note that the statistical data of income tax collected from each category of assessees since 1991-92 to 1995-96 (year-wise) as desired by the Committee in their original recommendation has not been furnished by the Ministry on the ground that the same is not being maintained. No reasons have been advanced as to why the necessity of maintaining such a data has not been felt by the Department. However, the Committee are of the view that to have an effective monitoring mechanism it is but necessary that such a data should be maintained centrally. In the present scenario where lot of emphasis is now being laid on office automation and use of computers, maintenance of such a data is not a difficult proposition. the Committee would, therefore, like to know the response of the Ministry in this regard at the earliest. They would also like to be apprised of the outcome of study which has been entrusted to Directorate of Income Tax Organisation and Management Services (DOMS) on methodology of CIB information without further delay.

Recommendation (Sl. No. 18, Para No. 50)

42. The Committee at their sitting held on 19 August, 1996, had heard Shri Vasant Sathe on his suggestion for mobilisation of resources when the representatives of the Ministry of Finance were also present. The Committee had desired the representatives of the Ministry to examine the suggestions made by Shri Sathe for augmenting the tax-revenue and desired that the exercise in this respect should be completed by the Ministry and a report be submitted to the Committee at the earliest.

43. Ministry of Finance in their action taken reply have stated as follows:

The suggestions made by Shri Vasant Sathe were referred to National Institute of Public Finance and Policy (NIPFP) for examining the feasibility of an expenditure based income-tax. Report of NIPFP has been received and copies thereof have already been supplied to the Committee. In the Report, NIPFP has opined that system of expenditure based income-tax may not be feasible and may not stand up the test of legal scrutiny. However, in the report it has been mentioned that easily observable entity-specific indicators may be developed, which may be used as benchmarks in selection of cases for scrutiny. These norms, on further development, may also be used for identifying potential taxpayers and determination of income of the non-filers.

44. Though from the reply furnished to the Committee it seems that the Ministry have concurred with the view expressed by National Institute of Public Finance and Policy which has opined that system of expenditure based income-tax may not be feasible and may not stand up the test of legal scrutiny, yet it is not clear whether the Ministry have considered taking action on some of the other recommendations contained in the Report. The Committee would, therefore, also like to have the reaction of the Ministry with regard to all the other recommendations contained in the Report.

Recommendation (Sl. No. 22, Para No. 63)

45. The Committee in their original recommendation had observed that the actuals as on 31 March every year are being made available only by the end of December. In the modern system of accounting where computers are available, the Committee had felt that this is rather outmoded and steps should be taken to have the actuals ready within a couple of months after March every year *i.e.* by June.

46. The Government in their Action Taken reply have stated as under:—

The compilation of the accounts of the Government of India is a massive exercise covering all the departments of the Government including Railways, Defence, Posts, Telecommunications and Indian Audit and Accounts Department, as also the accounts of Union Territories without legislature. The accounts are compiled from the accounts records maintained in thousands of offices functioning throughout the country under various Ministries/Departments, as also the various branches of Public Sector Banks authorised to transact Government business and R.B.I. The accounting set up in each of the Departments/Ministries varies according to their individual needs. Further, in respect of Union Territories of Chandigarh and Dadra Nagar Haveli, the accounts are maintained by the concerned Accountants General functioning under the Comptroller and Auditor General of India. The procedures followed in compilation/consolidation of accounts vary considerably from one Department to another.

47. While the monthly accounts are consolidated immediately after the close of a particular month, more time is required for the March accounts in order to ensure incorporation of all transactions of that year in the March accounts. The time schedule prescribed at each stage for upward integration is rigorous and takes into account only the barest minimum time required for processing.

48. After closing the accounts for March, the process of the annual closing of the accounts is undertaken. At this stage, all the annual adjustment required in respect of various funds such as Provident Fund, Reserve funds, Deposit Accounts, etc. are carried out. In addition, the Annual reconciliation of receipts/expenditure with Departmental authorities, other Ministries/Departments, other Governments are also carried out at this stage. The time schedule for

closing of annual accounts is also drawn up after taking into consideration the minimum requirements for the finalisation of the Appropriation Accounts and the material required for the various statements of the Finance Accounts of the Government. This is a time consuming process involving substantial intra and interdepartmental consultations. There are a number of grants where one Ministry is incurring expenditure on behalf of another (*viz.* works expenditure incurred by the Ministry of Urban Affairs and Employment on behalf of all Ministries/Departments; expenditure incurred by the Indian Missions abroad on behalf of other Ministries, etc). In addition some grants like Pensions, Interest payments are operated by almost all the Ministries/Departments of the Government, including Defence, Posts, Telecommunications and Railways.

49. The views of the Ministries of Defence, Posts, Telecommunications and Railways were also sought on the recommendations of the Standing Committee. There views are summarised below:—

(i) **Ministry of Defence:**— The Ministry of Defence have stated that paid vouchers relating to defence pensions have to be received from about 25,000 pension disbursing agencies including Public Sector Banks, State treasuries, agencies abroad etc. who are outside the control of their department. The process of receipt of vouchers from the multiple and diverse agencies takes substantial time before they can be incorporated in the accounts of the Ministry of Defence. The adjustment of Railway charges of nearly Rs. 300 crores also takes a long time. Further, the accounting for payments made to Defence personnel and unit formations located in the far-flung field areas like Leh and North Eastern region also leads to delays. The transactions are also to be audited by them before adjustment. The above aspects pose special difficulties in the closing of annual accounts.

(ii) **Department of Posts:**— The Department of Posts have stated that their accounts also involve inter-departmental adjustment for which the actual expenditure pertaining to other departments is required to be taken into account. This extends the annual closing well beyond the prescribed dates.

(iii) **Department of Telecommunications:**— Based on past experience, it is seen that the field units are not able to carry out all the annual adjustments even at the March Supplementary account stage, which are carried over to the next stage of March special accounts because of the large size of the Department and the large volume of inter-unit transactions. In view of the highly technical nature of the Department, though issue of stores may be completed before the end of March. Their accounting involves considerable time on account of delays in the receipt of connected vouchers, non-receipt of acknowledgment by consignees etc. Accordingly, finalisation of accounts within a couple of months after March is not feasible at present.

(iv) **Ministry of Railways:—** The time schedules fixed for the closing of the accounts are quite tight at present. The compilation in the Ministry of Railways involves consolidation of accounts of nearly two dozen administrative units, who have to obtain and consolidate the accounts rendered by smaller units. It is with considerable difficulty and some time over-run beyond the scheduled dates that they have been sending the accounts and corrections in the past. The consolidation in the Ministry of Railways involves many transfer transactions initiated from most of the Railway accounting units which are required to be carried out after due verification. As each district accounting unit is a profit centre and Railways have to conform to the needs of commercial accounting as well as Government accounting, it is necessary that all the adjustments are carried out in the accounts of the respective units.

50. As regards the availability of computers in modern systems of accounting Ministry of Defence have stated that their Department does make use of computers (including networks) extensively and effectively as envisaged by the Committee. However, difficulties arising from remoteness of locations, inadequate development of communication facilities, etc. come in the way of early finalisation of accounts. The Department of Telecommunications have stated that almost the entire accounting in their organisation is being carried out manually. Only the work of consolidation of accounts at the Circle and Directorate levels is computerised. The extension of computerised accounting to all field units is under examination and its implementation is expected to take a couple of years. The Ministry of Railways have stated that despite the availability of computers and introduction of computerisation a substantial compression of time schedule for the various activities that go into the annual compilation of accounts is not achievable. With regard to the other civil Ministries it may be stated that the existing time schedule is adhered to with the use of computers in most accounting units and the time schedule laid down takes into account only the minimum time requirement for reconciliation, inter/intra departmental consultation etc.

51. The possibility of compression in the time taken by audit has been examined in consultation with the Office of the Comptroller & Auditor General. It has been stated by them that the C&AG certifies the Appropriation accounts as well as Finance Accounts of the Union Government. The audit of these accounts is undertaken even while the processing of their compilation beginings. In the case of Appropriation Accounts, the scrutiny starts right from the stage the demands for grants are finalised. Scrutiny continues at the next stages of headwise Appropriation Accounts and then the consolidated Accounts. The Finance Accounts are prepared thereafter since there has to be a reconciliation between the two. The scrutiny by audit is almost concurrent alongwith the preparation of these accounts. If the accounts have not been prepared in accordance with the laid down procedures, they have to be referred to the accounting authority for necessary rectification. So far as audit is concerned, it is almost concurrent with the process of finalisation of the annual accounts and could at best be expected to be finished with in one month of the final version of the accounts being made available. It has been pointed out by the office of C&AG that the basic problem is the time by which the accounts are prepared and this basic issue has to be examined by Government keeping in view the resources available and the problems associated with it.

52. Consolidation of accounts by the Controller General of Accounts is dependent upon receipt of accounts from the various Departments of the Government including those from the Ministries of Railways, Defence, Posts, Telecommunications and Indian Audit and Accounts Departments, as also the accounts of Union Territories without Legislature. Each of the these accounts has to be first compiled, consolidated by their respective Departments/Ministries before it gets incorporated in the annual accounts of Union Government, which is then submitted to the Comptroller and Auditor General of India for audit scrutiny. Keeping in view the sheer complexity of entire operations and views of other Departments/Ministries (as stated above), it is respectfully submitted that it is not considered feasible at this stage to adhere to the time schedule recommended by the Standing Committee. It may however be stated that the actuals are currently incorporated in the detailed Demands for Grants and other budget documents presented to Parliament. It may also be stated that efforts will continue to be made to further cut short the time taken for finalisation of the Union Finance and Appropriation Accounts.

[Ministry of Finance No. G.25018/1/96/MF—CGA dt. 12th December, 1996]

53. The Committee are not inclined to agree to the views and the constraints expressed by the Ministry and reiterate their earlier recommendation that all efforts should be made to have the actuals ready within a couple of months after March every year *i.e.* by the month of June. This would go a long way in streamlining the accounting procedures and help in finalisation of annual accounts expeditiously.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1, Para No. 4)

2.1 The Committee are of the opinion that the Ministry have, in the past, taken steps which ought to have been taken to reduce the time gap in identifying experts and institutions to whom the Studies are to be entrusted so as to reduce the underutilisation of Budgetary Provisions. The Committee are also of the view that the Revised Estimates which reflect the amount closer to the Actuals should be realistic estimates.

Reply of the Government

2.2 The observations/recommendations made by the standing Committee on Finance on 'Demand for Grants (1996-97)' of the Ministry has been noted for compliance and future guidance. This Department has already taken steps to reduce the time gap in identifying experts/ institutions to whom the Studies are to be entrusted and the final disbursements of payments to them by close monitoring of the progress of the studies from time to time, so as to reduce the underutilisation of Budgetary provisions under this head.

As regards the recommendation of the Committee that the revised Estimates should reflect the amounts closer to the actuals to have the realistic estimates, the provisions have been scaled down from Rs. 85.75 lakhs in BE 1996-97 to Rs. 64.75 lakhs in RE 1996-97 in conformity with the trends in the utilisation in the last 2-3 years.

Recommendation (Sl. No. 3, Para No. 9)

2.3 The Committee are of the opinion that inspite of large variations between the Budget Estimates and Revised Estimates as also between the reduced Revised Estimates and the Actuals from 1992-93 onwards, the Ministry did not realise the poor response to the Excise Relief Scheme and continued to provide crores of rupees as budgetary provisions in successive years only to be under-utilised. The Committee deplore the casual approach of the Ministry in allocating funds under this scheme without ascertaining the necessity of funds to the required extent. The Committee desired that as large variations running into crores of rupees distort budgetary figures, the budgetary allocation for this scheme should reflect the realities on this front.

Reply of the Government

2.4 A review of sanctioned cases under Excise Relief Scheme (ERS) has been carried out. On the basis of the review, 20 sanctioned cases (with ERS loan of Rs. 6949.26 lakhs) where no disbursement was made were cancelled. Similarly, in 21 sanctioned cases where ERS loans of Rs. 5452.64 lakhs were sanctioned but only Rs. 4155.79 lakhs disbursed, the balance undisbursed amount of Rs. 1296.85 lakhs has been cancelled.

The requirement of funds at BE 1996-97 stage was projected based on information received from designated financial institutions (DFIs) *i.e,* IDBI (Rs. 15.60 crores) and IFCI (Rs. 0.60 crores) After review a sum of Rs. 1.03 crore only has been provided in revised estimates. Thus necessary remedial action has since been taken in this regard.

Recommendation (Sl. No. 6, Para No. 20)

2.5 "The government were also not appointing the CMD to Banks in time thereby leaving the Banks without CMD for a long time. This is not a healthy state of affairs."

Reply of the Government

2.6. Action for filling up of the existing/anticipated vacancies of Chairmen and Managing Directors in public sector banks is initiated well in advance. For this purpose, an Appointments Board has been constituted in the Ministry of Finance for making recommendations to the Government. The Governor, Reserve Bank of India, is the Chairman of the Board. The other Members of the Board are Finance Secretary, Deputy Governor, Reserve Bank of India, Additional Secretary (Banking), an outside Management Expert and a retired banker. The Board meets periodically for making recommendations. The recommendations of the Board are processed in the Banking Division and with the approval of Finance Minister, the proposals are submitted for consideration of the Appointments Committee of the Cabinet (ACC). The appointments are to be notified on receipt of ACC approval and after completing the requisite formalities including vigilance clearance.

At present only one post of CMD, Canara Bank is vacant. The post fell vacant with effect from 1st September, 1996. Action has been initiated for filling up the vacancy.

Recommendation (Sl. No. 7, Para No. 21)

Licence to Defaulters

2.7 The Committee observe that the Reserve Bank of India has issued licences to private banks even though these entrepreneurs were in the list of defaulters.

Reply of the Government

2.8 The Reserve Bank of India (RBI) has reported that no licence has been issued for setting up of a new banks in the private sector to defaulters figuring in the list of Defaulting Borrowers of Banks and Financial Institutions. Prior to introduction of the Scheme of Collection and dissemination of information on the defaulters by RBI to the banks and financial institutions, the antecedents and track record of the promoters of new banks were verified by the RBI before giving licence to set up new banks.

Recommendation (Sl. No. 11, Para No. 36)

2.9. "In order to bolster non-tax revenue as well as controlling the current expenditure of the Government Committee recommend other corrective measures such as improvement in performance of Public Enterprises to generate more internal resources, etc."

Reply of the Government

2.10. As already intimated, in response to Point No. 91(a) and (b) of the Questionnaire circulated by the Committee Secretariat, instructions have been issued to all Ministries/Departments of the Government of India on the need to step up the rate of dividend declared by various PSUs. Besides, Government is implementing the sanctioned schemes of rehabilitation in pursuance of BIFR awards so as to revive sick public sector enterprises. Viability of CPSUs is also sought to be enhanced through Voluntary Retirement Scheme. It is hoped that these measures would result in overall improvement in the performance of Public Enterprises.

However, the recommendation has been noted.

Recommendation (Sl. No. 12, Para No. 37)

2.11 The Government have been paying commitment charges on external aid as a result of the projects not being commissioned as per schedule. If the replies of the Government to the Parliamentary Committees 10 years back are verified, the same replies are coming from the Government even now. There appears to be some overlap between the Planning Commission and the Finance Ministry in this regard. A more intensified monitoring is necessary to avoid these huge commitment charges. Government should do more effective preproject preparation before approval of any project and allocation of the plan resources should be on priority to the externally aided projects.

Reply of the Government

2.12 Government has taken following steps for intensified monitoring on the implementation of the Externally Aided Projects so that the projects are completed as per the project cycle, (which will help in avoiding the payment of commitment charges on outstanding and undisbursed loan).

(a) Reviews of externally aided projects at the level of AS (EF) have been taking place internally on monthly basis and with Central Ministries/State Govts. on quarterly basis.

(b) High value projects, whose undrawn balance is more than Rs. 100 crore. as on 1.4.96 have been identified for a special monitoring. Specifically those projects whose terminal date is during 1996-97 are on the special agenda of monitoring by the Ministry.

(c) Nodal Officers to the States have been appointed enabling them to review the EAPs in the States for maximising aid disbursement.

(d) In order to make adequate plan provisioning for the EAPs during the Annual Plan, representatives of the Ministries at

Joint Secretary level are attending the Annual Plan discussion. Moreover, the sub-committee on EAPs recently constituted by the Planning Commission, is also adequately represented by the Ministry at the appropriate level. This exercise will ensure adequate budgetary provision after consulting the absorptive capability of the EAPs in the States and the Central Sector.

(e) In order to further strengthen the monitoring mechanism of the externally aided projects, Project Management Unit of the State Govt. and Project Monitoring Cell of the Central Govt. are being strengthened on selective basis. These Ministries/States were chosen on the basis of the fact that these contribute a substantial amount of un-utilised assistance.

(f) Wherever it is found that the loan amount could not be utilised satisfactorily, cancellation of the same is resorted to in order to avoid the commitment charges and other obligations.

(g) While approving the new projects, the Ministries/Planning Commission, State Govts. and Central Govt. are taking necessary steps for adequate budgetary provisions and timely completion of projects.

Recommendation (Sl. No. 14, Para No. 44)

2.13 The above data shows that there has been increasing number of cases of underassessment reflecting that the Department had not given serious thought to arrest the trend of increasing number of underassessment of income.

The Committee observe that due to avoidable mistakes in computation of income and tax incorrect adoption of figures in assessment incorrect computation of income, income from house property, business income, incorrect allowance of depreciation and investment allowance, excess reliefs, etc. there has been under assessment to the tune of Rs. 844.04 crores during 1994-95.

The Ministry have advanced some important reasons for underassessment of income tax and corporate tax. They have also enumerated the measures taken to prevent such underassessments.

The amount revealed in underassessment during 1992-93, 1993-94 and 1994-95 is based only on test audit conducted by C&AG and Internal Audit Wing of the Income Tax Department. If full audit of the assessments made is carried out, the Committee believe that the amount involved in underassessment would be many times of the amount revealed in the test audit. The Committee are of the opinion that underassessment of income for computation of income tax and corporate tax cannot be ruled out without the complicity of assessing officers. The Committee desire that Government should take a serious note of the underassessment being made by the assessing officers. Apart from taking serious action against assessing officers for their complicity in underassessment, an entry may also be made in one of the columns of their ACR.

2.14 The Committee also recommend a special audit of all assessments made during any one year with a view to ascertaining the magnitude of the number of underassessment cases and amount involved. Simplification of tax laws may also be taken up to rule out the possibility of discretionary interpretation.

Reply of the Government

2.15 The observation of the Standing Committee that the audit objections raised during the past three to four years indicate an increase in the number of underassessments is accepted. However, this increase is moderate and should be viewed in conjunction with the overall increase in the number of assessees, assessments completed and revenue collection. Nearly 96 per cent of assessments are completed in a summary manner without reference to past records, thus limiting the scope of real processing/scrutiny to a large extent. Most of the audit objections pertaining to avoidable mistakes in computation of income and tax. It is expected that with the proposed computerisation of field formations of the Income-tax Departments, the number of audit objections would decrease.

2.16. The audit function is being accorded its due priority and in all the cases where audit objections are raised, remedial action is initiated invariably, so the ultimate loss of the revenue is minimal and negligible. Considering the points discussed in the preceding para, the element of the complicity of the Assessing Officer may not be as frequent as pointed out by the 'Audit'. In almost all the cases, the explanation of the erring officials are called and in suitable cases, appropriate action is taken against erring officers. Further there is already a column in the Annual Confidential Report in respect of the "Integrity" of an officer and in relevant cases such entries are made by the reporting officer.

2.17. The suggestion regarding special audit of all assessments made during one year is appreciable and acceptable in theory but looking at the fact that in a year about 78 lakh assessments (including 3 lakh scrutiny assessment) are made by the Department, the idea does not seem practicable. However, as a measure of test check, all assessments completed in one CIT's charge in one year may be taken up for audit under the supervision of the DIT(A) and then the results could be analysed in a proper perspective. The Ministry is already aware of the necessity of simplifying the tax laws. In fact the process of simplification of tax laws (direct) has already started and it is hoped that draft (simplified) would be ready by Jan. 97 for public debate.

Recommendation (Sl. No. 20, Para No. 56)

2.18. The Committee desire that in order to give encouragement to waste material like Bagasse for utilisation in the manufacture of paper there should not be any increase in the excise duty.

Reply of the Government

2.19. In the 1996 Budget, w.e.f. 23.07.96, the excise duty on paper and paperboard or articles made therefrom, manufactured from the stage of pulp in a factory, where such pulp contains not less than 75% by weight of pulp made from materials other than hardwood, softwoods, bamboo, reeds (other than sarkanda) on rags, was increased from 5% to 10% *ad valorem.* The materials other than the aforesaid, include amongst others, bagasse, rice/wheat straw, cotton stalks, waste paper, etc.

During the consideration stage, the aforesaid duty structure was reviewed in view of the large number of representations from the industry and VIPs. Upon re-examination, it was decided at the level of Finance Minister to partially restore the pre-Budget duty structure. Accordingly, the following duty structure was introduced w.e.f. 11th September, 1996 on the aforesaid types of paper, paperboard, etc.:

(a) 5% *ad volorem* duty on first clearances upto 10,000 tonnes calculated from 1st April in any financial year, and 10% *ad valorem* duty thereafter;

(b) however, in the current financial year, 5% *ad valorem* duty was permitted on first clearances upto 5,000 tonnes calculated from 11th September, 1996, and 10% *ad valorem* duty thereafter.

2.20 Since, a majority of the paper mills using at least 75% unconventional raw materials like bagasse have annual clearances less than 10,000 tonnes, the revised duty structure ensures that the excise duty on them remains at 5% *ad valorem* in every financial year. Only the larger paper mills whose annual clearances exceed 10,000 tonnes would pay 10% *ad valorem* duty after the clearance of the first 10,000 tonnes.

(Approved by Secretary)

[Ministry of Finance, Department of Revenue, Communication No. 337/28/96-TRU Dated the 28 October, 1996]

Recommendation (Sl. No. 21, Para No. 62)

2.21 According to the Ministry of Finance cess receipts under 'indigenous crude oil' were always treated as revenue receipts as per provisions of the OID Act, 1974. They were directly credited to the Consolidated Fund of India and were used for normal expenditure of the Government. In this connection, the Committee note that the Standing Committee on Petroleum and Chemicals have also considered the matter in greater details in their 9th and 20th Report and had recommended that Cess collected under the OIDB Act should be made available to the designated authority *i.e.* OIDB for making these funds available to the Oil Companies for projects in the field of exploration, production, refining and marketing of oil and gas. While taking into consideration the recommendation made by the Standing Committee on Petroleum and Chemicals and the views expressed by the Ministry of Finance on the availability of these resources for budgetary and plan allocations, the Committee feel that the cess receipts should be used for the purpose for which these are collected. A good part of the collection of cess is in the nature of excise duty. Had it been regarded as such it would have come under the divisible pool and the resources of the States would have increased to that extent. The Committee feel that the Union Government should review the matter in this light.

Reply of the Government

2.22. We respectfully accept the views of the Committee that the cess receipts should be used for the purpose for which these are collected and wish to submit that the cess receipts have indeed been used for the purpose for which these are collected, partly directly and partly indirectly. It is clarified that placing funds at the disposal of the Oil Industries Development Board is not the only way of developing the Oil sector. Section 15 of the Oil Industry Development Act, 1974 provides for the levy of a cess for the purposes of the Act. The purpose of the Act is development of oil industry. Under Section 2(k) of the Act, the term "oil industry" includes all activities by way of prospecting or exploring for or production of mineral oil, refining, processing, transportation, storage, handling, and marketing of mineral oil, production and marketing of all products, downstream of an oil refinery and the production of fertilisers and petro-chemicals and all activities directly or indirectly connected therewith. Thus, the term "oil industry" includes fertilisers and petrochemicals also for the purpose of the Act. Section 16 of the Act provides that the cess is to be credited into the Consolidated Fund of India and the Central Government may, if Parliament, by appropriation made by law, so provides, pay to the Oil Industries Development Board such sums of money out of the proceeds of cess, as it may think fit for being utilised exclusively for the purposes of the Act. It would, therefore, be seen from the legislative provisions that the cess is credited into the Consolidated Fund of India and such amounts as deemed fit may be paid to the Oil Industry Development Board. To the extent the cess collection exceeds the sums directly paid to OIDB, it becomes a resource for financing Government expenditure in the Oil and Natural Gas, Petro-Chemicals and Fertilisers sectors including direct and indirect budgetary support to the Central Public Sector Undertakings in these sectors.

2.23. Due to the resource availability from the cess receipts, the Government had allowed the oil sector Public Sector Undertakings to retain profits instead of distributing a larger share of the profits in the form of dividends to the Government, which was until recently the sole shareholder in these companies. The extent of accumulated retained profits of the Oil sector Public Sector Undertakings may be gauged from the level of their free reserves and surpluses, which are shareholders' funds and which are of the same order as the cumulative cess receipts. On the same consideration of the resource availability from the cess receipts, the customs/ excise duty rates on petroleum and petroleum products have not been revised upwards to the extent it would have become necessary had the cess receipts been directly transferred to the oil sector. Thus, the Government has foregone substantial excise/customs and dividend revenues from the Oil sector to facilitate internal resource generation by Oil sector PSUs. Besides, direct budgetary support has been provided to the oil/petroleum/petrochemicals/fertilisers sectors (equity, loans/grants and direct expenditure of concerned Ministries/Departments). All this has been possible due to availability of the cess receipts with the Government under the OID Act which allows retention of part of proceeds of the cess levy by the Government.

2.24. It is our understanding that the legislative intent was to create a source of revenue and need based funding of the requirements of the oil sector. The OID Act did not provide for the entire proceeds of cess being made available to OIDB. There has been no breach of the Act, either in letter or in spirit. All expenditure incurred and all revenues foregone in the Oil Sector should be considered as deemed to have been made on the strength of the resource mobilisation under the OID Act.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Sl. No. 2, Para No. 5)

3.1 There are sevéral schemes like hut insurance, Personal Accident Insurance Social Security Scheme (PASS) operated by the GIC. It was suggested that the scheme should be consolidated into one scheme and all those who are below poverty line should be covered under the scheme. A nominal amount of premium can be collected. An attempt should be made to see that all those houses which get burnt or washed away by floods or cyclone are constructed under the scheme.

Reply of the Government

3.2 The following points have been made in the above recommendation:—

(i) There are several schemes like Hut Insurance Scheme, Personal Accident Insurance Social Security Scheme (PASS) operated by the GIC. It has been suggested that the Scheme should be consolidated into one Scheme and all those who are below poverty line should be covered under the Scheme. A nominal amount of premium can be collected.

(ii) An attempt should be made to see that all those houses which get burnt or washed away by floods or cyclone are constructed under the Scheme.

3.3 The views of the Insurance Division of the Ministry of Finance have already been furnished to the Committee in reply to question No. 95(d) of the 'List of Points' arising out of the oral evidence of the representatives of the Ministry of Finance, held on 18th and 19th August, 1996. A copy of this Ministry's reply to the aforesaid Question No. 95(d) is enclosed for kind information of the Committee. (Annexure)

3.4 PASS and Hut Insurance Schemes are the Schemes intended to provide immediate relief to the bereaved families. The Central Government provides the relief through the aforesaid two insurance Schemes for which the premium is borne by the Central Government and no premium is charged from the beneficiary. This is because many 'below poverty line' families, particularly where income levels are as low as Rs. 4,800/- p.a. in the case of Hut Insurance Scheme, and Rs. 7,200/- p.a. in the case of PASS Scheme, the beneficiary will not be in a position to contribute any amount of premium, however small it may be towards these Schemes.

3.5 Alleviation of poverty is a combined responsibility of the Central Government and State Governments. It may be mentioned that a Scheme known as 'Calamity Relief Funds Scheme' already exists in the States for meting calamities such as, floods, cyclones, earthquakes, etc. These Calamity Relief Funds were constituted in the States on the recommendation of the Ninth Finance Commission with contributions from Central and State Governments. The Tenth Finance Commission has also recommended continuance of the existing Scheme of Calamity Relief Funds. In addition, the Tenth Finance Commission has also recommended constitution of a National Fund for calamity relief with contributions from Central and State Governments. Therefore, it would not be necessary to have the covers for cyclone, flood and others included in the Hut Insurance Scheme. It these perils are also covered under the Hut Insurance Scheme, and if the beneficiaries are required to contribute a part of the premium, the Scheme will become unaffordable to the families which are below the poverty line.

3.6 The recommendation also reefers to houses as against the huts alone of all those below the poverty line (which is Rs. 11,000/- p.a.) being covered under the Scheme. If, both houses and huts are covered under the Scheme, the Central Government will have to pay considerably larger premia to GIC against the enhance claims ratio which will result on account of expansion of the scope of the Scheme.

It will, therefore, not be possible to undertake this responsibility in view of the reasons mentioned above.

Q. No. 95(d)

3.7 Please furnish a comprehensive paper on the rationalisation of existing insurance schemes for the poor in the country.

Answer

3.8 The information is given in the enclosed *Statement-I*.

STATEMENT-I

Paper referred to in Reply to Q. No. 95(d)

Introduction

3.9 One of the objectives of the Government of India is to provide a "Social Security Net" to ensure the welfare of the poor people. In order to achieve this goal, a number of welfare measures have been announced by the Government of India from time to time. The insurance sector also has been devising a number of Schemes from time to time to supplement the measures being taken by the Government to achieve this end.

The Insurance Schemes

The following table gives the details of the Schemes being operated by the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) and its four subsidiaries:—

LIC	GIC
1. Landless Agricultural Labourers Group Insurance Scheme (LALGI)	Hut Insurance Scheme for Poor Families in Rural Areas
2. Social Security Group Insurance Scheme (SSGIS)- (for approved 23 Groups) and	Personal Accident Insurance Social Security Scheme for Poor Families (PASS)
3. Rural Group Life Insurance Scheme (RGLIS)	

Finances for the Insurance Schemes

3.10 The aforesaid schemes are being operated by the insurance companies with the financial assistance given by the Finance Ministry/State Govts. Similarly, there are many other insurance schemes such as Crop Insurance; Cattle Insurance; and life covers given under the IRDP Programme; etc. which are operated on behalf of other Ministries like Ministry of Agriculture and Ministry of Rural Development etc. Under the Schemes being operated by the insurance companies with the funds made available by the Ministry of Finance for payment of premium, Master Policies are issued by the insurance companies to cover the target groups.

Brief Description of the Schemes

The aforesaid schemes can be divided into two categories *viz.* (a) fully subsidised; and (b) partially subsidised. The first category of schemes is intended for the poorest of the poor; and the second for the very poor. The description of these two categories of schemes is given below:—

(a) Fully subsidised Schemes

In the case of LALGI, only the heads of the landless agricultural labourers' families in the age group of 18 to 60 and whose names do not appear as a land holder in the revenue records and also not having inheritable right in agricultural land, are legible to be covered under the scheme. The sum assured is Rs. 2000.

3.11 The *PASS Scheme* covers all earning members in the age group of 18 to 60 whose total family income from all sources does not exceed Rs. 7200 p.a. against accidental deaths such as snake bites, drawing, fall from a tree, electrocution etc. A compensation of Rs. 3000 is payable to the beneficiary in the event of death of the insured.

The Hut Insurance Scheme is a scheme to provide relief to the poor families in rural areas, whose annual income from all sources does not exceed Rs. 4800, when their huts and belongings get destroyed by the fire. Under the scheme, the beneficiary will get a relief of Rs. 1000 when the hut is destroyed by fire and Rs. 500 for the belongings in the hut.

The *modus operandi* of the claims settlement procedure is more or less similar under the aforesaid three schemes where the premium is met fully by the insurance companies and where the beneficiary is not required to pay any premium amount. A claims Enquiry-cum-Settlement Officer (CESO), who is a State Government Officer at Taluka level, is appointed under the scheme to verify the occurrence of death or the huts getting destroyed by fire. Based on the information furnished by the CESOs, after due verification, the insurance companies settle the claims. The modalities may slightly vary from scheme to scheme. It is hoped that such a double check *viz.* a check by the State Government at Taluka level and verification of such a check by insurance companies, will reduce the possibility of frauds to a minimum level.

(b) Partially subsidised Schemes

3.12 *The social security schemes* and the *RGLIS Scheme* being operated by the LIC belong to this category.

A Social Security Fund was set up by the Government in the year 1988-89 by giving relief in the payment of income tax and surcharge by the LIC. The corpus of the fund was Rs. 100 crores to begin with which has since grown into Rs. 249 crores.

Under the *SSGIS,* the beneficiary is required to pay 50% of the premium while the other 50% is met by the LIC. The life cover given under the scheme is Rs. 5000 in the case of normal death and Rs. 25000 in the case of accidental death. The premium payable is Rs. 50 out of which the subsidised element which will be met by the LIC, is Rs. 25. The scheme is intended for 23 approved professional groups in the age group of 18 to 60. Such professional groups are identified from the economically weaker and vulnerable sections of the society by the LIC with the prior approval of the Government. A nodal agency will identify the groups. That nodal agency is responsible for the payment of premium and verification of the occurrence of death among the members of the group and forward their applications to the LIC after due verification has been carried out. These schemes cannot be operated without an appropriate nodal agency. The Scheme today covers about 42 lakhs of people belonging to the various professional groups spread all over the country. *A list of approved groups is enclosed.* (Annexure)

3.13 The RGLIS provides a life cover of Rs. 5000 to the rural people on payment of an annual premium of Rs. 60-70 depending upon the age at entry. One policy per household below the poverty line in rural areas is given at a subsidised premium rate of 50% to assist the poor family. The rest of the 50% of the premium will be equally shared by the Central and State Governments. The intermediate Panchayats are identified as nodal agencies for implementation of the scheme. Under this scheme, in the event of death of a member who is covered under the scheme, the beneficiary shall make an application to the village Panchayat in the prescribed form available in the office of the village Panchayat alongwith the original death registration certificate. This is duly verificated by the intermediate Panchayat and sent to the LIC for settlement of the claim.

The Rationale for operating different Schemes

3.14 A question often raised is whether all these schemes could be clubbed and rationalised into one scheme. There are two reasons why this cannot be done *viz.* the legal requirement; and the different natures of target groups.

Legal Requirements

3.15 Under the existing law, the life insurance business and general insurance business are exclusive privileges of the Life Insurance Corporation of India and the General Insurance Corporation of India respectively. Therefore, life covers cannot be given by the GIC and the general insurance covers cannot be given by the LIC.

The LALGI, SSGIS and RGLIS are basically life insurance covers. These cannot be clubbed with the general insurance covers *viz.* Hut and PASS which are being given by the GIC and its four subsidiaries.

Nature of Target Groups

3.16 It is the normal practice to divide those who are below the poverty line into three categories *viz.* poorest of the poor, often known as the marginal people; better off among the poor; and those who are just below the poverty line. The Schemes which are in operation in the insurance sector cater to all these three categories as explained in the succeeding paragraphs.

The LALGI Scheme being operated by the LIC and the Hut Insurance and PASS Schemes being operated by the GIC, cater to the poorest among the poor who are not in a position to pay any premium to the insurance companies. In the case of LALGI the scheme covers landless agricultural labourers and in the case of Hut Insurance Scheme,, it covers the huts and dwelling units in which such rural poor live. The PASS Scheme covers the accidental death of such people who are vulnerable to snake bites etc. in rural areas. That is the reason why the Hut Insurance Scheme specifically caters to those whose annual income from all sources is less than Rs. 4800, which means a monthly income of Rs. 400.

The second category of the poor are those whose annual income is between Rs. 4800 and Rs. 72000. Normally, people in these categories also are not in a position to pay premium even though they are slightly better off than the poorest of the poor. However, such people, it is hoped, will not live in huts and therefore, Hut insurance Scheme is made inapplicable to them. However, they continue to get the benefit of PASS Scheme; and LALGI Scheme which does not stipulate any income limit as such.

The third category who are just below the poverty line, such as tendu leaf collectors, toddy tappers, rickshaw pullers etc. are in a position to pay marginal premiums of Rs. 25 p.a. to get a life cover of Rs. 5000. By subsidising the premium by 50%, the LIC gives an incentive and inculcates the habit of saving among the poor. Generally, these are all 'no profit no loss' schemes. The response to these professional group scheme is fairly impressive as over 4 million people are already covered under this scheme.

It would not be appropriate to club all the different target groups of people covered by the schemes because in that process we may tax even the poorest of the poor and the marginal people who are not in a position to pay any premium.

Is there a need to increase the benefits under these insurance schemes?

3.17 'Insurance' is not the only mode through which the Government caters to the poor sections. This is only one segment of the poverty alleviation programmes undertaken by Government at macro level. Already under the IRDP Scheme for which the Ministry of Rural Development provides funds, the lives of all the borrowers under the IRDP are covered by the LIC for a sum assured of Rs. 5000 and in the case of accidental death double that amount.

Similarly, the GIC gives cattle cover for the animals purchased under this scheme. The beneficiary pays only 1% of the cost of the animal while the balance 1.5% comes from the IRDP Scheme fund in the form of a subsidy. Again, the loans given to the farmers for raising their crops are provided with an insurance cover by the Government to enable them to get the loans from the banks. This scheme is being operated by the GIC and its four subsidiaries on behalf of the Ministry of Agriculture. Apart from these insurance schemes being operated by the other Ministries through the insurance companies there are a variety of social welfare and poverty alleviation programmes being operated by the various State Governments/Central Ministries. Any increase in the benefits to be given under the insurance schemes will have to be considered in the overall perspective of Government assistance to the poorer sections of the society.

3.18 However, the need to increase the benefits under the insurance schemes is constantly under review. In fact, a review of PASS and Hut Insurance Schemes was made in 1992-93. The Committee, *inter alia,* suggested upward revision of the compensation payable from Rs. 3000/- to Rs. 5000/- for PASS Scheme and from Rs. 1500/- to Rs. 2000/- inclusive of contents for the Hut Insurance Scheme. However, ultimately this suggestion was not given effect to, because a number of programmes for the general welfare of the poor especially in the rural areas were introduced in 1995. These are—(a) the housing target under Indira Awas Yojana will be doubled which will enable building 50 lakh rural dwelling units in the next five years; (b) a National Social Assistance Scheme which consists of a number of components including a provision of a national minimum old age pension of Rs. 75/- per month to people above 65 years of age who are below the poverty line; and a Survivor Benefit Scheme to the poor households on the death of the primary bread earner, of Rs. 5000/- etc.

Conclusion

3.19 (i) Insurance only constitutes one segment of poverty alleviation programmes and social security network conceived by the Government. Therefore, it would not be proper to consider insurance in isolation while considering any improvements/changes of the existing insurance schemes. They will have to be considered only in the overall perspective;

(ii) it will not be possible to club all the existing insurance schemes into one scheme because of legal constraints that life insurance business cannot be transacted by the GIC and *vice versa;* and

(iii) The target groups covered by various schemes are different and if the schemes are clubbed together and the beneficiaries made to pay a subsidised premium, the poorest of the poor will get adversely affected. Therefore, it would be desirable to keep the schemes intended for the marginal and poorest of the poor different from the other insurance schemes meant for the comparatively better of poor people.

3.20 List of 23 Approved Groups for the Purpose of Social Security Group Insurance Schemes

1. Beedi Workers
2. Brick-klin Workers
3. Carpenters
4. Cobblers
5. Fishermen
6. Hamals
7. Handicraft Weavers
8. Handloom Weavers
9. Handloom & Khadi Weavers
10. Lady Tailors
11. Leather & Tannery Workers
12. Pappad Workers attached to SEWA
13. Physically handicapped self-employed persons
14. Primary Milk Producers
15. Rickshaw Pullers/Auto Rickshaw Drivers
16. Safai Karmacharis
17. Salt Growers
18. Tendu Leaf Collectors

19. Forest Workers

20. Sericulture

21. Scheme for urban poors

22. Toddy Tappers

23. Powerloom Workers

Recommendation (Sl. No. 8 Para No. 22)

Loans and advances to small scale industries

3.21 The Committee observe that with a minimum interest rate of 18 per cent, inadequate working capital and untimely sanction of working capital, large number of small scale industries are pushed to sickness. Though the Reserve Bank of India has issued guidelines to banks that upto 20 per cent of the turnover credit could be given to the small scale sector upto a limit of Rs. 1 crore it has to be examined as to in how many cases these instructions have been followed. The small scale industries contribute 25 per cent of the total industrial output and 24 per cent in total exports. But the overall credit they get is less than 16 per cent. Similarly, Agriculture also does not appear to be receiving adequate funding. There are innumerable delays with the nationalised banks in sanction of loans and their system need to be streamlined. The general feeling about lack of adequate rural credit continues to be there.

Reply of the Government

Interest rates on advances to SSIS

3.22 The Reserve Bank of India (RBI) have reported that as per the present policy, the interest rates are linked with the quantum of loans. Purpose-wise linkage has been done away with and it is not possible to have separate interest rate policy exclusively for SSI sector in the light of deregulation of interest rates.

Inadequacy of working capital limits

3.23 RBI has reported that banks are generally following the guidelines in regard to grant of credit for working capital. A sample study conducted by RBI in February/March 1996 revealed that working capital was computed on annual turn-over basis in respect of about 56% of the loan applications covered by the study. Non-adherence by bank branches to the prescribed level was mainly due to (i) working capital needs of the SSI borrowers being less than 20% of the projected annual turnover, (ii) Surplus liquidity conditions in the market, (iii) non-disclosure of the market borrowings made by the applicants in the application, (iv) non-receipt of RBI guidelines by branches in certain cases, and (v) loan applications being covered under sponsored schemes.

Certain deficiencies which were noticed during the study including non-providing of working capital as per prescribed norms were pointed out to the banks by RBI in September, 1996 advising them to review the position and take corrective measures wherever necessary.

Delay in sanctioning limits by banks

3.24 RBI has reported that random studies made to ascertain the time taken by banks for sanction of working capital showed that, by and large, banks have been adhering to the stipulated time-frame.

Flow of agricultural credit

3.25 Loans to agriculture form a part of priority sector lending by all commercial banks (other than foreign banks) and they are required to deploy at least 18 per cent of the outstanding net bank credit towards agriculture. The performance of banks in extending loans to agriculture in various States is reviewed in various fora like the block Level Bankers Committee, the District Consultative Committee and the State Level Bankers Committee. In addition, the Reserve Bank of India (RBI) periodically reviews the performance of public sector banks with regard to lending to agriculture. The priority sector lending by public sector banks, including lending to agriculture, is also monitored by Government.

Various steps have been taken by RBI in recent past for strengthening the rural credit delivery system and to improve the flow of credit for agriculture. In the context of increasing flow of credit to the agriculture sector, the Governor, RBI held a meeting with Chief Executives of Selected Public Sector Banks (PSBs) in March, 1994. To augment the credit to agriculture, banks were advised to prepare Special Agricultural Credit Plans (SACPs) RBI has been monitoring the flow of credit to the agricultural sector through these SACPs. The first such plan related to the financial year 1994-95 and the next one for the year 1995-96. The performance of public sector banks with respect to disbursements to agriculture under SACPs is as under:—

(Rs. in crores)

SACP	Projections	Disbursements
1994-95	9531	8255
1995-96	12121	10172

While reviewing the flow of credit to agriculture under SACP 1995-96 recently, the Governor, RBI urged the Chief Executives of PSBs to show a growth of a minimum of 25 per cent in credit disbursements to agriculture under SACP 1996-97 over those of 1995-96.

Recent steps taken to improve credit flow to agriculture

3.26 Some of the steps taken to augment credit flow to agriculture are as follows:

1. It is proposed to increase the share capital of NABARD to Rs. 1000 crores from Rs. 500 crores. This will enable NABARD to provide it greater refinance support to primary lending institutions for investment loans.

2. It is proposed to set up State Agricultural Finance Development Corporations to provide credit support needed for high-tech agricultural activities. The equity base, the contributors to equity and the organisation structure would be tailored to the requirements of each State.

3. RBI has directed public sector banks which had a short fall in lending to the priority sector as on the last reporting Friday of March, 1996 to contribute Rs. 2500 crores to the Rural Infrastructure Development Fund (RIDF-II) on a pro-rata basis. The deposits with NABARD will be for a period of five years and carry interest at the rate of 11.5% p.a.

4. The private sector banks which have failed to meet the priority sector lending target as on last Friday of March, 1996 have been directed to deposit 50 per cent of the shortfall with NABARD or SIDBI at 8 per cent p.a. for a period of one year.

Other steps taken to improve flow of credit to agriculture

3.27 Apart from the steps mentioned above several other steps have been taken to improve the flow of credit to agricultural sector. These are given below:

1. Simplification of application forms which have been made available in Regional languages also.

2. Prescription of scales of finance for crop loans as worked out by the technical committees constituted in each district for various crops and their uniform adoption by banks;

3. Disposal of loan application upto Rs. 25,000/- within a fortnight and those over Rs. 25,000/- within 8-9 weeks.

4. Delegation of appropriate sanctioning powers to rural branch managers so that majority of loan applications from weaker sections are sanctioned branch level itself;

5. Liberalising guidelines in regard to requirement of collateral security by way of mortgage of land/charge on land or third party guarantee;

6. Removal of margin requirements for agricultural loans upto Rs. 10,000/- for short term, medium/long term;

7. Introduction of Agricultural Credit Cards by PSBs for farmers with good track record which enables farmers to scure production credit instantly and dispense with procedural formalities;

8. Ensuring timely and adequate credit for sustaining agricultural production by asking banks to extend a flexible line of credit in the form of cash credit facility which would meet their composite credit requirement; and

9. Asking banks to finance high-tech activities like acquaculture floriculture, tissue-culture, biotechnology, etc.

Recommendation (Sl. No. 9, Para No. 34)

3.28 The Committee are deeply concerned over the burgeoning internal debt and other liabilities of the Government from Rs. 359,354 crore in 1992-93 to Rs. 6112,676 crore in 1996-97, as also over the interest outgo on government borrowings which has gone up from Rs. 31, 075 crore in 1992-93 to Rs. 60,000 crore in 1996-97 as per Budget Estimates. The most disturbing feature of the Central Government borrowing which is steadily going up is that the debt which is being liquidated is typically low interest bearing. The new debt being contracted is at a much higher rate of interest. According to the Budget Estimates, interest payment for 1996-1997 would be Rs. 60,000 crore which is nearly 50 per cent of the Revenue Receipts. Further repayment of principal is made out of fresh borrowings. The Committee feel that the country is heading towards a grave economic situation requiring adroit and prudent financial management and urgent corrective measures.

According to the Ministry of Finance the growth of Government debt can be curtailed only through gradual phasing out of recurring fiscal deficit (net additional borrowings) by curtailing expenditure and increasing non-debt receipts.

Reply of Government

3.29 Government shares the concern expressed by the Standing Committee with regard to increase in Government debt, interest payment burden and the need to follow strict fiscal discipline.

2. Since 1992-93 Central Government's market borrowing is at market related rates of interest which are determined at auctions conducted by the RBI. The switch to market related interest rates was essential because the earlier system in which Government borrowed heavily from the RBI or from commercial banks at artificial rates was leading to inflationary pressure and had an adverse impact on the health of the banking system. Therefore, the maturing debt, which was raised in the past at lower rates, is being repaid through fresh borrowing at current market determined interest rates which happen to be higher.

3. Government resorts to additional borrowings for meeting the gap between expenditure (net of repayments) and non-debt receipts. This represents fiscal deficit for the relevant year. The fiscal deficit can be contained only by increasing non-debt receipts and controlling expenditure. Apart from obligatory and committed liabilities of the Government like plan expenditure, interest payments, defence, subsidies, internal security, pensions, transfer to States, etc., growth of

other items is closely watched. The details of fiscal deficit, its financing and broad expenditure details from 1993-94 may be seen in the Annexure.

4. As a result of the fiscal consolidation programme initiated in 1991-92, the percentage of fiscal deficit to GDP was brought down to 5.9% of GDP in 1991-92 and 5.7% in 1992-93 as compared to an average of 8.2% during the period 1985-86 to 1990-91. The fiscal deficit was 7.5% of GDP in 1993-94 mainly due to slower pace of industrial recovery which led to a shortfall in revenue receipts and various expenditures had also exceeded the budget estimates. In 1994-95 fiscal deficit was 6.1% of GDP. Fiscal deficit in 1995-96(RE) was estimated at 5.9% against the BE figure of 5.5%. This was mainly due to additional transfer of small savings loans to States of Rs. 3,112 crore. If this element is excluded then it would be 5.6%. The projection for 1996-97(BE) is 5%. Government intends to bring down the fiscal deficit to below 4% of GDP gradually without affecting the needs of investment and development.

5. It is pertinent to note that the assets of the Central Government (comprising capital outlay and loans advanced) have also gone up from Rs. 290,963 crore in 1992-93 to Rs. 427,393 crore in 1996-97(BE). The additional borrowings for meeting net expenditure (fiscal deficit) for the years 1993-94 to 1996-97 (BE) add upto Rs. 244,237 crore. Of this Rs. 115,686 crore (47%) was used for additional investments/ loans advanced. Another sum of Rs. 117,003 crore (*i.e.* 48%) was used for meeting plan expenditure on revenue account. This accounts for developmental expenditure in various priority sectors like agriculture, education, health, rural development and poverty alleviation, welfare, research activities in different fields, etc. which would help the country in the long run in creating a qualitatively better society. The balance borrowing of Rs. 11,548 crore (*i.e.* 5%) can be attributed for meeting the total requirement of Rs. 17.023 crore towards non-plan grants to States/UT Governments.

6. As a corollary to the position explained in paragraph 5, the expenditure under the remaining major areas on revenue account like interest payments, defence, subsidies, pensions, internal security, etc. has been totally met out of revenue receipts.

[Ministry of Finance, Deptt. of Economic Affairs F. No. 9(5)—
W&M/96 Dated 18-October, 1996.]

ANNEXURE

Financing of Fiscal Deficit and Broad Expenditure Details From 1993-94 are as Under:

(Rs. crore)

		1993-94	1994-95	1995-96 RE	1996-97 BE
1	2	3	4	5	6
1	Total Expenditure	141853	160739	183004	204660
2	Less: Revenue Receipts				
3	Tax revenue (Net to centre)	53449	67454	81088	97310
4	Non-tax revenue	22004	23629	29103	33035
5	Less: Capital Receipts	6143	11952	8803	12049
6	Recovery of loan/disinvestment etc.				
7	Fiscal Deficit	60257	57704	64010	62266
8	Financing of Fiscal Deficit				
9	Internal Debt:				
10	Market borrowings	28928	20326	27500	25498
11	External assistance	5074	5146	1969	2461
12	Small Savings	9100	16578	13500	14000
13	State PFs etc.	1790	2003	2150	2250
14	Special deposits of non-Govt. PF etc.	7568	8262	8563	9548
15	Others (Railway, Telecom funds etc.)	– 3163	4428	2728	1931
16	Budget Deficit (91 day TBs)	10960	961	7600	6578
17	Total	60257	57704	64010	62266

1	2	3	4	5	6
18	Broad details of expenditure				
19	Plan-Total	43662	47378	48684	54685
20	On revenue account	24848	28265	30423	33467
21	On Capital account	18814	19113	18261	21218
22	Non-Plan-Total	98191	113361	134320	149975
23	Interest	36741	44049	52000	60000
24	Defence	21845	23245	26879	27798
25	Subsidies	12682	12982	13726	16320
26	Grants to States/UT Govts.	2398	2285	5972	6368
27	Loans and Advances to States/UTs	4985	9753	10517	11101
28	Grant/Loans to Foreign Govt.	202	181	379	479
29	Other Loans	1468	1048	1387	1452
30	UTs without legislature	1257	573	599	633
31	Other non-plan exp. (Pensions, internal security, organs of State etc.)	16613	19245	22861	*25824
32	Total Expenditure	141853	160739	183004	204660

33. *Includes Rs. 4000 Cr. for likely revision of pay on the Fifth Pay Commission recommendations.

Recommendation (Sl. No. 13, Para No. 40)

Loans to Government Servants, etc.

3.30. The Committee observe that there has been unrealistic estimation of funds necessary for allocation under this Head in the light of the fact that there has been underutilisation of budgetary provisions even when compared to Revised Estimates since 1992-93. The Committee would like the Ministry to ascertain the reasons for poor response from the Government servants to House Building and Conveyance Advances including need for raising limit of advances in view of the increased cost of vehicles and construction before committing funds in the subsequent year under this Head for proper utilisation of budgetary allocations.

Reply of the Government

3.31 The savings under the grant had occurred mainly under House Building Advance. This item in the Grant is centrally monitored and controlled by Ministry of Urban Affairs & Employment.

2. The general reason for under-utilisation of the various advances is less receipt of applications for loans than anticipated. It may not be possible to pinpoint the precise reasons for savings. Less receipt of applications could be attributed to the fact that the actual requirement of funds (say, for purchase of a motor vehicle or a house) is very much higher than the entitlements. So far as House Building Advance is concerned, the under-utilisation could also be due to non-materialisation of housing opportunities for a large number of intending loans seekers.

3. As regards the end for raising the limit of advances in view of the increased cost of vehicles and house construction, it is stated that the Fifth Central Pay Commission is already looking into the various facilities including loans and advances to Central Govt. employees. It may, therefore, be appropriate to await the recommendations of the Pay Commission to Government, before the matter is considered further.

Recommendation (Sl. No. 15, Para No. 46)

3.32 The Committee are concerned over the increasing number of summary assessments which are expected to be finalised without the hassles usually associated with scrutiny assessments pending at the end of every year since 1992-93.

Reply of the Government

3.33 There are various reasons for pendency of summary assessments. Some of the important reasons are as under:

(i) It is true that processing of returnsu/s 143(1)(a) (loosely called 'summary assessments') is not as complicated as scrutiny assessment. However, processing of returns does require time and attention of the Assessing Officer. While processing a return prescribed *prima facie* adjustments are required to be made. This process takes some time and hence the delay in processing all the returns during the financial year itself.

(ii) According to Section 139(1) of Income-tax Act, different categories of assessees are required to file their returns of income on different dates such as 30th June, 31st August, 31st October and 30th November. As a result returns of income received at different points of time cannot be subjected to hundred percent processing u/s 143(1) (a), by the end of the Financial Year.

(iii) The analysis of data for the financial year 1992-93 to 1994-95 shows that approximately 16 to 24% of total workload of summary assessments remains pending at the end of the year. The experience has shown that about 20 to 25% of the returns are received by the Income-tax Department in the last quarter of the financial year. During this quarter the assessing officers are busy in completing time barring scrutiny assessments and in trying to achieve the various targets of Central Action Plan. Therefore, majority of the returns received in the last quarter remain unprocessed at the year end. These returns are normally processed in the first quarter of the next financial year.

(iv) In some cases processing of the returns remains pending due to verification of pre-paid taxes or due to defective returns being filed.

Recommendation (Sl. No. 16, Para No. 48)

3.34 From the above Tables, it is observed that there is a variation in respect of data regarding summary assessments during 1992-93 and 1993-94 provided to the Committee during examination of working of Central Board of Direct Taxes and during examination of Demands for Grants (1996-97) of Ministry of Finance. The Committee observe that before furnishing information to a Parliamentary Committee such discrepancies should not occur and expect that the Ministry would submit a clarification at an early date.

Reply of the Government

3.35 The various statistics of Income-tax Department are collected and compiled by the Directorate of Income-tax (Research, Statistics, Publication and Public Relations). The information to various agencies including Comptroller and Auditor General of India are furnished by this Directorate. As final reconciliation of statistics takes some time, at the first instance provisional statistics are furnished and thereafter final statistics are communicated.

The statistics regarding workload, disposal and pendency of summary assessments for the financial year 1993-94, submitted during the examination of working of Central Board of Direct Taxes were furnished in August-September, 1994. At that point of time finally reconciled statistics of financial year 1993-94 were not available and therefore, provisional statistics regarding workload, disposal and pendency of summary assessments were furnished. However, due to inadvertence, it remained to be mentioned that the statistics were provisional. The following statistics furnished to the Committee on "Demands for Grant 1996-97" represent the correct state of affairs.

Financial Year	No. of assessments for disposal (000)	No. of assessments completed (000)	No. of pending assessments (000)
1993-94	84,65	70,86	13,79

As regards discrepancy in figures of financial year 1992-93 the following provisional figures were furnished to the C&AG:

Financial Year	No. of assessments for disposal	No. of assessments completed (In Lakhs)	No. of pending assessments
1992-93	74.44	62.17	12.27

These figures were also published on provisional basis in the Report of G&AG of India for the year ended March, 1993, No. 5 of 1994. Subsequently the reconciled figures as mentioned below were furnished to the Standing Committee during the examination of Central Board of Direct Taxes.

Financial Year	No. of assessments for disposal	No. of assessments completed (In Lakhs)	No. of pending assessments
1992-93	81.84	68.84	13.00

However, the revised figures were not communicated to the C&AG of India and consequently in the Reports of the C&AG for the year ended March, 1994, and March, 1995, these provisional figures were included as final figures. While furnishing statistics during the course of examination of "Demands for Grants '1996-97" the statistics based on the figures published in C&AG's report were furnished. This resulted in discrepancy in figures for the financial year 1992-93.

This discrepancy in figures is highly regretted.

Recommendation (Sl. No. 17, Para No. 49)

3.36 The Committee observe that in the light of burgeoning servicing of interest on internal and external debts which is a big drain on the exchequer, the Committee are of the opinion that there is an urgent need to augment the internal resources and to shape the Government's fiscal and economic policies and programmes to achieve the objective of making India an independent economy by raising internal resources. The thrust in this regard should, therefore, be in the area of augmenting direct tax and other revenue curbing black money as well as strict fiscal discipline. The Committee believe that the number of people with paying capacity but not coming under the tax net is several time more than that of the direct tax paying population which is about a little more than one crore. The Committee observe that the proportion of resources raised from direct taxes in contrast to the trend of tax collections prevalent in developed countries. In this regard the Committee would like the Ministry of Finance to furnish the break-up of all assessees and the amount of income tax collected from each category of assessees since 1991-92 to 1995-96 (year-wise).

The Committee recommend that one of the measures in this regard would be curbing the circulation of blackmoney by taking up for examination certain common documented items of expenditure such as electricity and telephone bills, vehicles, house tax etc., which would bring a number of people under the tax net who, though have been incurring such expenditure have not paid tax on the income earned which is source of such expenditure.

The Committee also desire that the Ministry of Finance should undertake a study to identify measure by which the tax base is widened, black money is controlled, tax evasion is minimised and tax collections are maximised. This objective should be achieved with the existing infrastructure available in co-ordination with concerned Departments/States Government bodies and Ministries. A report in this regard may be submitted to the Committee within a month of the presentation of this report.

Reply of the Government

3.37 The observations of the Committee are noted. The examinations of common documented items of expenditure is already being done by the Income Tax Department. The Central Information Branch (CIB) working under the Investigation Directorates collects information from various sources including *inter-alia* Telephone Departments, Sales Tax Departments, RTO's, Electricity Boards/Undertakings. These informations are processed and sent to the Jurisdictional assessing officer for necessary action. In the event of person who is found to be not assessed until that point of time, a statutory notice is issued and he is asked to file his return of income. Copy of the list of codes under which information is collected by the Department is enclosed. As is clear, information is being collected both from Government and non-Government agencies.

In the recently concluded conference of Chief Commissioners of Income Tax Board has asked Directorate of Income Tax Organisations and Management Services (DOMS) to conduct a study on methodology of CIB information.

The statistical data of income-tax collected from each category of assessees since 1991-92 to 1995-96 (year-wise) is not available as the same is not maintained.

List of Codes to Sources of Information

Sl. No.	Code	Source	Items
1	2	3	4
1.	001	Central Excise Deptt.	New Registrations, excise payments including fines and penalties.
2.	002	Customs Department	Confiscation of goods, duty paid including fines & penalties.
3.	003	Registrar of Companies	New Registration, Certificate of commence-ment of business.
4.	004	Telephone Deptt./MTNL	Telephone bills.
5.	005	Enforcement Directorate	Confiscation, fine & penalties.
6.	006	State Trading Corporation	Sale of imported cars.
7.	007	Income-tax Department	(i) TDS—all returns filed to cross check with payees. (ii) Appropriate Authority—transfer of immovable property.
8.	008	Sales Tax Department	New Registration, Sales tax paid including penalty.
9.	009	RTO	Registration of vehicles.
10.	010	Electricity Boards/ Undertakings.	Electricity bills.
11.	011	Land Acquisition Authority	Compensation paid for acquisition.

1	2	3	4
12.	012	Lottery Commission/ State Governments	Payment of winnings from lotteries commission paid to agents.
13.	013	Directorate of Industries	Registration of new industries.
14.	014	State Excise Deptt.	New registration excise payments including fines & penalties.
15.	015	Registrar of Property	Transfer of immovable property.
16.	016	House Building Authority/Housing Board	Names and address of allottees.
17.	017	Local Authorities	Public Place contracts, approval of building plan, new shops, bars, restaurants, cinema house clubs.
18.	018	Banks	Cash transaction & declaration of assets for loan & OD facilities.
19.	019	Registrar to Issue of shares & Debentures (may be obtained from SEBI)	Names & addresses of Investors.
20.	020	Public Sector Under-takings/Financial Institutions	Deposits & Investment in Bonds.
21.	021	Insurance Companies	Insurance claims & premia.
22.	022	Export Promotion Councils/DGFT	Names & addresses of exporters.

1	2	3	4
23.	023	Telephone Directory/ Yellow Pages/Journals Trade	Nursing homes, clinics, Gyms, interior decorators, study circles, coaching classes, guest houses.
24.	024	Turf Club	Names & addresses of race horse owners trainers, jockeys bookings, race winners & purchase or seller of horse.
25.	025	Hotels/Clubs/Caterers	Expenditure incurred at these places.
26.	026	Builders & Contractors/ Housing Co-operative Societies.	Names & addresses of persons who have entered into agreement for purchase.
27.	027	Chit Fund Companies/ Committees	Investment made.
28.	028	Travel Agents/Airlines	Cost of Package tours.
29.	029	Transport Agencies	Names & addresses of Consignors and Consignees.
30.	030	Professional Institutes/ Bodies	Names & addresses of doctors, Lawyers, Chartered Accountants, Cost Accountants, Architects, Engineers etc.
31.	031	Advertising Agencies, Newspapers, T.V. Channels etc.	Advertisement Expenditure incurred by Political Parties.
32.	032	Stock Exchanges	Names and Addresses of the investors and persons who have entered into share transactions.
33.	033	Mutual Funds	Names and addresses of investors and persons.

Comments of the Committee

Refer para 41 of Chapter I of the Report.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendations (Sl. No. 4, Para No. 14)

Security Paper Mill, Hoshangabad Machinery and Equipment

4.1 The Committee are astonished to find that the Ministry of Finance (Department of Economic Affairs) had not finalised procurement action and as a result Ministry had to surrender a large part of budgetary provisions during 1993-94 and 1994-95. The Ministry has, however not explained the reasons for the non-utilisation of budgetary allocation made during 1995-96. The Committee deplore the laxity in finalisation of procurement action in respect of Machinery and Equipment for Security Paper Mill (SPM), Hoshangabad and would like to know the reasons for the non-utilisation of funds.

The Committee also observe that budgetary allocation under this Head were increased during 1995-96 and 1996-97 and believe that the increasing allocations were only to offset the cost escalation which might be due to delayed finalisation of procurement action. The Committee would like to know the cost of the project when the budgetary provision was made during 1993-94 and final estimated cost. In the event of cost escalation due to delay in procurement action, the Committee recommend that responsibility should be fixed for delay in procurement action.

Reply of the Government

4.2. Details of under-utilization of budgetary allocation for the year 1993-94, 1994-95 and 1995-96, are as under:—

1993-94

The budget grant received for procurement of various Machinery & Equipment during 1993-94 was for Rs. 6.01 crores. Assessing the progress of procurement activity, supply position and likely payments during the said financial year, the SPM. had, at the stage of Revised Estimate itself, asked for a reduced provision of Rs. 3.00 crores only. However, the actual expenditure incurred was Rs. 87.62 lakhs only resulting in a saving of Rs. 2.12 crores. The savings occured were on the Machinery/Equipment as detailed below:—

Name of Machinery		Savings
1.	Stamping Press Unit	: Rs. 1,00.00 lakhs
2.	Fire Hydrants	: Rs. 42.00 lakhs
3.	Computer	: Rs. 20.00 lakhs
4.	Fabrication of Foam Tender	: Rs. 7.50 lakhs
5.	Automatic Detection System	: Rs. 5.00 lakhs
6.	Mould Cleaning System	: Rs. 5.00 lakhs
7.	LLD Fan	: Rs. 5.85 lakhs
8.	Electric Motors	: Rs. 6.00 lakhs
9.	Sludge Treatment Plant	: Rs. 4.00 lakhs
10.	Furniture for CISF	: Rs. 4.00 lakhs
11.	Dispensary Equipment	: Rs. 5.00 lakhs
12.	Telephone Exchange	: Rs. 5.00 lakhs
13.	L.T. Cable	: Rs. 3.00 lakhs

Reasons for under-utilisation/Non-utilisation

4.3. Major portion of savings relates to items like Stamping Press Unit, Fire Hydrants, Computer, Sludge Treatment Plant etc., details of which are as under:

Stamping Press Unit :

The SPM had included a lump-sum provision of Rs. 1.00 crore for procurement of Stamping Press Unit in anticipation of Govt. Sanction. However, the Govt. sanction was received by them only on 15.03.1995 and as such procurement and expenditure thereon could not be incurred during 1993-94.

Fire Hydrants

Provision for this purpose was included as per demand of CISF Fire Wing. However, ultimately procurement and installation activities were deferred and subsequently decided to carryout the same through CPWD. Hence the saving.

Computer System

A lump-sum provision was made for anticipated expenditure on computer procurement. The SPM had placed the supply order on the firm on 29.12.93. As per terms and conditions stipulated therein, the firm was required to complete the supplies by 27.03.1994 and the installation and commissioning was to be carried out by 31.05.1994. The payment was to be made stage by stage depending upon the supply position and further progress of installation and commissioning. However, there was delay on the part of the supplier in executing the order and therefore, it was necessitated to allow extended time limit, without involving any additional expenditure. As a result of the aforesaid delay in executing the order, no payment could be made to them. Hence the saving.

Sludge Treatment Plant

A token provision was included in R.E. 1993-94 in anticipation of Govt. sanction and finalisation of contract. It was a work to be carried out on Turn-key basis. However, due to delayed Govt. sanction, the contract could not be entered into as expected resulting in saving of the token provision. The work was subsequently awarded and the firm has successfully carried out the same by end of March, 1995. Therefore, the major portion of expenditure was incurred during 1994-95 and the left over balance *i.e.* final payment made during 1995-96.

LLD Fan

The SPM had approached for Govt. sanction in September, 1993 and simultaneously made provisions in R.E. 1993-94 in anticipation of sanction. However, Govt. sanction was received by SPM on 12.01.1994. Since the delivery period was 4/5 months after placement of order, and as the payment was to be made on receipt of material, the provision for this purpose could not be utilized in 1993-94.

As regards other items like Telephone Exchange, Mould Cleaning System etc., the provision included in our R.E. 1994 was only token provision in anticipation of finalisation of contracts but could be finalised only in 1994-95.

1994-95

4.4. The SPM had received a budget grant of Rs. 2.90 crores which was subsequently reduced to Rs. 2.59 crores in R.E. 1994-95. However, the actual expenditure was Rs. 87.56 lakhs only resulting in a saving of Rs. 171.44 lakhs. Details of major saving with reference to R.E. 1994-95 allotment are as under:

	Name of Machinery	Savings
1.	Telephone Exchange	: Rs. 45.00 lakhs
2.	03 System (Modification to Main Paper Making Machine)	: Rs. 76.00 lakhs
3.	Sludge Treatment Plant	: Rs. 5.20 lakhs
4.	Ticko Press Label Printing Machine	: Rs. 4.36 lakhs
5.	Fork-Lift Truck	: Rs. 8.00 lakhs
6.	Alumina Pallets	: Rs. 3.00 lakhs
7.	Computer	: Rs. 3.84 lakhs
8.	CISF Vehicles	: Rs. 3.00 lakhs
9.	Dispensary Equipment	: Rs. 2.00 lakhs
10.	Lab Equipment for ETP/WTP	: Rs. 2.20 lakhs
11.	Bowl Welding Machine	: Rs. 5.00 lakhs
12.	Transformer	: Rs. 3.66 lakhs
13.	Mould Cleaning Shower System	: Rs. 6.00 lakhs
14.	Capacity Meter for Moisture Contents	: Rs. 1.65 lakhs

Reasons for under-utilisation/Non-utilisation

4.5. It may thus be seen from above details that the major savings was on account of Telephone Exchange and 03 systems, reasons of which are as under :

Telephone Exchange

Provision in R.E. 1994-95 was made in anticipation that the work could be completed by 1994-95. It was a programme involving supply, erection and commissioning on turn-key basis. Therefore, detailed technical clarifications were required in Govt. interest before entering into the contract. After getting all technical aspects cleared and detailed examination, the proposal was sent to Ministry for approval on 15.11.1994. Govt. sanction was however issued on 23.01.95. Since the delivery period was 3/4 months for completion of work, the payment was not possible in 1994-95 as expected. However, the delay did not have any extra expenditure on Govt.

03 Systems

This is an item involving Modifications to Main Paper Making Machines for improved Security Features, consequent to Govt. decision to introduce "New Family Notes". This includes both imported and indigenous machinery/equipments. As per the original programme, printing of New Family Notes by the presses was anticipated by December, 1995. Therefore, the 03 systems was planned to be procured during 1994-95 and 1995-96. Accordingly, to meet with the initial expenditure, a lump-sum provision of Rs. 76.50 lakhs was provided in R.E. 1994-95 and the balance amount provided in 1995-96. However, the programme of printing "New Family Notes" was subsequently postponed to 1996. Consequent to the delay in the said programme by the Presses and also due to delay in getting Govt. sanction for procurement of 03 systems, the lump-sum budgetary provision made in 1994-95 resulted in saving.

Other Items

Fork-Lift Truck

4.6. For the procurement of Fork-Lift Truck, the SPM had approached DGS&D for Rate Contract and in anticipation simultaneously made provision in R.E. 1994-95. However, valid contract could be received on 6.4.1995 only, as a result the aforesaid provision resulted in saving.

Transformer

As the SPM could get the old transformer repaired economically, the procurement action of new transformer was deferred.

Ticko-press Label Printing Machine

The provision included in R.E. 1994-95 for Rs. 10.00 lakhs was only anticipated expenditure and before ascertaining the prevailing market rate at that time. However, the actual procurement expenditure was only Rs. 5.64 lakhs and hence the excess provision resulted in saving.

Sludge Treatment Plant

Since the contractor completed the work by end of March, 1995 only the final payment through originally expected to be made during 1994-95 could not be made and the provision on that account resulted in saving.

As regards other minor items, the budget allotments could not be utilized due to : (1) Non-completion/delay in execution of order by supplier resulting in non-payment and (2) Deferring of procurement for want of Govt. sanction etc.

1995-96

4.7. The SPM had received a budget allotment of Rs. 10.00 crores against which they had asked for a revised provision of Rs. 11.6775 crores in R.E. 1995-96. The R.E. 1995-96 allotment was however restricted to Rs. 10.00 crores. Actual expenditure incurred in 1995-96 was Rs. 2.1971 crores only. The major saving when compared with our R.E. proposal are as under:—

Name of Machinery	Savings
1	2
1. Mould Cylinder	: Rs. 166.31 lakhs
2. 03 Systems (Modification of Main Paper Making Machine)	: Rs. 657.98 lakhs

1	2
3. CCTV	: Rs. 61.19 lakhs
4. Telephone Exchange	: Rs. 12.88 lakhs
5. Colour Measuring Equipment	: Rs. 8.00 lakhs
6. Centricleaner System	: Rs. 20.00 lakhs
7. Fork-Lift Truck	: Rs. 6.00 lakhs
8. L&T Primary Pump	: Rs. 6.00 lakhs
9. Size Boiling Tank	: Rs. 3.50 lakhs
10. OCB	: Rs. 5.00 lakhs

Reasons for under-utilization/Non-utilization are as under:

Mould Cylinder

This is an import item for which the SPM placed order on the overseas supplier on 19.07.1995. However, the despatch documents were received only during 1996-97 and hence the payment was not possible in 1995-96 which resulted in saving.

03 Systems

Though the order was placed on the overseas supplier in August, 1995, the despatch documents were received only on 14.10.96. As the payment is to be made only on receipt of documents the provision made for this purpose during 1995-96 resulted in saving. The entire expenditure on this item is now expected during the current financial year *i.e.* 1996-97.

CCTV

The order was placed on the supplier on 25.10.95 and as per terms of the order, the entire supply and commissioning was to be completed by 31.01.96. However, the supplier has requested to extend the delivery period as they were not in a position to complete the work within the stipulated period. Accordingly, the Delivery period has been extended for completion of the work upto 30.11.1996 without any financial implications. Therefore, only part payment could be made to the supplier during 1995-96 to the extent of supplies made and work done and the balance amount is now expected to be paid during 1996-97.

Telephone Exchange

The saving is due to payment withheld as a result of grant of extension in time to the supplier for completion of work, without any financial repercussion.

Colour Measuring Equipment

Though the tenders were invited and case processed, the procurement proposal could be finalized and proposal sent to Govt. for approval on 1.03.1996 only. Govt. sanction has been issued on 22.07.96, as such the allotment available during 1995-96 resulted in saving.

Centricleaner System

The Centricleaner System could not be procured in 1995-96 for want of Govt. sanction. Though the SPM and approached Govt. in August, 1995 and simultaneously made provision for this purpose, the expenditure could not be incurred due to delayed sanction from Govt.

Fork Lift Truck

Though the order was placed on 23.11.1995, the supplier could not arrange the supply in time due to non-availability of Railway Wagon. Consequently the provision existed in 1995-96 for this item resulted in saving.

L & T Primary Pump

A tentative provision was made to purchase these pumps in 1995-96 but the final decision after technically feasibility could be taken only after sometime in the later part of the year. Hence the provision resulted in saving.

From the details given above, it would be seen that in no case, payment was made on account of cost escalation. Higher budgetary provision has been asked for meeting the present requirement of the Mill, and not for offsetting any cost escalation.

Comments of the Committee

(Refer to para 32 of Chapter I of the Report.)

Recommendation (Sl. No. 18, Para No. 50)

4.8. The Committee at their sitting held on 19 August, 1996 heard Shri Vasant Sathe on his suggestion for mobilisation of resources when the representatives of the Ministry of Finance were also present. The Committee desired the representatives of the Ministry to examine the suggestions made by Shri Sathe for augmenting the tax-revenue. The Committee expect that this exercise would be completed by the Ministry and submit their report to the Committee quickly.

Reply of the Government

4.9. The suggestions made by Shri Vasant Sathe were referred to national Institute of Public Finance and Policy (NIPFP) for examining the feasibility of an expenditure based income-tax. Report of NIPFP has been received and copies thereof have already been supplied to the Committee. In the report, NIPFP has opined that system of expenditure based income-tax may not be feasible and may not stand up the test of legal scrutiny. However, in the report it has been mentioned that easily observable entity-specific indicators may be developed, which may be used as benchmarks in selection of cases for scrutiny. These norms, on further development, may also be used for identifying potential taxpayers and determination of income of the non-filers.

Comments of the Committee

(Refer Para 44 of Chapter I of the Report.)

Recommendation (Sl. No. 22, Para No. 63)

4.10. The Committee feel that the actuals as on 31st March every year are being made available only by the end of December. In a modern system of accounting where computers are available, it was felt that this is rather outmoded and steps should be taken to have the actuals ready within a couple of months after March every year *i.e.* by June.

Reply of the Government

4.11. The compilation of the accounts of the Government of India is a massive exercise covering all the departments of the Government including Railways, Defence, Posts, Telecommunications and Indian

Audit and Accounts Department, as also the accounts of Union Territories without legislature. The accounts are compiled from the accounts of records maintained in thousands of offices functioning throughout the country under various Ministries/Departments, as also the various branches of Public Sector Banks authorised to transact Government business and R.B.I. The accounting set up in each of the Departments/Ministries varies according to their individual needs. Further, in respect of Union Territories of Chandigarh and Dadra Nagar Haveli, the accounts are maintained by the concerned Accountants General functioning under the Comptroller and Auditor General of India. The Procedures followed in compilation/consolidation of accounts vary considerably from one Department to another.

2. While the monthly accounts are consolidated immediately after the close of a particular month, more time is required for the March accounts in order to ensure incorporation of all transactions of that year in the March accounts. The time schedule prescribed at each stage for upward integration is regorous and takes into account only the barest minimum time required for processing.

3. After closing the accounts for March, the process of the annual closing of the accounts is undertaken. At this stage, all the annual adjustment required in respect of various funds such as Provident Funds, Reserve funds, Deposit Accounts, etc. are carried out. In addition, the Annual reconciliation of receipts/expenditure with Departmental authorities, other Ministries/Departments, other Governments are also carried out at this stage. The time schedule for closing of annual accounts is also drawn up after taking into consideration the minimum requirements for the finalisation of the Appropriation Accounts and the material required for the various statements of the Finance Accounts of the Government. This is a time consuming process involving substantial intra and interdepartmental consultations. There are a number of grants where one Ministry is incurring expenditure on behalf of another (*viz.* works expenditure incurred by the Ministry of Urban Affairs and Employment on behalf of all Ministries/Departments; expenditure incurred by the Indian Missions abroad on behalf of other Ministries, etc). In addition some grants like Pensions, Interest payments are operated by almost all the Ministries/Departments of the Government, including Defence, Posts, Telecommunications and Railways.

4. The views of the Ministries of Defence, Posts, Telecommunications and Railways were also sought on the recommendations of the Standing Committee. Their views are summarised below:—

(i) **Ministry of Defence** :— The Ministry of Defence have stated that paid vouchers relating to defence pensions have to be received from about 25,000 pension disbursing agencies including Public Sector banks, state treasuries, agencies abroad etc. who are outside the control of their department. The process of receipt of vouchers from the multiple and diverse agencies takes substantial time before they can be incorporated in the accounts of the Ministry of Defence. The adjustment of Railway charges of nearly Rs. 300 crores also takes a long time. Further, the accounting for payments made to Defence personnel and unit formations located in the far-flung field areas like Leh and North Eastern region also leads to delays. The transactions are also to be audited by them before adjustment. The above aspects pose special difficulties in the closing of annual accounts.

(ii) **Department of Posts**:— The Department of Posts have stated that their accounts also involve inter-departmental adjustment for which the actual expenditure pertaining to other departments is required to be taken into account. This extends the annual closing well beyond the prescribed dates.

(iii) **Department of Telecommunications**:— Based on past experience, it is seen that the field units are not able to carry out all the annual adjustments even at the March Supplementary account stage, which are carried over to the next stage of March special accounts because of the large size of the Department and the large volume of inter-unit transactions. In view of the highly technical nature of the Department, though issue of stores may be completed before the end of March. Their accounting involves considerable time on account of delays in the receipt of connected vouchers, non-receipt of acknowledgement by consignees etc. Accordingly, finalisation of accounts within a couple of months after March is not feasible at present.

(iv) **Ministry of Railways**:— The time schedules fixed for the closing of the accounts are quite tight at present. The compilation in the Ministry of Railways involves consolidation of accounts of nearly two dozen administrative units, who have to obtain and consolidate the accounts rendered by smaller units. It is with considerable difficulty and some time over-run beyond the scheduled dates that they have been sending the accounts and corrections in the past. The consolidation in the Ministry of Railways involves many transfer transactions initiated from most of the Railway accounting units which are required to be carried out after due verification. As each district accounting unit is a profit centre and Railways have to confer to the needs of commercial accounting as well as Government accounting, it is necessary that all the adjustments are carried out in the accounts of the respective units.

5. As regards the availability of computers in modern systems of accounting, Ministry of Defence have stated that their Department does make use of computers (including networks) extensively and effectively as envisaged by the Committee. However, difficulties arising from remoteness of locations, inadequate development of communication facilities, etc. come in the way of early finalisation of accounts. The Department of Telecommunications have stated that almost the entire accounting in their organisation is being carried out manually. Only the work of consolidation of accounts at the Circle and Directorate levels is computerised. The extension of computerised accounting to all field units is under examination and its implementation is expected to take a couple of years. The Ministry of Railways have stated that despite the availability of computers and introduction of computerisation a substantial compression of time schedule for the various activities that go into the annual compilation of accounts is not achievable. With regard to the other civil Ministries it may be stated that the existing time schedule is adhered to with the use of computers in most accounting units and the time schedule laid down takes into account only the minimum time requirement for reconciliation, inter/intra departmental consultation etc..

6. The possibility of compression in the time taken by audit has been examined in consultation with the Office of the Comptroller & Auditor General. It has been stated by them that the C&AG certifies the Appropriation accounts as well as Finance Accounts of the Union Government. The audit of these accounts is undertaken even while the processing of their compilation begins. In the case of Appropriation Accounts, the scrutiny starts right from the stage the demands for grants are finalised. Scrutiny continues at the next stages of headwise Appropriation Accounts and then the consolidated Accounts. The Finance Accounts are prepared thereafter since there has to be a reconciliation between the two. The scrutiny by audit is almost concurrent alongwith the preparation of these accounts. If the accounts have not been prepared in accordance with the laid down procedures,

they have to be referred to the accounting authority for necessary rectification. So far as audit is concerned, it is almost concurrent with the process of finalisation of the annual accounts and could at best be expected to be finished with one month of the final version of the accounts being made available. It has been pointed out by the office C&AG that the basic problem is the time by which the accounts are prepared and this basic issue has to be examined by Government keeping in view the resources available and the problems associated with it.

7. Consolidation of accounts by the Controller General of Accounts is dependent upon receipt of accounts from the various Departments of the Government including those from the Ministries of Railways, Defence, Posts, Telecommunications and Indian Audit and Accounts Departments, as also the accounts of Union Territories without Legislature. Each of these accounts has to be first compiled, consolidated by their respective Departments/Ministries before it gets incorporated in the annual accounts of Union Government, which is then submitted to the Comptroller and Auditor General of India for audit scrutiny. Keeping in view the sheer complexity of entire operations and views of other Departments/Ministries (as stated above), it is respectfully submitted that it is not considered feasible at this stage to adhere to the time schedule recommended by the Standing Committee. It may however be stated that the actuals are currently incorporated in the detailed Demands for Grants and other budget documents presented to Parliament. It may also be stated that efforts will continue to be made to further cut short the time taken for finalisation of the Union Finance and Appropriation Accounts.

[Ministry of Finance No. G.25018/1/96/MF-CGA dt. 12th December, 1996]

Comments of the Committee

(Please refer Para No. 53 of Chapter I of the Report.)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Modernisation of Government of India Mints

Recommendation (Sl. No. 5, Para No. 19)

5.1. According to the Ministry of Finance every effort is being made to ensure completion of the project modernisation of Govt. of India mints as per revised schedule of completion. However, in the light of the observations of the monitoring agency Department of Programme Implementation in their Annual Reports, the Committee have the apprehension that this project might not be completed as per the revised schedule *i.e.* November, 1996. The Committee, therefore again urge the Ministry of Finance to take adequate steps and other measures required to ensure the completion of the project by November, 1996 as envisaged in the revised schedule. The Committee also want to underline the fact that plan/non-plan nomenclature should have a rational basis and cease to be arbitrary.

Reply of the Government

5.2 The Government sincerely appreciates the concern of the Honourable Committee. It is submitted that every effort is being made to ensure that the project is completed as per the revised schedule.

2. In all the 3 mints at Mumbai, Calcutta and Hyderabad, all efforts are on to complete the ferritic stainless steel stream production and start the ferritic stainless steel stream by the end of November 1996 as scheduled. In respect of cupro nickel stream, due to the constraints on civil fronts including the foundation works of the machinery, there is likely delay by about 4 months in Mumbai and Calcutta mints only.

3. It is pertinent to record here that Civil agencies like CPWD, NBCC and HSCL are constantly being persuaded to complete the civil works on TOP PRIORITY basis.

4. It is expected that by June 1997, even the CN stream envisaged in the modernisation will be completed and trial runs made to achieve the targets of modernisation.

5. As regards classification of expenditure as plan/non-plan, a copy of the recommendations of the Committee has been endorsed to the Planning Commission, Department of Expenditure and Budget Division of Department of economic Affairs for taking appropriate action.

Comments of the Committee

(Refer to Para No. 37 of Chapter I of the Report)

Recommendations (Sl. No. 10, Para No. 35)

5.3. As regards curtailing expenditure one of the measures initiated by the Government was to reduce posts at various levels in all the Ministries/Departments by at least 10 per cent. These instructions were issued in early 1992. Progress achieved in abolishing posts in various Ministries/Departments is 3.3% against the target of 10% cut.

The Committee desire that all the Ministries/Departments must ensure strict compliance of the economy measures regarding 10% cut of posts. Care, however, should be taken to see that such blanket instructions issued in 1992 are not applied to various Research Institutions. The Department of Expenditure in the Ministry of Finance should vigorously pursue the Ministries/Departments to complete their exercise regarding post reduction and achieve the target of 10% cut. The Committee would also like to be apprised of the progress achieved.

Reply of the Government

5.4. The Department of Expenditure in the Ministry of Finance have been pursuing the matter with the concerned Ministries/Departments, requesting them from time to time to complete the exercise and achieve the target of 10% cut in posts. The matter has also been reviewed by the Committee of Secretaries, which have also directed all the Ministries/Departments to ensure strict compliance of the instructions in this regard.

2. Secretary (Expenditure) has again written a D.O. letter on 11.10.1996 to the Secretaries of those Ministries/Departments which

have yet to complete the exercise, bringing to their notice the above recommendations of the Parliamentary Standing Committee with a request to ensure that the target is achieved so that the directions of the Committee are complied with. These Departments have also been requested to furnish a progress report to this Department within a month.

3. On receipt of the progress report from these Departments, the Parliamentary Standing Committee would be informed.

Recommendation (Sl. No. 19, Para No. 53)

5.5. The Committee cannot appreciate the long time being taken by the Ministry of Finance (Department of Revenue) in setting up of Settlement Commission on the pattern of the Settlement Commission functioning in C.B.D.T of expeditious disposal of pending Excise disputes and thereby contributing to quicker realisation revenues locked up in litigation. The Committee desire that urgent steps should be taken for constituting the Settlement Commission for expeditious disposal of excise disputes without any further delay. A report giving the progress in the matter should be furnished to the Committee within three months.

Reply of the Government

5.6 The proposal is still under examination in consultation with Ministry of Law.

[Approved by Member (L&J) *Vide* F. No. 275/61/96-CX. 8A Dated the 4th December, 1996]

NEW DELHI;
22 July, 1998
31 Asadha, 1920 (S)

MURLI DEORA,
Chairman,
Standing Committee on Finance.

APPENDIX I

MINUTES OF THE TWELFTH SITTING OF THE STANDING COMMITTEE ON FINANCE HELD ON 21 JULY, 1998

The Committee sat on Tuesday, 21 July, 1998 from 1500 hrs. to 1600 hrs.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Haribhai Parathibhai Chaudhary
3. Shri Rayapati Sambasiva Rao
4. Shri Kavuru Sambasiva Rao
5. Shri Prithviraj D. Chavan
6. Shri Varkala Radhakrishnan
7. Shri M. Sahabuddin
8. Kumari Kim Gangte
9. Shri P. Chidambaram

Rajya Sabha

10. Dr. Manmohan Singh
11. Shri Krishna Kumar Birla
12. Shri Narendra Mohan
13. Shri O.P. Kohli
14. Dr. Biplab Dasgupta
15. Shri Suresh A. Keswani

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Director*
2. Shri S.B. Arora — *Under Secretary*
3. Shri N.S. Hooda — *Assistant Director*

2. The Committee took up for consideration the draft Action Taken Reports on the following Ministries/Departments of the Committee:—

(i) ** ** ** **

(ii) Draft Action Taken Report on the recommendations contained in the Second Report on Demands for Grants (1997-98) of the Ministry of Finance.

(iii) ** ** ** **

(iv) ** ** ** **

(v) ** ** ** **

3. The Committee adopted the Draft Action Taken Report without making any modifications.

4. The Committee then authorised the Chairman to present the Action Taken Report to both the Houses of Parliament.

The Committee then adjourned.

APPENDIX II

(*Vide* Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SECOND REPORT OF THE STANDING COMMITTEE ON FINANCE (ELEVENTH LOK SABHA) ON DEMANDS FOR GRANTS (1996-97) OF THE MINISTRY OF FINANCE.

		Total	% of Total
(i)	Total number of Recommendations	22	
(ii)	Recommendations/observations that have been accepted by the Government. (*vide* Recommendations at Sl. Nos. 1, 3, 6, 7, 11, 12, 14, 20 and 21).	9	41%
(iii)	Recommendation/observation which the Committee do not desire to pursue in view of the Government's reply. (*vide* Recommendations at Sl. Nos 2, 8, 9, 13, 15, 16 and 17)	7	31.72%
(iv)	Recommendations/observations in respect of which the Government's reply have not been accepted by the Committee. (*vide* Recommendations at Sl. Nos. 4, 18 and 22)	3	13.64%
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited. (*vide* Recommendations at Sl. Nos. 5, 10 and 19)	3	13.64%