

PART VII

**RATIONALISATION
OF THE
FUNCTIONS, ACTIVITIES AND
STRUCTURE OF THE
DEPARTMENT OF EXPENDITURE**

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Executive Summary

1. The Department of Expenditure in its present form has been in existence since 1974. The Department is concerned with expenditure related financial policies of the government covering financial rules, regulation, delegation of financial powers, sanction of expenditure proposals beyond delegated levels, review of staffing pattern and staff strengths of establishments, general principles of government accounting, administration of Central Treasury Rules and Plan Finance – both for the Central Plan and State Plans.
2. The Department is organised into eleven divisions to handle the subjects enumerated above.
3. Broadly speaking, the entire gamut of expenditure management can be grouped into three sectors viz. Plan Finance, Non-Plan Finance and Financial Advice and Accounts.
4. Plan Finance is looked after by two divisions in the Department viz. Plan Finance I and Plan Finance II. Each of these is headed by a Joint Secretary. The former looks after State Plans, release of central assistance and related subjects while the latter looks after Central Plan Schemes of Union ministries, budgetary resources etc.
5. The outlay levels currently prescribed requiring approvals of EFC/PIB appear to be appropriate. However, it is suggested that these should be reviewed every three years to sustain the extent of delegation to the Ministries.
6. The Finance Commission Division deals with implementation of the Commission's recommendations. The charge of the Division is appropriately with JS(PF I) handling State Plan Finance. The Division has excessive staff at support levels – possibly, the result of absorbing all the “left over” staff of the Commission. The nature of the Division's work is officer oriented and should be put on a computer mode. The staff required at the level of LDCs/Daftry/Jamadar/Staff Car-Scooter Drivers/ Group D employees etc., would need to be drastically reduced.

7. The core functions of the Establishment Division relate to examination of proposals for creation of posts, determination and revision of pay scales and all pay related allowances, pensions and terminal benefits and grant of bonus. The Division also handles delegation of financial powers and financial proposals beyond delegated powers and also individual cases involving policy interpretation/relaxation referred to it by ministries. For containment of non-plan expenditure, the Establishment Division needs to focus more on issues having larger financial significance on the non-plan side. The capabilities for undertaking studies in various areas would, therefore, need to be strengthened. Towards this end arrangements would have to be put in place for reducing the flow of routine references.

8. There has to be more delegation of financial powers to ministries under Delegation of Financial Powers Rules (DFPR). The volume of references for policy interpretation/relaxation also needs to be reduced by enhancing the powers of the Ministries to deal with organizations under their jurisdiction. A Committee headed by Additional Secretary (Expenditure) with 3 FAs as members could be constituted to make specific recommendations in this regard. The feasibility of entrusting to the Department of Personnel & Training, the responsibility of interpreting policy in respect of matters related to service conditions of government servants and also allowances excluding Dearness Allowance and Foreign Allowance, and considering proposals for specific relaxations thereof could also be explored.

9. The Department need not examine proposals for foreign tours of senior officers/official delegations. Clearances required by senior officers should be obtained by the concerned Secretary directly from the Cabinet Secretary. The Department should seek to regulate foreign travel through strict enforcement of budget provisions.

10. The Pay Research Unit at present collects, compiles and analyses data on Pay and Allowances of Central government civilian employees and also employees of Union Territory administrations. This Unit, to be redesignated as the

“Expenditure Research Unit”, should be suitably strengthened to undertake studies in various items of non-plan expenditure like dearness allowance, productivity linked bonus, commutation of pension, overtime, various perquisites extended by different Ministries, expenditure on staff cars, overtime, LTC, foreign travel, domestic travel, expenditure on air travel, hospitality etc. It should compile and present data in disaggregated manner ministry-wise and also for the government as a whole. For this purpose the Unit needs to be strengthened not only in terms of number of officers/staff but also in terms of their aptitude and fitness for the job. It would be advisable to put the Unit entirely in a computer mode so that non-qualified support staff is kept at minimum. The unit could also farm out studies to institutions like NIFM, IIMs, IIPA etc.

11. Given the fact that the Commission has identified a number of organisations with large staff complement for an assessment of staff requirements, SIU has to continue. The SIU should assess staff needs not merely with reference to given work and procedures but also evaluate the need for the activity to be performed by government organisations and procedural modifications feasible due to information technology and modern office equipment. The Internal Work Study Units (IWSU) located in different Ministries which have not been very effective, could be abolished. In view of the enlarged mandate, the SIU may have to be strengthened and better equipped to discharge the responsibility adequately. However, there does not appear to be a need for a large complement of support staff at clerical and group D level. The number of such posts should be reduced.

12. JS(Per) should deal with non-plan expenditure and personnel issues and be designated as JS(Per & NPE). Additional Secretary (Expenditure) should have the primary responsibility of dealing with all matters concerning non-plan expenditure. For this purpose, JS(Per & NPE), ERU and SIU should report to him.

13. For the purpose of drawing up a work plan for ERU and SIU, a consultative mechanism should be put in place by involving Secretary, DOPT, Secretary, Planning Commission and Additional Secretary (Administrative Reforms).

14. To optimally utilise the officers at the level of FAs and CCAs and reduce overstaffing, government should consider combining the functions of giving financial advice and supervision of accounts at the top level in a Ministry. The Eshwaran Committee which examined IFA scheme in 1996 had suggested that FA should be responsible for compilation and consolidation of departmental accounts as well. It is recommended that the posts of FA and CCA be merged as a combined FA/CCA post. The officer so appointed would be assisted on the accounts side by Controller of Accounts of appropriate level and on the financial advice side by Direct/DS (Finance). This arrangement will enable the government to appoint FA-cum-CCAs independently for more Ministries and it may no longer be necessary to require some FAs to look after 3 or 4 departments as is now the case. Thus, as against 25 posts of FAs and 19 posts of CCA/Principal CCAs (total 44 posts) there may be need for lesser number of officers at this level.

15. To ensure that the above arrangement does not adversely affect the promotion prospects of the officers of the Indian Civil Accounts Service who are currently working as CCAs, a suitable proportion of the posts of FA-cum-CCAs (both at JS & AS level) may be filled by eligible and suitable ICAS officers. In CGA's office there are 19 Gr.A posts of which 6 are at the level of Joint Secretary and above. Keeping in view the suggested combining of the posts of FAs and CCAs and the functional needs of the CGA's office, the strength of the Indian Civil Accounts Service, including the size of annual intake, and structure of the posts at different levels be examined as part of the Cadre Review of the Service.

16. Central Pension Accounting Division issues special seal authority for payment of civilian pensions to public sector banks and ensures their internal audit. It also prepares budget for pension payments. The need for a separate setup for the purpose is accepted.

17. Bulk of the work of the Cost Accounts Branch emanated from the prevailing administered price mechanism in many sectors. With changes in economic policies and gradual dismantling of administered price mechanism, such work would have declined. The CAB strength should reflect the changing

situation. Its existing staff strength be deployed in areas where their expertise is needed. In the long run, even in such areas the feasibility of accessing the required expertise from practicing professionals on a case-to-case basis would need to be explored.

18. Given the above scenario, it is felt that the Department of Expenditure should make an assessment about the immediate and future requirement of the service and structure it accordingly. Pending such study fresh recruitment to the service should be stopped.

19. Some significant issues related to the non-plan expenditure having large financial implications are detailed in section 7. Some of the more important issues dealt with relate to dearness allowance, bonus, pension reform, staff cars, subsidies, user charges, etc.

1. Introduction

1.1 The Department of Expenditure, Ministry of Finance as it is known today, came into existence in 1974 with the bifurcation of Department of Revenue and Expenditure. The work handled by the Department has, however, been part of the responsibility of an omnibus Finance Department which had come into existence as far back as 1810. The content and coverage of the Department's mandate has, however, varied with changes in the avenues of government expenditure and their importance in the scheme of expenditure control.

1.2 The Department is concerned with expenditure related financial policies of the government covering financial rules and regulations and delegation of financial powers, financial sanctions on issues not covered by delegated powers, review of staffing of government establishments, general principles of government accounting, administration of Central Treasury Rules, State finances, plan budget, planning and development finance, capital restructuring of public sector undertakings etc.

1.3 The *raison-d'etre* of an expenditure department in a developing economy has to be expenditure 'management' which is a broader concept than that of expenditure 'control' which Departments of Expenditure commonly perceive as their mandate. The concept of expenditure management implies not only limiting expenditure within bounds dictated by prudence. It also has to ensure proper intersectoral allocation and utilization of existing assets both financial and physical, and also manpower resources, so as to optimize their benefits and impact in achieving the desired objectives. Proper and timely accounting of expenditure is an essential adjunct of expenditure management and has to be viewed as an essential input in the whole process.

1.4 Such a perceptive appreciation of the role of Department of Expenditure would demand a more pro-active and positive interface between the Department and the other ministries/agencies of the government as against the reactive, negative image in which it is perceived to day. The Chairman had prepared a concept paper titled 'Towards a Better Expenditure Management System'. Some of the issues raised therein are so fundamental that extensive consultations for

deciding the lines on which changes would be required to be made. In these circumstances as the Department of Expenditure was taken up for review only towards the end of the Commission's tenure, this paper could not be taken up for discussion at the Commission. This paper is at Annex – I.

1.5 The Department at present comprises eleven divisions as follows:-

1. Administration Division
2. Establishment Division
3. Plan Finance Division
4. Finance Commission Division
5. Miscellaneous Departments Division
6. Staff Inspection Unit
7. Cost Accounts branch
8. Organisation of Controller General of Accounts
9. Monitoring Cell
10. Central Pension Accounting Office
11. Pay and Accounts Office

1.6 Broadly speaking, the gamut of expenditure management can be grouped into three sectors Viz. Plan Finance, Non-plan finance and accounts. In the succeeding paragraphs the existing structure of the Department of Expenditure is sought to be examined within the framework of these three core functional responsibilities.

2. Plan Finance Divisions

2.1 The Plan Finance Division, is concerned with management of expenditure in relation to Five Year Plans. The two distinct segments of the Plans viz. Central Plans and State Plans are handled in two separate divisions viz. Plan Finance I and II.

a. Plan Finance Division - I

2.2 This division deals with assessment of financial resources for State Plans, release of central assistance, analysis of State budgets, matters relating to Centre-State financial relations, fiscal reforms in States, finances of State Electricity Boards, State Road Transport Corporations, matters relating to finances of local bodies etc.

b. Plan Finance Division - II

2.3 This division deals with Central Plan schemes, internal and extra budgetary resources and budgetary support for Central Plan, capital restructuring of public sector undertakings, Public Investment Board, appraisal of Expenditure Finance Committee proposals etc. The outlay levels currently prescribed for bringing programmes/schemes/projects for approval of EFC or PIB appear to be appropriate. These limits would need to be revised every three years so as to take note of the developments during that period.

2.4 These divisions are headed by Joint Secretary PF-I and Joint Secretary Secretary PF-II with adequate support structures.

c. Finance Commission Division

2.5 The implementation of Finance Commission's recommendations, including legislation and issue of Presidential and executive orders/sanctions, constitutes an area of work closely related to plan finance and although the Department has a separate Finance Commission Division, the charge is appropriately vested in the Joint Secretary in charge of Plan Finance I. This Division has 5 officers and 32 support staff. The sanctioned strength of the Division has increased by 1 officer and 12 support staff since 1999, although *prima facie* no extra workload appears to have devolved on this Division during the last two years. Apparently the sanctioned staff strength has increased to accommodate staff from the last Finance Commission. Besides, the nature of work is essentially officer oriented,

with only a limited requirement of support staff at the level of investigators, computers and stenographers. There is not much justification to have in this Division posts such as a Senior Librarian, 8 UDCs/LDCs/Computers, a Staff Car Driver, a Scooter Driver, a Daftry, a Jamadar and 13 Group D Staff. The post of Senior Librarian, 4 posts of UDC/Computer/LDC, the posts of Staff Car Driver, Scooter Driver, Jamadar and 8 Group D posts could be abolished without affecting the Division's operational capability.

3. Non Plan Finance

3.1 This is the second major area of concern for the Department of Expenditure. However, there is no Division named as such.

(a) Establishment Division

3.2 The core area of work for the Division relates to proposals for creation of posts, determination and revision of pay scales, determination and revision of Dearness Allowance and other allowances commonly linked to pay scales, pay fixation cases, issues relating to rates of pension and terminal benefits, bonus etc. It also deals with financial rules and regulations and delegation of powers to the ministries.

3.3 In the context of the felt need to contain the growth of non-plan expenditure and also to promote increased efficiency and productivity in the various activities, the focus of the Establishment Division should be more on larger issues having significant implications on the non-plan expenditure side. To enable this Division to play a more critical role in management of non-plan expenditure action would need to be taken to reduce its involvement in having to deal with routine and financially insignificant but time consuming references for expenditure or policy relaxations/interpretations.

3.4 The objective of reducing the number of references relating to relaxations of prescribed limits can be achieved by enhancing the delegation of financial powers to the ministries. There is scope for further delegation of powers with control being exercised through budgetary allocations. The volume of references for policy

interpretation/relaxation also needs to be reduced by enhancing the powers of the ministries to deal with organisations under their charge. A committee headed by the Additional Secretary (Expenditure) and comprising three financial advisers as members could be constituted to make specific recommendations in this regard. The feasibility of entrusting to the Department of Personnel & Training the responsibility of policy interpretations and relaxations in matters related to conditions of service and allowances other than Dearness Allowance and Foreign Allowance could also be explored. The Division also functions as a secretariat of the Screening Committee in cases of delegations/deputations/tours abroad. This does not seem necessary. Ministries have vast financial powers and their heads could be trusted to be judicious in matters of expenditure on foreign travel also. If clearances are required because of the status of the person travelling abroad, the Secretary of the Department should get them directly from the Cabinet Secretariat. The enforcement of cap on foreign travel, if desired, should be through rigid adherence to budget provisions.

(b) Pay Research Unit

3.5 Established in 1968, this Unit is mainly responsible for collection and compilation and analysis of data on actual expenditure incurred on pay and various types of allowances as well as data relating to the strength of the Central Government civilian employees and employees of Union Territory Administration. The Unit brings out an annual publication, albeit with a time lag, entitled 'Brochure on Pay and Allowances of Central Government Civilian Employees'. The Unit also works out the financial implications of the proposals of the government and also those coming before the National Council of JCM in regard to pay scales and allowances.

3.6 Studies and research on the size, growth and content of government's non-plan expenditure should constitute an important ingredient in government's strategy to take informed and effective measures to manage its non-plan expenditure. For such analysis to be an effective tool in non-plan expenditure management it has necessarily to be on a disaggregated basis. The Pay

Research Unit should, therefore, undertake collection of data on a wide range of expenditure items and compile them on a disaggregated basis for specific items of expenditure. For example, it would be worthwhile to know ministry-wise as well as in aggregate government expenditure on telephones, POL, charges for staff cars, overtime, LTC, foreign travel, domestic travel and within that on air travel, hospitality etc. The items listed here are merely by way of illustration and the Department needs to be continually on the lookout for curtailing wasteful expenditure. The expenditure data should be studied in aggregate terms as also with reference to trends obtaining in other countries like say China, UK, Australia, USA etc.

3.7 The other and perhaps even more important segment of the PRU's work should relate to research/studies in specific matters having significant financial implications. Such areas can be change in the composition of the basket of goods and services which determines dearness allowance to reflect changing consumption patterns, or commutation of pension, non-plan subsidies, perquisites available to employees in government and public sector undertakings, user charges for various services provided by government and so on. Section 7 of the Report outlines at some length some of these issues that would need to be examined by the Pay Research Unit.

3.8 To properly reflect its enlarged mandate and the scope of its work, the Pay Research Unit should be renamed Expenditure Research Unit (ERU). The Unit would need to be considerably strengthened – not only in terms of number but also in terms of induction of qualified/specially trained personnel at officer level – if it is to discharge effectively the tasks envisaged for it. Some of the Sr. Analysts, Jr. Analysts and Technical Assistants likely to become surplus on the closure of IWSUs (examined in succeeding section) could be absorbed in the Unit as technical support staff. It should, however, be ensured that the Unit is put in a computer mode so as to obviate the need for any increase in non-technical support staff.

3.9 The mandate now suggested would result in an enormous increase in the workload of Expenditure Research Unit. It would, therefore, be necessary, in fact

more advantageous, to farm out some of the research work to organization like NIFM, IIMs or IIPA etc.

(c) Staff Inspection Unit

3.10 Staff Inspection Unit (SIU) handles the task of 'Review of the staffing of government establishment with a view to securing economy', which falls within the purview of the Department of Expenditure. This is done through periodical evaluation of staff requirements of Ministries with reference to the work undertaken and procedures adopted. SIU also determines norms of work-staff equations in respect of routine secretarial work on an all-Secretariat basis. It does not, however, undertake any evaluation of the procedures followed by the Department in the context of availability of modern office equipment or the time taken by officers and staff to do any piece of work, other than routine secretariat work.

3.11 The SIU is headed by a Director and has a sanctioned strength of 76. Category-wise distribution of these is set out below.

Director	1
Joint Director/Deputy Secretary	2
Under Secretary	5
Senior Analyst	5
Junior Analyst	23
Technical Assistant	4
Section Officer/PS	2
PAs	4
Asstt./Steno./UDC/LDC	16
Daftry	2
Peon	10
Farash/Sweeper	2
Total	76

3.12 SIU's evaluation of establishments of Ministries is done through about 10 study teams – each team headed by an Under Secretary or Senior Analyst and comprising of three Junior Analysts.

3.13 In addition to the SIU in the Department of Expenditure, each ministry has an Internal Works Study Unit (IWSU). These are entrusted with, more or less, the same functions as the SIU with the limitation that each IWSU restricts itself to the ministry to which it belongs. While the idea of self-assessment and regulation in terms of staff requirement is commendable in principle, in practice the idea has come a cropper. IWSUs being internal organisations have not been very effective in identifying redundancies either of functions or staff in their ministries. They have been used by the ministries more for assessment of staff requirements where new set ups are created or demand for additional staff is made by existing units, to support proposals for creation of posts.

3.14 There is clearly an overlap of functions of IWSUs and SIUs and there is a case for one of the two setups being wound up. The main argument for SIU, in preference to IWSUs, is that IWSUs have not been able to function as independently as desirable in assessment of redundancies of staff since they have not been immune to the pressures of the officers of the ministries in which they function. A very broad review of the work done by various IWSU units during the last five years lends support to this view. Most of them have undertaken very few studies in the recent years. In some departments the IWSU staff is being assigned to do O&M work while in a few others the staff sanctioned for IWSU is being utilized in other units/sections. All in all, very few ministries appear to give IWSUs the importance that they merit. On the other hand SIU's studies over the same period have resulted in recommended/implemented abolition of 6203 posts involving an expenditure of Rs.69.88 crore per annum. There are also a large number of SIU reports that are in various stages of pendency in the government.

3.15 As the IWSUs functioning in different ministries have not been able to play any significant role in the matter of undertaking work-studies or expenditure control, they may be abolished. Information available in respect of 32 ministries/departments, excluding Railway Board and Telecommunications, show

that the IWSUs in these organizations have a staff complement of 57 Senior and Junior Analysts, 60 Research Assistants, 58 support staff and 30 Group D employees. Some of these officials could be inducted for strengthening the Expenditure Research Unit and the SIU.

3.16 With the abolition of the IWSUs the SIU would need to be reorganized and more focused and to some extent even strengthened to undertake the various establishment evaluation studies suggested by the Commission in respect of a number of organisations. In such studies the SIU should also examine the need for the activity to be carried out in a government organizations and also whether the procedures adopted would admit of simplification and whether in line with the induction of IT facilities in data storage and processing the staff requirement as earlier assessed would still be necessary. The SIU studies of staff requirements of a Ministry should, like audit, follow a regular cycle may be at intervals of every four years.

3.17 While the SIU restructures itself internally in computer mode with emphasis on technical competency to ensure focussed attention on the given mandate, it also needs to substantially reduce unwarranted and excessive support establishment like LDCs/UDCs (16) and Gr. IV Staff (14). These could be reduced to half their present level.

3.18 The restructured SIU and the strengthened Pay Research Unit would constitute the two research and study units devoting attention and energies to ministry-wise studies of procedures, staff strengths and all-government research on sub-sectorwise expenditure trends, ratios and correlations, identification of aberrations-deviations and formulation of proposals for corrective action. They should work according to an annual programme. A consultative mechanism be set up involving Secretary, DOPT, Secretary, Planning Commission and Additional Secretary, Administrative Reforms in the drawing up of such plans.

3.19 While JS(Per) could be designated as JS(Per & NPE) to reflect the significance of management of non-plan expenditure in the establishment division, the principal responsibility in regard to all work relating to management of non-plan

expenditure should be that of Additional Secretary (Expenditure) to whom JS(Per), ERU and SIU should report.

(d) Administration Division

3.20 Administration Division handles establishment and general administration matters pertaining to the Department of Expenditure. The Division consists of the usual number of sections handling cadre administration, establishment, vigilance, parliament work, coordination, R&I etc.

4. Integrated Finance Division

4.1 The Integrated Finance Unit of the Department, tenders financial advice on all matters involving expenditure by the Department. It also prepares budget estimates in respect of the Department.

4.2 A Miscellaneous Departments Branch functions as Associate Finance to a number of Department or organisations which are very small to have their own Integrated Finance Units such as President's and Vice President's Secretariat, Cabinet Secretariat, Lok Sabha Secretariat, Rajya Sabha Secretariat, PMO, Supreme court of India and Ministry of Parliamentary Affairs. The overall supervision of the Branch is with the Financial Adviser of the Department.

5. System of Financial Management through Integrated Financial Advisers

5.1 An area though not directly part of the Department of Expenditure but very much germane to the whole gamut of expenditure management which is proposed to be only flagged for further examination is the system of Financial Advisers located in each ministry/department. The Eshwaran Committee had examined this system in 1996. The Chairman's paper at annex-I also touches on this issue.

5.2 The issue of integration of the structure of financial advice and accounts with a view to better utilization of manpower resources and economy merits serious examination. However, to optimally utilise the officers at the level of FA and CCA and reducing overstaffing, the government should consider straightaway

the possibility of placing both the Finance and Account Divisions in a Department under one authority, even as two separate streams, one for financial advice and the other for accounts continue below that level. The Eshwaran Committee in 1996 had suggested placement of compilation and consolidation of the accounts of the Ministry under the charge of its FA. In line with this recommendation merger of the two top posts of FA and CCA could be effected in all Ministries/Departments and both finance and accounts organization be placed under one authority who would be FA-cum-CCA. Below the FA-cum-CCA, the accounts organization will be headed by Controller of Accounts at appropriate level and the Finance organization will be headed by a DS/Director(Finance).

5.3 The present structure of FAs and heads of accounts divisions in ministries/department is set out in Annex II. It will be seen that excluding Defence, Railways and Telecommunications, which are likely to require special treatment, there are 25 Financial Advisers. All ministries/departments are allocated among these FAs as 'Main Charge' or 'Additional Charge'. Of these, 9 are of the rank of Additional Secretary and the remaining 16 are of the rank of Joint Secretary. On the Accounts side, there are 29 heads of Accounts Divisions, of which 17 are CCAs at the level of Joint Secretary and 2 are Pr. CCAs at the level of Additional Secretary.

5.4 The proposed arrangement will enable government to appoint FAs-cum-CCAs independently to more Ministries and it may no longer be necessary to require some FAs to look after three or four Ministries/Departments as is now the case. Thus, against 25 posts of FAs and 19 posts of CCA/Principal CCAs (a total of 44 posts at JS/AS level), there may be need for lesser number of officials at this level.

5.5 To ensure that the proposed combining of the post of FAs and CCAs does not adversely affect the promotion prospects of the officers of the Indian Civil Accounts Service who are currently working as CCAs, a suitable proportion of the post of FAs-cum-CCAs (both at JS/AS level) may be filled by eligible and suitable ICAS officers.

5.6 An allied issue would be the need for widening the experience base of the ICAS officers so as to equip them better to function as FAs and CAOs. At present, the experience of these officers is confined to accounting work only. To be able to discharge effectively the tasks of an FA and CAO, they should have had experience of working in other Departments as well. A scheme of inter-service deputation between the various accounts services, including IA & AS, would need to be evolved to facilitate cross fertilization between various services. It may be necessary to stipulate that an ICAS officer to be eligible to become FA & CAO must have had at least 4 years of experience on a deputation post in IAAS or any other accounts service or in a non accounts post in an organisation dealing with implementation of programmes and projects.

6. Accounts

6.1 The Accounts wing of the Department of Expenditure comprises.

1. Organisation of the Controller General of Accounts
2. Central Pension Accounts Office
3. Pay and Accounts Office
4. Cost Accounts Branch
5. Monitoring Cell

(a) Organisation of Controller General of Accounts

6.2 The office of the Controller General of Accounts came into existence with the Presidential notification dated 27-09-1980 incorporating, the function of the office in the Allocation of Business Rules 1961. The process of progressive departmentalization of the accounts and relieving C&AG of the responsibility for compilation of accounts has been under implementation since 1st April 1976.

6.3 As the name implies, CGA's organisation is responsible for compilation of the accounts of the Central Government and for this purpose for laying down general principles of accounting, forms of accounts and drawing up rules and manuals for maintenance of accounts. It reconciles cash balances of Union Govt. with the Reserve Bank of India, prepares annual accounts, showing under

respective heads, the annual receipts and disbursements for the purpose of the Union government. The CGA office administers Treasury Rules. It also manages the cadre of Indian Civil Accounts Service (Groups A) and Group B officers of the Central Accounts Offices.

6.4 The CGA functions through the field offices of Principal Chief/Chief Controllers of Accounts located in each ministry/department. There are in all 29 Departmental Accounts Divisions of which 17 are headed by Chief Controllers of Accounts (Joint Secretary level officers) and 2 are headed by Principal Chief Controller of Accounts (Additional Secretary level officers.). Remaining ten are Controllers of Accounts (DS/Dir. Level officers). In respect of 4 departments, the Accounts Division is supervised by CA/CCA of some other ministry as an additional charge. Prima facie it would appear sufficient if the accounts work in all the Ministries/Departments is headed by a CA level officer (DS/Director level). Above this level, as suggested in para 5.2, the work will be supervised by FA-cum-CCA who will be responsible for financial advice work as well.

6.5 The CGA's organisation has a strength of 75 officers and 98 support staff, 19 of the officers belonging to the Indian Civil Accounts Service – 6 of them at the level of JS and above. Keeping in view the suggested combining of the posts of FAs and CCAs and the functional needs of the CGA's office the strength of the Indian Civil Accounts Service, including size of annual intake, and structure of the posts at different levels be examined as part of the Cadre Review of the Service.

(b) Central Pension accounting Office

6.6 This office has started functioning since 1990. It issues special seal authority to public sector banks for disbursal of central civil pensions (other than Railways, P&T and Defence) and ensures internal audit. It administers the Pension Grant (Civil Pensions) and also prepares Budget for Central Civil Pensions. It ensures proper settlement of central transactions relating to pension payments through treasury offices. The office is headed by a Chief Controller of Accounts. The overall utility and effectiveness of this organisation is accepted.

(c) Pay & Accounts Office

6.7 This office is responsible for payment of salary bills, personal claims, contingencies, suppliers' bills, issue of pension payment orders in respect of the officers and staff of the Department. It watches receipt of interest and capital on loans sanctioned by the Department of Expenditure to State Governments. It disburses loans sanctioned by the Department to Union Territories administrations and Rural Electrification Corporation.

6.8 The Division is headed by a Chief Controller of Accounts, as is the case in all large departments. However, in the Department of Expenditure CCA is also entrusted with overseeing the work of the Staff Inspection Unit. In terms of preceding examination of that unit, it has already been suggested that it may be restructured, reinforced and placed under the charge of JS (Per & NPF) – currently designated JS (Per).

(d) Cost Accounts Branch

6.9 The Cost Accounts set up in the Department of Expenditure came into being during World War II in order to verify the cost of production and to determine fair selling prices for goods and services bought by the government. In the post-Independence era of administered prices and growing public sector, the branch continued to determine the cost of production and fair selling prices for purchase of equipment of government departments, for sale of products and services by departmental undertakings, for support price operation as well as determination of administered prices.

6.10 Today the CAB handles the following items of work:

- i. Examination of claims between government departments/PSUs arising out of purchase contracts
- ii. Determining costs of products bought by government to enable authorities to negotiate purchase prices
- iii. Fixing of fair prices
- iv. Verification of escalation claims

- v. Cost accounting systems of departmental undertakings, their cost audit
- vi. Administration of Indian Cost Accounts Service

6.11 The question that needs consideration is whether CAB and ICAS have lost their *raison d'être* in the changing economic environment and need to be discontinued or are still relevant because of new aspects of economic administration still requiring costing expertise such as transfer price determination, fixation of user charges etc.

6.12 The bulk of the work of CAB emanated from administered price mechanisms in many sectors. With changes in economic policies and gradual dismantling of administered price mechanism such work would have declined. In some areas the need for Cost Accountants may be felt. However, even in such areas, in the long run, the possibility of accessing professional expertise from practising Cost Accounts on a case-to-case basis would need to be explored. The CAB at present has sanctioned strength of 28 professional posts of which 9 are filled up. It is felt that the strength of the CAB should reflect the changing situation and the existing staff strength deployed in areas where their expertise is needed. They could also be productively utilised in undertaking studies on determination of user charges, recovery of which has been recommended by the Commission in its various reports.

6.13 Given the above scenario, it is felt that the government should make an assessment of the immediate and future requirement of the Indian Cost Accounts Service and structure it accordingly. Pending such a study, fresh recruitment to the service should be stopped.

(e) Monitoring Cell

6.14 There is a Monitoring Cell which is responsible for coordinating action relating to reports of the Public Accounts Committee concerning all ministries/departments of the Central Government and also action on Audit Reports (Civil) of C&AG in respect of all ministries and departments. The Cell

functions under the overall supervision of Additional CGA in the Office of Controller General of Accounts.

7. Some Significant Issues in the Management of Non-Plan Expenditure

I. Staff and Establishment Related Issues

A. Level Jumping

7.1 At present there are seven levels in the hierarchy of officers in the Ministry/Departments – Secretary, Special Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary and Under Secretary. In many Ministries/Departments papers go up in a routine fashion through at least five, if not six, of these levels. This leads to unnecessary delay and impedes quick decision making. The Fifth Pay Commission had examined this issue and had observed that there should be a general rule that no file could be allowed to travel through more than three hierarchical levels before a decision is taken. The Expenditure Reforms Commission has also, in the examination of the functioning of different Ministries/Departments, found that number of levels through which proposals have to go up for decision making could well be limited to three. The Commission has in fact suggested in the case of many Ministries/Departments that the concept of 'level jumping' should be adopted whereby an Under Secretary puts up papers directly to a Joint Secretary, a Joint Secretary puts up papers directly to a Secretary and so on. Government could consider issuing instructions that in future no file should be examined by more than three officers in the hierarchy. The typical chain could consist of the Secretary, the Joint Secretary and the Under Secretary. It is neutral that cadre management pressures could lead to promotion of officers to other levels like Deputy Secretary, Director, Additional Secretary, Special Secretary, etc. It is necessary to ensure that such promotions do not lead to extra level in the processing of papers. For instance, in many Ministries there are posts of Special Secretary. Often the Special Secretary becomes an extra level the chain. Sometimes the Special Secretary is made to function independent of the Secretary thus effectively undermining the overall

responsibility of the Secretary for the functioning of the department as a whole. Neither arrangement is a desirable one. While the department could have some flexibility in determining which levels of the chain they will have, it should be stipulated that the chain itself should not consist of more than three levels.

B. Appointments on Compassionate Grounds

7.2 Appointments on compassionate grounds are quite common in government. When an employee, particularly of Group 'C' or 'D', dies in harness, it is not unusual for the spouse or a child of the deceased or a close relative being given employment in a suitable position in keeping with the person's educational and other attainments, to help the family confront the economic loss of the breadwinner. At times, age and other requirements are also relaxed. While the practice may commend itself on humanitarian grounds, it would run counter to government's efforts at downsizing wherever possible, by perpetuating a position that may have otherwise been abolished or remained vacant. Further, the productivity or usefulness of the person so employed may be found wanting, besides entailing an enduring financial liability, with all other concomitant benefits like pension and so on.

7.3 In fact, compassionate appointments have lost all justification. In earlier days, there was no family pension, no gratuity, no group insurance, etc. and employment on compassionate grounds was the only way to look after the family of a deceased employee. Today, there is reasonable financial provision for the family. Firstly, there is family pension, paid at double the rate for seven years and at normal rate thereafter. The rate of family pension has been increased to 30% of the last pay drawn. Further, dearness allowance (DA) relief covering 100% rise in prices as reflected by the consumer price index is allowed on family pensions. Gratuity has been introduced and is now calculated after including the DA element. In case of death of an employee gratuity is paid equal to 33 times the emoluments, whereas on retirement an employee gets gratuity at only 16.5 times of emoluments. Group insurance scheme provides a cover in case of untimely death. There is also a limited insurance cover related to the deposit in the Government Provident Fund.

7.4 Compassionate appointments are being made not only in case of death of an employee but also when an employee is unable to continue in service due to sickness. This provision is being misused in many cases where employees obtain a medical certificate one or two years before superannuation, opt for early retirement, and also ask for a job for one of their dependents. In such cases, it may be better to give full pay to a person until his date of his superannuation but not agree to give employment to a dependent.

7.5 There is also a prescribed quota for compassionate appointments, which needs to be abolished. In case of extreme hardship, the question of enhancing the financial benefits to be provided could be considered.

C. LTC, Leave Encashment, Etc.

7.6 The provisions relating to leave travel concession (LTC) have been progressively eroded over time. Currently, an employee is allowed LTC for himself or herself and family once to anywhere in India and once to one's hometown in a block period of 4 years. With the substantial increase in salaries following the Fifth Pay Commission, the question arises whether the same generosity should continue in regard to LTC. The Commission is of the view that it would be sufficient if the leave travel facility is restricted just to one's hometown. It is, therefore, recommended that the facility of leave travel to anywhere in India be withdrawn.

7.7 Precise estimates of the expenditure on leave travel concession (LTC) are not available, as it is understood that there is no separate head of expenditure for this and it is subsumed under the head of travel expenses. However, the Brochure on the Pay and Allowances of Central Government Civilian Employees 1998-99 (latest year for which available) brought out by the Pay Research Unit of the Department of Expenditure in the Ministry of Finance shows the expenditure on LTC in 1998-99 as Rs. 195 crore. Assuming that a little over half of this is on travel to anywhere in India, and allowing for the increase in expenditure over the past 2 years, the proposed change should yield a saving of around Rs. 100 crore.

7.8 Encashment of neutralisation and outstanding leave as part of terminal retirement benefits was introduced for the first time in 1981. Initially, it was up to a maximum of six months but after the Fifth Pay Commission it currently stands enhanced up to a maximum of ten months of pay.

7.9 No precise estimates are available of the expenditure incurred on leave encashment. However, on a rough and ready basis the amount may be in the region of Rs.300 crore¹ or so. But more than the amount the question that arises here too, is whether with the vast liberalisation of pay scales and emoluments following the Fifth Pay Commission such additional benefits should also be given.

D. Dearness Allowance

7.10 The burgeoning wage bill of the government of which dearness allowance (DA) is quite significant raises many questions. First, does the index to which DA is linked realistically reflect the rise in the costs of living for government servants? Or does it need review? Second, should full neutralisation be provided for all categories of employees for rises in the cost of living or should there be a graded scale of neutralisation as in the past, with lower compensation for higher paid employees? And third, can government really afford to revise DA periodically (with full neutralisation across the board for all employees) in a grim fiscal situation of persisting large revenue deficits?

7.11 In addressing these questions, the background in which the present dearness allowance regime has come into force cannot be ignored. Prior to the Fifth Pay Commission, full neutralisation of the cost of living by way of dearness allowance was not there for all levels of government servants. The historical background relating to dearness allowance is given in Section 105 of the Fifth Central Pay Commission Report Volume III. It is not proposed to recapitulate all that here, except to extract two paragraphs with a view to placing the matter of the

¹ The total annual salary bill on the civilian establishment of the GOI is around Rs.30,000 crore. Roughly 74% of this is on account of salary and DA (Pay Research Unit). Assuming that roughly 3% of the employees retire every year and that they have on an average about 5 months leave to their credit at the time of retirement the leave encashment works out to Rs. 30,000 x (0.74) x (0.03) x (5 / 12) = Rs.277.5 crore say Rs.300 crore.

present regime governing dearness allowance in perspective. The two paragraphs are:

Paragraph 105.3

"105.3 The existing formula for grant of DA to Central Government employees is based on the recommendations of the Fourth CPC. At present DA is admissible twice a year as on 1st January and 1st July and is payable with the salary for March and September respectively in the same year. Each instalment of DA is calculated with reference to the percentage increase in the 12 monthly average of AICPI (base 1960) over the average index of 608, which is the base for the existing scales of pay as recommended by the Fourth CPC. This percentage increase is taken in whole numbers only.

Thus, the formula for calculating DA is:-

$$\frac{12 \text{ Monthly Average} - 608 \text{ of AICPI}}{608} \times 100 = \text{The percentage increase in prices}$$

The extent of neutralisation admissible to employees against the percentage increase in prices for different pay ranges is as follows:-

Pay Range (Basic Pay)	Extent of Neutralisation	
(i) Pay upto Rs.3500/- p.m.	100%	
(ii) Pay above Rs.3500/- p.m. and upto Rs.6000/- p.m.	75%	Subject to a minimum of the maximum available at (I) above
(iii) Pay above Rs.6000/- p.m.	65%	Subject to a minimum of the maximum available in (ii) above.

Paragraph 105.8

“105.8 It has been strongly urged that a uniform neutralisation of DA @ 100% should be given to employees at all levels. We see merit in this demand. The erosion in the real value of salary at highest level, has been the most severe, beginning from 1949 followed by other Group A officers down the line (see Annex 105.2). In contrast, a comparison of the index of real earnings for the peon between 1949 and 1996 shows that the peon was more than fully neutralized for inflation and was in real terms paid 53% more than his salary in 1949. **The Secretary on the other hand was not even paid full neutralisation for inflation and consequently his real salary has eroded to the extent of 72% as compared to the position in 1949.** The erosion was a consequence of a deliberate policy followed for a long time, under the mistaken impression that impoverishment of the higher bureaucracy was an essential ingredient of a socialistic pattern of society. A distortion is also observed in the internal relativities because of this formula. While the Fourth CPC had made recommendations which had resulted in a pre-tax maximum minimum disparity ration of 10.7 in 1986, this ration had slipped to a level of 8.58 in 1995 and to 8.43 in 1996. This was primarily on account of the Dearness Allowance formula which prescribes differential rates of neutralisation. It does not require intelligence to perceive that minimum-maximum ratios fixed by a Pay Commission should have some sanctity and stability. Once an ideal ratio is arrived at, it cannot be allowed to become a plaything in the hands of an erratic CPI. With the lifting of the ceilings in the private sector and salaries in the public sector getting linked to productivity, the external relativities have got totally unbalanced. The government is unable to pay comparable salaries at the higher levels to its officers inspite of the enormity of their tasks and higher levels of responsibilities. **Inflation neutralization on a graduated scale in**

the present circumstances will be anachronistic and unduly unjust to the senior officers. At this juncture, the Government's conscious intervention in removal of the unjust practice of differential neutralisation of DA is a must. **Accordingly we, recommend that inflation neutralisation be made uniform @ 100% at all levels."**

7.12 Given the Fifth Pay Commission's strong endorsement of full neutralisation of the rises in the cost of living across all categories of government servants and their observation that graded neutralisation would be "anachronistic", it would be retrograde to suggest a harking back to the earlier system of graded and partial neutralisation. This leaves the other question of the appropriateness of the cost of living index to which payments of dearness allowance are linked.

7.13 A question that arises is whether the index and the basket of commodities to which DA is linked should be reviewed. Many government servants enjoy neutralisation housing, telephone and other facilities. Should they also be fully compensated for rises in the cost of living which reflects the costs of these services too? But then not all government servants, particularly those at the lower levels, benefit from such subsidized facilities, which again raises the question whether there should then be differential rates of neutralisation.

7.14 It is learnt that formerly armed services personnel used to draw only half the dearness allowance paid to those in civilian services, possibly on the rationale that they receive free rations and other subsidized facilities. But now they too receive DA on par with civilian employees, without any diminution in those facilities.

7.15 The ERC has not had time to delve into all these questions to come up with any meaningful suggestions. The Expenditure Reforms Commission understands that a specially constituted committee examined issues concerning dearness allowance at some depth in 1991-92. Since then the Fifth Pay Commission has intervened. However, in the present context of a difficult fiscal situation, the Commission would recommend that the whole issue of dearness allowance together with the associated cost of living index be gone into again, and pending the outcome of that review, freeze all increases in dearness allowance as

long as there is a revenue deficit in the central budget. If for any reason that is not feasible then at least the revisions in DA be made annual and not bi-annual as at present.

7.16 The urgency for such review would be evident from the substantial outgo on the installments of DA payments as brought out by the following table, which does not, however, take note of the consequent DA burden of States.

Financial Implications of the DA Increase including relief to pensioners

No.	Date	Average Index (Base 1982=100)	Rates of DA	Annual Financial Implications (Rs. in crore)
1.	1.7.1996	319.75	4%	1139
2.	1.1.1997	333.83	8%	1139
3.	1.7.1997	348.58	13%	1438
4.	1.1.1998	357.75	16%	863
5.	1.7.1998	374.83	22%	1743
6.	1.1.1999	405.08	32%	2934
7.	1.7.1999	420.58	37%	1467
8.	1.1.2000	424.00	38%	296
9.	1.7.2000	433.33	41%	889
10.	1.1.2001	441	43%	587
11.	1.7.2001	447.17	45%	790

(Note: The index as on 1.1.1996 was 306.33)

E. Overtime

7.17 The Fifth Pay Commission had recommended the abolition of overtime. Unfortunately, the government implemented the recommendations of the Pay Commission selectively, and the recommendation about overtime was one of those that were not implemented.

7.18 The overtime bill of the Central government has been rising.

Table 1

[Extract from the Expenditure on Pay & Allowances of Central Government Civilian Employees ?
Brochure on Pay & Allowances of the Pay Research Unit]

	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
Overtime Allowance	500.21	619.41	944.70
Total of Pay & Interim Relief	17929.70	23979.52	26100.32
% of Overtime to Pay etc.	2.79	2.58	3.62

Though there is a dip in the percentage of Overtime to Pay in 1997-98, the rise in the subsequent year is quite steep to warrant a re-look at the question of overtime.

F. Bonus

7.19 Payment of bonus was originally introduced for parastatal commercial organisations like the railways, defence production, P&T, etc. However, it was later extended by way of ex-gratia payment to regular non-commercial government employees too, but with pay below a certain level. Bonus/ex-gratia payments are linked to productivity in some organisations. The Bonus Act stipulates only a minimum of 30 days' bonus but many organisations grant bonus in excess of the stipulated minimum though it may not be justified in terms of their productivity and output. Unfortunately, payment of bonus/ex-gratia has become an annual bargaining point rather than something which is self-determined based on the productivity and profitability of an organisation. Railways have paid bonus in excess of 50 days in the last five years while the Posts have paid bonus ranging from 40-50 days, Telecom from 58-71 days, Defence Production from 32-40 days and so on.

7.20 With substantial improvements in basic pay, dearness allowance formula ensuring 100% compensation for inflation, upgradation of posts on a large scale, there is little justification for continuing the current system of payment of bonus regardless of the profitability or productivity of an organisation and that too when government is having large fiscal deficit. If it is not possible to do away with it altogether in view of court pronouncements, the payment of bonus/ex-gratia should at least be limited so long as there is a deficit on the Revenue Account to the minimum amount payable and that too only in those organisations, in which the nature of work is such that it can be argued that the statutory provisions should apply.

7.21 Given the grim fiscal situation with persistent annual revenue deficits, there is urgency for reviewing the whole system of payment of bonus or ex-gratia, taking note, however, of court pronouncements in the matter.

G. Pension and Provident Fund Reform

7.22 In his Budget speech for 2001-02, the Finance Minister announced that he proposed to constitute a high level expert group to review the existing pension system, which is a very welcome development. A high powered expert committee on pension has since been set up under the chairmanship of the Shri B.K. Bhattacharya, former Chief Secretary of Government of Karnataka, and some other eminent experts in the field.

7.23 Meanwhile, the Ministry of Finance by its Office Memorandum F.No. 3(68) Ec.Dn./99 of October 21, 1999 had earlier constituted a Working Group on pension liabilities. The Working Group was to make a scientific and comprehensive assessment of government liabilities arising from pension payment to present and future retirees. The Working Group has since submitted its report in June 2001.

7.24 In view of the above, the Expenditure Reforms Commission has not addressed the issue of pensions (and provident funds) in any depth. However, some of the figures mentioned in the report of the Working Group are worth recalling.

7.25 The Working Group has noted that the pension expenditure of the Government of India, including Telecom and Railways², has gone up by approximately six times over a ten year period, i.e. from Rs.3272 crore in 1990-91 to Rs.19,446 crore in 1999-2000. For 2000-01 the pension liability was estimated to be Rs.21,117 crore, and based on some assumptions it estimates that the pension liability would rise to Rs.29,891 crore by 2009-10, assuming an annual inflation rate of six per cent. Should the inflation rate be ten per cent per annum the liability would be in the region of Rs.33,558 crore. Viewed as a percentage of GDP, the pension liability (including Railways and Telecom) has increased from 0.61% in 1993-94 to 0.96% in 2000-01.

² The pension liability of railways and telecom is not met from the Consolidated Fund of India.

7.26 The Working Group has noted that the proportion of pension liability as between the different departments of government is as under:

Table 2

	<u>Department</u>	<u>Percentage Contribution</u>
1.	Defence	50
2.	Railways	24
3.	Civilian Establishment	19
4.	Post	4
5.	Telecom	3

	Total	100
		=====

The total number of Central Government employees at the end of March, 1998 is said to be 5.2 million, while the number of pensioners was 3.4 million, giving a dependency ratio of 67%.

7.27 The above figures highlight the staggering increase in the pension liability of the government, whose steep rise has been further accentuated by the recommendations of the Fifth Pay Commission. With the efforts at downsizing the government, the dependency ratio (percentage of pensioners to working employees) is likely to become even more adverse. What has compounded the problem for the fiscal situation is that pensions are currently not funded but on a pay-as-you-go system. The foregoing discussion underscores the need for (i) a switchover to a funded system, and (ii) taking steps to reduce the pension liability of new entrants to the government.

7.28 Three questions arise in the context of reducing the pension liability of government:

- i. The rate of commutation;
- ii. Restoration of full pension 15 years after commutation;
- iii. Dearness Allowance on pension.

i. ***The rate of commutation and restoration of pension***

7.29 The commutation factor or multiple applied for the commutation table takes into account the prevailing interest rate and the expected longevity. Thus, the commutation multiple is a function of two factors: the discount rate (which is supposed to reflect the interest rate) and the period for over which the discount rate is applied (which is dependent on longevity). When the commutation table currently in force was determined both interests rates and longevity were low. The extant commutation table is based on an interest rate of 4.75% whereas the current interest rates are 9% and above. If the discount rate is therefore modified to reflect current interest rates, then the commutation factor would come down appreciably. However, if the period for which the discounted value of pension is calculated is also simultaneously adjusted for greater longevity then some calculations reportedly show that the commutation factor would in fact increase, because the longevity factor would more than counter-balance the interest rate element. But this raises another question.

7.30 What is the justification of discounting the value of pension to the full period of life expectancy when full pension is restored 15 years after commutation? If full pension is restored 15 years after commutation then logically discounting should also be done over a period of only 15 years after retirement and not stretched to the full term of life expectancy.

7.31 The Commission understands that some calculations were made in the concerned ministries to revise the commutation factor or multiple to reflect (a) current interest rates, (b) increased longevity, and (c) restoration of full pension 15 years after retirement. Apparently, these calculations came up with a fixed commutation factor or multiple for all those retiring at or before the age of 69 years, regardless of the actual age of their retirement.

7.32 If this were to be adopted it would reportedly have serious implications for defence personnel which accounts for the largest number of pensioners. A large number of defence personnel retire well before the age of 60; and jawans retire much earlier in their 40s. They would stand to lose very heavy amounts if the

revised commutation factor that does not vary with the age of retirement were to be applied. It is feared therefore that this would be totally unacceptable to them. Another point is that any revision in the commutation factor would need the concurrence of the Joint Consultative Machinery (JCM).

7.33 The foregoing discussion shows that two options are possible: either full pension is restored 15 years after commutation or it is not.

7.34 It appears that the facility of restoration of full pension 15 years after commutation was introduced following a court decision. Besides, any decision now to do away with this facility might also need the concurrence of the Joint Consultative Machinery (JCM), which may not be favourably disposed to it considering that it is in fact pressing for restoration of full pension after a period of 12 years instead of 15 years as at present.

7.35 If full pension were to be restored 15 years after commutation, then it only stands to reason that the period for which the commutation value should be calculated should also be 15 years, and not the expected longevity based on mortality tables. Otherwise, there would be a double benefit. The Commission therefore recommends that: (i) if full pension is restored 15 years after commutation (or some other specified period) then the period for calculating the commutation value (or purchase value) should be restricted only to 15 years (or some other specified period); and (ii) the rate of discount adopted for calculating the commutation value should reflect the current rate of government borrowing and not the anachronistic rate of 4.75% fixed several decades ago when the rate of government borrowing was low.

7.36 The second alternative would be to withdraw the facility of restoration of full pension 15 years after commutation. After all, this facility was not one of the terms of service at the time of entry; it was introduced only following a court decision. Secondly, commutation is not mandatory; it is only an option. If any retiring person finds that commutation without the facility of automatic restoration of full pension

after 15 years is not attractive enough, then he or she need not exercise the option.

7.37 On balance, the Expenditure Reforms Commission favours the first option outlined above, as it might be difficult to withdraw the facility of restoration of full pension after 15 years (or some other specified period). This should be made applicable for all new entrants into government service and to all those retiring after a specified date.

ii. ***Dearness Allowance on pension***

7.38 Currently, dearness allowance is paid on the full value of pension including the commuted portion. A question can be raised whether there is justification for paying dearness allowance even on the commuted portion of pension. But the justification for this is probably that the commutation amount (or purchase value of pension) is computed only on the basic pension that is being commuted and not on the dearness allowance payable on it. If the dearness allowance payable on the commuted portion of pension on the date of commutation is also factored into the commutation value or purchase value of pension then there would be justification for not paying dearness allowance subsequently, perhaps even the future dearness allowance that becomes payable after the exercise of the commutation option.

7.39 The Commission does not make any recommendation regarding this issue except to say that the government may examine this aspect in some detail.

7.40 Elsewhere in this report, a question has been raised whether dearness allowance should be paid on the basis of full neutralisation of the rise in the cost of living and whether there should be a 'freeze' on further instalments of dearness allowance as long as the Centre has a revenue deficit. The Commission recommends that whatever decision is taken in regard to payment of dearness allowance to serving employees should apply *mutatis mutandis* to pensioners too.

H. Informal Arrangements

7.41 There should be a prohibition on drafting of officials from the PSUs to work 'informally' in the offices of ministers/ministries; that is to say, an arrangement by which they continue to draw their emoluments from their parent organisations but work in a ministry or are attached to the offices of ministers. If any minister/ministry needs staff in excess of the sanctioned strength, then it would have to be justified before the Cabinet.

7.42 The present practice of PSUs footing the bill of ministries/departments on travel, meetings, stay in hotels, entertainment and food, etc. should also be stopped. To cite just a couple of examples, the canteen subsidy on Parliament is borne by the Railway Ministry; visits of Parliamentary Committees are "hosted" by public sector undertakings etc. All such expenditure should, in the interest of transparency, be reflected in the budget/expenditure of concerned ministry/department.

I. Office Accommodation

7.43 The office accommodation provided for many ministers and secretaries is far in excess of the ceilings prescribed. These ceilings should be strictly enforced. The practice of providing attached toilets, separate sitting areas and "captive" conference rooms for individual officers should be stopped. More than anything else this practice leads to common conference halls, and common bathrooms not being well maintained.

7.44 The furnishings and fittings in the rooms of many ministers and secretaries are on a very lavish scale. The emphasis should be on functional requirements and ostentation should be avoided. It will be useful to prescribe fresh ceilings for such expenditure, which are reasonable and strictly enforced. The present ceilings for such items of expenditure are too low and are flouted in every case. The practice of asking the public sector undertakings to 'do up' the ministry's premises and rooms of ministers and secretaries should also be stopped.

7.45 Once the downsizing – both the office accommodation requirements of ministers and secretaries and of the total staff strength is given effect to, then an attempt must be made to bring together the offices of each ministry within a more compact area within the same building. Today in many ministries the offices are spread over a large number of buildings.

J. Staff cars

7.46 The present system of government owning cars and employing regular drivers who are full time government servants leads to excessive expenditure, by way of maintenance and repair charges, salary perquisites and pension of the drivers etc. compared to the cost of hiring vehicles. Purchase of new cars may therefore be banned; as and when old cars are condemned, the requirements as far as officials are concerned, be met by taking cars on hire. In fact, informal studies show that if all the costs of operating and maintaining staff cars, including the overtime and other allowances of drivers etc., are factored in, it would be more economical to hire vehicles.

7.47 Also calling for review is the system of providing staff cars. Except for ministers and high officials, all other should be encouraged to use their private vehicles, and paid a decent allowance, which may cover their legitimate expenses. They may also be given advance for purchase of vehicles. The present system is utterly wasteful.

7.48 Government could also consider disposing of existing staff cars, which are determined to be surplus after the above recommendations are implemented. Preference could be given in such disposal to staff car drivers who seek voluntary retirement and who wish to run the staff cars as taxis, but not if they choose to sell them. In such cases, the vehicles could be sold to them at the written down value, and they could also be given preference in the hiring of cars by government.

K. Surplus Staff

7.49 The number of employees that will be found surplus will be so large that even after the already measures recommended are taken for placing such staff in

the surplus pool and for re-training/re-absorbing/discharging them, it will still be necessary to take some drastic steps for reducing the staff strength across the board. The first is to freeze direct recruitment in all cadres for five years. The surplus is so large – estimated at 30% by the Fifth Pay Commission, an estimate that is more than confirmed by the reviews completed by the Expenditure Reforms Commission so far – that even after five years of reductions in staff due to retirement there will still be a large surplus. There will be need for full scale exemptions in some specialised categories like nurses, engine drivers, certain categories in Defence Services and Police, etc.; and partial exemptions in some of the Class I cadres where it may be necessary to maintain recruitment at $\frac{1}{3}$ rd of $\frac{1}{2}$ of the present level, lest there be a vacuum in manning the top posts 25 to 30 years down the line. These exemptions, both total and partial, can be left to be decided by the Committee of Secretaries and put up to the Cabinet for approval within six months of introducing the five-year ban on recruitment.

7.50 The second is to reduce the age of retirement to 58. Another would be to stipulate that everyone will retire at the age of 60 or after 33 years of service, whichever is earlier.

7.51 As in the Army a system of shape up or ship out can be introduced at the level of promotion to the Additional Secretaries, with those who do not make the grade, having to proceed on retirement. If necessary, a three months training could be made mandatory in the last year before consideration for promotion, with a stipulation that the performance in the training would be one of the factors to be taken into account for determining eligibility for promotion

7.52 While the recommendation earlier was to offer a golden handshake to those who are found surplus, such golden handshake would be justified for all categories –officials in the generalist categories – from Secretaries down to peons to drivers. The option to be exercised by the various groups of officials will be subject to government reserving the right to accept or reject such option exercised by officers of the rank of Joint Secretaries and above.

L. Miscellaneous

7.53 Under the scheme traditionally operating in the central government, Joint Secretaries function as Heads of Division in different ministries and departments. Over the years, there has been an increase in the number of posts of Additional Secretary in the central government. It is observed that Additional Secretaries are largely being used as another tier in the submission of files from Joint Secretaries to the Secretary and Minister. This addition to the number of levels does not necessarily add to quality and speed in decision-making. It would be advantageous, in these circumstances, for an Additional Secretary to be placed in charge of one or more divisions instead of being another tier in the channel for submission of files. Such an arrangement is being usefully employed in several ministries, e.g., the Ministry of Mines and DOPT. The adoption of this course can be expected to lead to reduction in the number of posts at the level of joint/additional secretary.

7.54 The cost of travel, both foreign and domestic, has gone up enormously. It would be no exaggeration to say that a trip from Delhi to one of the southern-most destinations of the country could be costlier than a visit to one of the neighbouring countries. Nevertheless, it is the general perception that not much thought is given to the cost aspect while deciding to undertake a tour. Also, far less is saved in annual terms by the downgrading of posts at the level, say, of Additional Secretary or Secretary, than by not undertaking even one air journey to a far away destination within the country. All this points to an emergent need to lay down strict guidelines and stringent considerations for the undertaking of tours by officers in the central government. Recent press reports indicate that leading companies in the private sector, too, have become alive to the need for cost-cutting on travel and have taken several steps for cutting down on unnecessary travel. The intention here is not to clamp down altogether on travel in the Central Government but for greater appreciation of the need for cost-effectiveness and for undertaking a journey only if absolutely unavoidable, and using other methods like video-conferencing etc., wherever feasible. In this context, two other related issues may be relevant.

7.55 First, since air travel is now very common, airlines should be persuaded to give 10-15% discount on tickets for official journeys and all officers may be required to purchase tickets directly from the airlines and not from agents. Domestic airlines, in particular, can be asked to set up special desks for persons travelling on government account as also from all government funded organisations. Secondly, hotels for stay should be approved on the basis of not just suitability of accommodation but also on the discount that they offer. All major companies and even international organisations usually get up to 40% discount and there is no reason why the government should not take advantage of this while using hotels for the large number of official delegations who come every year and are provided hospitality. In the same manner MEA may negotiate special rates with hotels in various cities around the world for visiting Indian delegations.

7.56 The number of designations in use in the government, particularly among staff of the Group C and Group D categories, is extremely large. Historically, these designations have been used to describe or specify the nature of duties to be performed by the employees concerned. An unintended consequence, unfortunately, has been that an employee with a particular designation feels that his responsibility is limited only to that function or job and he cannot be called upon to do something else. (There are, happily, very honourable exceptions to this attitude but they are few and far between.) Thus, an electrician, a driver, a farash can rarely be utilised to perform other tasks, even if he has the time and a strong need exists. In several countries, it is quite usual for, say, a driver to perform other tasks in the office when he is not away driving a vehicle. From the viewpoint of rationalisation and better utilisation of the available human resources, there is, therefore, a strong need to use omnibus and broad designations for a large category of employees. While it may not be possible to achieve this multiplicity of tasks in regard to existing employees, a beginning needs to be made in respect of future appointees at least in some departments and organisations, if not across the government.

7.57 Payment for electricity and water should be made directly by each office instead of being paid by the CPWD, etc. This will create awareness about the quantum of bills and may lead to measures for conserving electricity and water, and reducing expenditure.

7.58 The strength of various cadres should be reviewed. Large reserves have been built into the cadre strengths for leave, training, deputation, etc. Recruitment is planned based on the cadre strength at the lower levels and this creates problems of stagnation etc., which in turn requires creation of senior posts. As a result large number of senior posts have been created in various cadres, which cannot be justified on the basis of work content.

7.59 Freeze on vacant posts and ban on new recruitment has certainly reduced employment in government, but it has also created a distortion in the work force. As vacancies occur in higher posts (groups B and C) these are routinely filled by promotion but the posts at lower levels keep on getting reduced. This reduction is affecting the posts at the working level and the supervisory posts get filled up. A solution can be that a maximum of 25 per cent of the vacancies may be allowed to be filled up at the discretion of the Secretary of the Department.

I. *Perquisites*

7.60 Various hidden or implicit subsidies to government servants should not be lost sight of. While some of these may be in the nature of perquisites, they nonetheless are implicit subsidies. To cite just a few examples, railway passes given to serving and retired railway officials and their families, free rations and subsidised sales of goods to armed services personnel through their canteens, by way of reduced duties and taxes or exemption there from, and so on.

7.61 Railway officials and personnel have also benefited from the hikes in salaries and allowances following the Fifth Pay Commission. Besides, free passes for travel are a hangover from the past when the network of railways comprised various private companies. Today, when they are government servants, there is no justification for continuing such exclusive benefits, particularly if for periodic

salary revisions they are treated on par with other government servants without the value of such perquisites being discounted. Such subsidies to government servants look even more dubious and unjustifiable when the government is cutting back on many subsidies to the poor and the general public. It is, therefore, recommended that they be discontinued forthwith.

7.62 The recent perquisites declared for telecom employees too would fall in the same category and would also need to be dealt with similarly.

7.63 As for the armed services, the justification for providing free rations to officers and personnel not on active duty on the front or on the borders appears thin. The benefit of subsidised purchases from 'armed services canteen stores' is not confined to serving officers and personnel but extended even to retired army personnel, including those of short service commissions. Some of the latter have found placement in the All India Services, Central Services and the like, as a special dispensation, but still continue to enjoy the benefits of subsidised purchases from 'armed services canteens'. The Commission would, therefore, recommend such subsidised sales be discontinued immediately, except for the families of those on active duty on the front or borders

7.64 The practice of providing support staff at the residences of officers of the armed services and police also calls for critical review. There is no reason why government should maintain and pay for large numbers of people who are engaged in activities that are not even ancillary to their primary functions.

II. Subsidies and User Charges

A. Subsidies

7.65 The Ministry of Finance issued a white paper or discussion paper on Government Subsidies in India in May 1997, following a commitment made by the then Finance Minister in his 1996-97 budget speech. The objective was to provide a basis for informed debate on the subject. The discussion paper was based on a study undertaken by the National Institute of Public Finance and Policy (NIPFP). The study was refined a couple of months later to substitute the accounts figures

for 1994-95 for the figures of revised estimates earlier used for 1994-95. According to the authors, the revision did not lead to any noticeable change in the overall magnitudes or subsidy figures as percentage of GDP.

7.66 It is not proposed to go into the methodology of estimating subsidies here nor to recapitulate the methodology underlying the NIPFP study or the discussion paper of the Ministry of Finance, since those interested in this can always refer to these published documents. However, one important observation needs to be made. Neither of these documents took note of tax expenditures nor even attempted to estimate these. This report does not do so either. In fact, given the present budgetary practices, one is not sure whether even a broad estimate of it can be made. But the intention behind mentioning this is two-fold: first, to draw attention to the fact that the estimation of subsidies would be understated to that extent; and secondly, to emphasise the need for greater transparency, which would *ipso facto* imply that rather than resort to tax expenditures the budget should explicitly provide for such subsidies.

7.67 The NIPFP study and the discussion paper are dated since several years have intervened since then. There is little point, therefore, in recounting those figures here, except to recall that the combined subsidies of the Centre and the States in 1994-95 amounted to 14.35 per cent of GDP (Centre: 4.52% of GDP and States: 9.83% of GDP), with non-merit subsidies accounting for 10.93 per cent of GDP (Centre: 3.94% of GDP, and States: 6.99 % of GDP).

7.68 The explicit subsidies in the budget for 2001-02 are estimated to be Rs.39,379³ crore (Plan Rs.7381 crore and Non-plan Rs.31,999 crore). This figure includes the amount of Rs.29,801 crore shown as non-plan subsidies in Statement IV of Expenditure Budget Volume I 2001-2002. However, this estimate of subsidies may be grossly understated as it refers only to the explicit subsidies in the budget. If the methodology adopted in the NIPFP study were to be employed, the level of subsidies would substantially higher, considering that the level of Central government subsidies estimated in the NIPFP study was Rs.38,446 crore

for 1994-95, of which 87% were considered non-merit subsidies and 13% merit subsidies.

7.69 It is not proposed to attempt any precise estimate of subsidies by the central government as the proportion of non-merit to merit subsidies is not likely to have changed significantly since the NIPFP study. If impressions are any guide, the proportion of non-merit to merit subsidies may have in fact increased. What the Commission would like to emphasize, however, is that all government departments and ministries should continually review the need for subsidies and reorient their programmes and schemes so that the proportion of merit subsidies is increased.

7.70 Another feature of subsidies that calls for attention relates to proper targeting of subsidies. Poor targeting may result in the subsidies not reaching the intended beneficiaries or dilution of the intended benefits. Proper targeting implies that it is better that subsidies are beneficiary-oriented rather than being directed at a commodity or sector. Transparency in the provision of subsidies may also ensure better targeting, which raises another important issue.

7.71 Subsidies need to be transparent for two reasons. First, transparency will ensure that subsidies are by and large explicit and not hidden or by way of tax expenditures, which obscure not only the extent of subsidy but also sometimes the identity of the beneficiaries. Secondly, transparency will facilitate greater and more informed public debate, both inside and outside the legislative bodies, and bring to bear focussed attention on the continuing validity or otherwise of subsidies. Mention has been made above of the discussion paper brought out by the Finance Ministry in 1997 on subsidies. This should be an annual feature and form part of the budget documents or presented to parliament shortly after the presentation of the budget. It is worth recalling here that Maharashtra brings out annually a publication on subsidies showing the extent of subsidies (both explicit and hidden or implicit), which is presented to the legislature during the budget session.

³ The difference is due to rounding off.

B. User Charges

7.72 In a sense, user charges are linked to subsidies: the higher the recovery of user charges, the lower is the level of subsidies. Even if user charges do not fully recover the cost of providing the services, the levy of user charges should be related to the cost of providing the service. By linking of user charges to the cost of delivery of service, there would be an in-built mechanism by which user charges are periodically revised. Another mechanism for periodic revision of user charges would be to index them to inflation or some other such measure.

7.73 A related but no less important issue is the need to restrict government expenditure in providing services. With the rise in salary expenditures of government the (non-salary) content of the services tends to get squeezed. Protecting the non-salary content of programmes and schemes without raising the cost to the exchequer would call for an inter-related two-pronged approach of reducing the overhead cost of providing services and improving the delivery of services, which implies reducing government inefficiency in the provision of services.

7.74 The Commission has not been able to estimate the extent of under recovery of user charges computed as the difference between the cost of providing a service and the levy of service charges or fees. However, an illustrative attempt has been made to identify the sectors and areas where efforts could be made to bring user charges more in line with the cost of providing such services. These are listed in Annex III. As mentioned in paragraph 7.72 above, user charges and subsidies are interlinked: to the extent that there is under-recovery of user charges, there is a corresponding subsidy, either explicit or hidden.

**TOWARDS A BETTER EXPENDITURE MANAGEMENT SYSTEM-
A PAPER BY CHAIRMAN EXPENDITURE REFORMS COMMISSION**

Notwithstanding the sporadic efforts over the last ten years to contain it, the fiscal deficit continues to be quite high, at around 10% for the system as a whole. Even at the Centre where there has been a drop, from 6.01% in 1989-90 to 5.1% of the GDP in Budget Estimates this year, the fall is not so large as could not be wiped when the Revised Estimates are announced!

More important the fiscal consolidation efforts during this period has resulted in 'good' expenditure being crowded out by not so very essential expenditure. Thus the resources allocated for plan purposes have come down from 5.54% in 1989-90 to only 4.07% of GDP in Budget Estimates 2000-2001. What is more the proportion of plan allocation to total expenditure has dropped from 31% to 26% during this period.

Equally important during this period the allocation for Capital Expenditure has come down from 4.62% to 2.65% of GDP. Though revenue expenditure has remained static at around 13%, the fall in the tax to GDP ratio has resulted in the revenue deficit going up to 3.58% of the GDP in BE 2000-2001.

During this period the reputation and relevance of the Expenditure Budget has also suffered, with the proportion of additional cash outgo (not including the "technical sanctions") sanctioned every year through Supplementary Estimates, in relation to the allocations in the Budget, going up to nearly 8% in 1999-2000.

During this decade there have also been a flood of audit reports by the CAG alleging misapplication of funds, in many cases of a very large order.

Thus clearly all is not well with the present expenditure management arrangements and there is need for considerable improvement, if the scarce resources are to be well spent. In the succeeding paragraphs some suggestions in this regard are outlined.

- (i) It is seen from press reports that Government proposes to bring in legislation for reducing revenue and fiscal deficits in a phased manner. Reduction of revenue and fiscal deficits through a statutory mechanism, not backed by a well thought out plan for a sharp increase in tax to GDP ratio on the one hand and for restructuring of various expenditures on the other, could well lead to a further reduction in the allocation for plan and other essential requirements as has happened in the last decade. If within the pre-determined ceilings for revenue and total expenditures, it has to be ensured that 'bad' expenditure does not crowd out "good" expenditure then one option would be to escalate the expenditure allocation decision to a "higher" and "larger" forum like the cabinet or a Cabinet Committee. This way the demands for larger allocations for 'good' expenditure would get voiced in a larger forum, and this could hopefully increase pressure for containing bad expenditure. Today the expenditure allocations are settled bilaterally by Finance Ministry with the various Ministries and Planning Commission, with Prime Minister's intervening to sort out only major differences if any.
- (ii) While the responsibility for adhering to the statutory ceiling for deficits will devolve collectively on the Cabinet, the primary responsibility will be that of the Finance Ministry. These efforts could be easily thwarted by individual ministries running up large additional expenditures. It will therefore be necessary to stipulate that for every Ministry the expenditure allocations as provided in the Budget and approved by the Parliament will act as the ceiling for expenditure for that year. The present practice of coming up with three or four supplementary estimates during the year has to be done away with, though these could be provision for bringing in supplementary demands for meeting expenditures of an unforeseen or unavoidable nature. It has to be stipulated that only schemes sanctioned by Government, that too with adequate funding, will be included in the

budget and also that the system of making token or inadequate provision would be done away with. The annual budget should be the only occasion for launching new expenditure initiatives or new projects and the present practice of launching new initiatives right through the year should be given up. If during the year launching of a new initiative by any Ministry becomes imperative, then that should be on the basis of matching savings within the total expenditure also that Ministry.

- (iii) The allocations for each Ministry would need to be set out month wise and a system devised whereby the Ministry is required to send every month to a competent authority requisitions for credit in the next month. These requisitions will not specify individual services or individual items of expenditure but only the sum total of monies required for that Ministry in the month. The sanctioning of these lump sum credits by the appropriate authority will depend upon the satisfaction that the expenditure in the earlier month in that Ministry has in fact conformed to the ceiling for that month and that there has been no violation of the guidelines.
- (iv) There are two options in regard to the agency that should be vested with the authority for approving requisitions for credit. It could be the Finance Ministry or the CAG. A brief note setting out the practice in UK where the CAG exercises this authority is appended. In India where the 'babudom' often misses the wood for the trees, and red tape is the name of the game adequate safeguards would have to be put in before introducing the new system if that system is not to bring Government functioning to a standstill because of numerous small objections being raised by the credit authorizing authority. Viewed this way prima facie it would appear that vesting this authority in Finance Ministry which has been a part of the expenditure sanctioning process all these years, might be less hazardous than

vesting this responsibility with the CAG, who unlike the counterpart in UK, functions as an auditor only.

- (v) If every Ministry is to be subjected to the discipline of having to get authorization on a monthly basis for its total expenditure and if only sanctioned projects are to be included in the Budget and that too with adequate funding then it stands to reason that, that Ministry, in turn, should be given full authority for the management of all monies placed at its disposal, subject to certain general guidelines such as:
- (i) no fresh commitments being made for future expenditure (i.e. taking up a large project with a small outgo in the first year etc.);
 - (ii) no fresh additional liabilities for the future being created (e.g. appointing additional staff, taking fresh loans for project financing etc.);
 - (iii) conformity to the pay scale prescribed for the various levels etc.

All this would require;

- (i) moving away from input based performance assessment to output based assessment;
- (ii) moving away from short term (annual) overviews to medium term (five year) requirements / output assessment;
(both (i) and (ii) can be on the New Zealand pattern.) and
- (iii) The ministries being given full freedom to reappropriate funds from one area of expenditure to another within its overall monthwise ceiling of expenditure subject to certain restrictions. Towards this end all those items of committed expenditure (eg. salary bill) should be clearly set out in the Budget so that while authorizing the credit for any one month the appropriate authority could verify whether in the expenditures incurred in the earlier month, there have been diversions from items of expenditure which are of a committed

nature and whether any new (unapproved) additional liabilities has been created for the future. If a Ministry is seen to have misused the delegated authority in any one month then all the delegated powers will be withdrawn till such time as the Ministry sets right the position at a future date. This arrangement will do away with the present practice of the Ministry having to come to the Finance Ministry every now and then for clearances even on minor matters. The dual control of the Financial Adviser could be done away with and the Financial Advisers placed solely at the disposal of the administrative Ministry.

- (vi) In every Ministry there are separate parallel hierarchies under the FA and under the Chief Controller of Accounts. The merger of these two units at all the levels would lead to a considerable saving in manpower (over 30% of the combined staff strength) and expenditure (over Rs.30 crores per annum). But two aspects merit indepth examination
- (a) whether the merger in any way vitiates basic principles of financial prudence.
 - (b) how the positions should be manned and from which cadres these officials are to be trained.

The first question arises as all along the attempt has been to keep the functions relating to sanctioning of expenditure, separate from drawal, disbursement, payment and accounting functions. The second arises as while it will be necessary for the officials managing the Integrated Financial Adviser and Chief Controller of Account units to have an indepth knowledge of the sector in which they are working. Under the present arrangements, officials appointed at senior levels, even if drawn from one or other of the accounts service may not have had any experience in the sector earlier. While at the

lower levels the manning is by administrative staff without any formal training in Accounts Work.

FUNCTION OF THE UK COMPTROLLER AND AUDITOR GENERAL

1. The office of the Comptroller and Auditor General (C&AG) was created in 1866 and combined the powers and duties of the Commissioners for Auditing the Public Accounts and of the Comptroller General of the Exchequer. The C&AG's full title is "Comptroller General of the Receipt and Issue of Her Majesty's Exchequer and Auditor General of Public Accounts.
2. The Consolidated Fund was set up in 1787. It is the account kept at the Bank of England by the UK Treasury into which receipts from taxation and miscellaneous revenue are paid; and from which charges upon the public revenue – voted by Parliament or payable directly under statute – give rise to payments. The National Loans Funds is the account at the Bank of England through which passes all the Government's borrowing transactions and most domestic lending transactions. The Consolidated Fund and the National Loans Fund are closely linked. The Consolidated Funds is balanced daily with any surplus being paid to the National Loans Funds and any deficit being met from the National Loans Fund. As Comptroller General, the C&AG is charged with the control of Consolidated Fund and National Loans Funds issues and receipts.
3. The C&AG's authority is required before the Bank of England can act on Treasury requisitions for credit in respect of proposed issues from the Consolidated Fund or the National Loans fund. In exercising this power the C&AG must be satisfied that credits are requested for purposes having proper statutory authority and are within amounts authorized by parliament. Every issue which the Treasury proposes to direct the Bank of England to make out of the accounts of these funds (except for transfers between them) is addressed to the C&AG by the Treasury. This requisition shows the purpose for which the credit is required and the related statutory authority. When the C&AG has satisfied himself that the amount concerned is correct and properly issuable he sends the Bank of England a 'credit' for that amount, which it may then issue as directed by the Treasury.
4. Requisitions for credit are sent to the C&AG every three or four weeks. They do not specify the individual services for which the money is required. When the C&AG informs the Bank of England that he grants the necessary credit, the

Treasury directs the Bank of England to make the required daily issue to the Paymaster General for credit of his account at the Bank of England or, in the case of revenue departments, direct to their accounts at the bank of England. The daily accounts of both the consolidated Fund and the National Loans Funds are sent by the Bank of England to the C&AG to enable him to verify that no improper issues have been made.

5. As Comptroller General the C&AG also has a statutory duty to ensure that all revenues and other public moneys payable to either the Consolidated Fund or the National Loans Fund are duly paid into the appropriate account at the Bank of England. In the case of the Consolidated Fund, taxation receipts are paid by collecting departments in accordance with arrangements determined by the Treasury. Details of transactions are provided to the Treasury and the C&AG, who reconcile them with the daily statements provided by the Bank of England. Miscellaneous revenue is surrendered monthly to the Consolidated Funds as "Extra Receipts". In the case of the National Loans Fund money borrowed by the Government flows daily into the Fund through the Bank of England and others. Again, when a department authorizes a transfer of receipts to the National Loans Fund it must at the same time notify the Treasury and the C&AG.

6. An important aspect of the UK CAG's role in the preparation of the UK budget and control on public expenditure derives from Section 156 and Section 157 of the Finance Act of 1998. These sections requires the CAG of UK to examine and report on conventions and assumptions underlying the Treasury's fiscal projections. These projections are required to be submitted to the CAG of UK by the Treasury for examination.

7. The foregoing paragraphs sum up the Comptroller function of the C&AG of UK. Given that the situation in India differs, to some extent, from the situation obtaining in the UK the system of exchequer control and the exact mechanism for exercising Comptroller functions will have to be appropriately modified so as to ensure that government departments and ministries do not spend more than what has been voted.

Annex-II**Statement indicating status of Financial Advisers and Controllers
of Accounts with their Departmentwise charge**

S.N.	Ministry/Department (including addl. Charge)	F.A.	Accounting Head
1.	Ministry of Defence* a) Department of Defence b) Deptt. of Defence Production & Supply c) Deptt. of Defence Research & Dev.	FA	-
2.	Railways*	FC	-
3.	Department of Telecom* Department of Telecom Services*	Member(Fin.)	-
4.	Information & Broadcasting* Ministry of Law & Justice a) Department of Legal Affairs b) Legislative Department c) Department of Justice d) Department of Co. Affairs e) Ministry of Tribal Affairs	AS & FA	CCA CCA
5.	Ministry of Commerce & Industry a) Department of Industrial Policy* b) Department of Heavy Industry c) Department of Public Enterprise d) Ministry of Small Scale & Agro & Rural Industries e) Department of Disinvestment	AS & FA	CCA
6.	External Affairs* Cabinet Secretariat (Security Organization)	AS & FA	CCA
7.	Ministry of Transport* Department of Surface Transport Department of Shipping	AS & FA	CCA
8.	Ministry of Steel*	AS & FA	CCA

	Ministry of Nonconventional Energy Sources Department of Ocean Development		Dy. CA
9.	Ministry of Rural Development* a) Department of Rural Development b) Department of Land Resources c) Department of Drinking Water Supply	AS & FA	(with Agriculture)
10.	Ministry of Consumer Affairs & Public Distribution* a) Department of Public Distribution b) Department of Consumer Affairs c) Department of Sugar & Edible oils	AS & FA	CCA
11.	Ministry of Commerce & Industry a) Department of Commerce* b) Ministry of Textiles c) Department of Supply	AS & FA	CCA CCA
12.	Ministry of Urban Development & Poverty Alleviation* a) Department of Urban Development b) Department of Urban Employment & Poverty Alleviation	JS & FA	CCA
13.	Ministry of Chemicals & Fertilizers a) Department of Fertilizers* b) Department of Chemicals & Petrochemicals	JS & FA	CA
14.	Department of Agricultural Research & Education* Planning Commission Ministry of Planning Ministry of Statistics & Programme Implementation Department of Food Processing Industries	AS & FA	CA

15.	Ministry of Petroleum & Natural Gas*	JS & FA	(with Chem/Fert.)
16.	Ministry of Agriculture*	JS & FA	CCA
	a) Department of Agriculture & Cooperation		
	b) Deptt. of Animal Husbandary & Dairying		
17.	Ministry of Civil Aviation*	JS & FA	CA
	Ministry of Tourism & Culture		
	a) Department of Tourism		
	b) Department of Culture		
18.	Ministry of Coal*	JS & FA	Dy. CA
	Ministry of Youth Affairs & Sports		(with water resources)
	Ministry of Mines		(with Steel)
19.	Ministry of Communication	JS & FA	
	a) Department of Posts*		
20.	a) Department of Science & Industrial Research*	JS & FA	CA
	b) CSIR*		
	c) Ministry of Labour		
21.	Ministry of Finance*	JS & FA	CCA
	a) Department of Expenditure		
	b) Department of Revenue		CBDT Pr.
	c) Department of Economic Affairs		CCA & CBEC
	Ministry of Parliamentary Affairs		Pr.CCA
	Miscellaneous Department		
22.	Ministry of Home Affairs*	JS & FA	CCA
	a) Department of Internal Security		
	b) Department of Stat		
	c) Department of Home		
	d) Department of Official Language		
	Min. of Personnel, Public Grievances & Pension		CA

23.	Ministry of Science & Technology	JS & FA	CA
	a) Department of Science & Technology*		
	b) Department of Bio-tech.		
24.	Ministry of Water Resources*	JS & FA	CA
	Ministry of Social Justice & Empowerment		(with HRD)
25.	Ministry of Information Technology*	JS & FA	
	Ministry of Environment & Forests		CA
26.	Ministry of Health & Family Welfare*	JS & FA	CCA
	a) Department of Health		
	b) Department of Family Welfare		
	c) Department of Indian System of Medicine & Homeo.		
27.	Ministry of Power*	JS & FA	CA
28.	Ministry of Human Resources & Dev.	JS & FA	CCA
	a) Department of Secondary & Higher Education*		
	b) Deptt. of elementary education & literacy		
	c) Deptt. of Women & Child Development		
29.	Department of Atomic Energy		CCA
30.	Department of Space		CCA

* Constitute main charge of the FAs. others are as additional charge

List Of Items Of User Charges

Sl.No.	Item	Purpose	Ministry/ Department/ Organisation
1	Power Charges	Domestic use Industrial use Agricultural use	CEA/SEB's/SED's/E Elec. Supply Undertakings
2	Water Charges	Drinking Irrigation Industrial	Jal Boards/irrigation Depts/Municipal Bodies CWC, Central Ground Water Board
3	Telephones/ Telecom charges	Fixed line/mobile, Fax, Voice Mail, Internet Services	DOT/VSNL/BSNL/MTNL
4	Postal charges	Postal articles like PC, envelope & parcels, Money orders, registered dak, postal stamps, telegrams etc.	Department of Posts
5	Charges Health services	Charges for diagnostic tests, like blood, sputum, urine, X-ray, ECG, CT Scan, MRI etc. Hospitalisation charges in general/special wards like ICU, cardiology, ortho etc. Registration chares which may include consultation charges in hospitals/dispensaries Charges for medicines during hospitalisation Sale of sera and vaccine, Contributions by Central Govt. employees covered under CGHS Sale of family planning contraceptives, pills and devices	Hospitals/dispensaries under the Government and the CGHS
6	Education & Training (higher & technical)	Tuition Fee Hostel fee (lodging charges) Charges for facilities like swimming pool, gymnasium, etc. Laboratory charges, computer & other specialised equipment use charges Charges levied for participation in study tours, conferences and project work	Higher & Technical Institutions in Engineering, Medicine, Management, Science etc. under Ministry of HRD, UGC, AICTE

Sl.No.	Item	Purpose	Ministry/ Department/ Organisation
7	Passports	Fee for issue of passports, identity certificates & services rendered thereon	Ministry of External Affairs
8	Police verification	Verification by police and issue of verification certificates on request of employers and other agencies Issue of voters' identify cards Fee for issue of visa	MHA
9	Examination Fee	Examination and other fee charges by UPSC/SSC & Other Rectt. Boards	UPSC/SSC etc.
10	Advertisement Charges	For use of time slots on various channels of Prasar Bharti	Ministry of I&B
		For use of spaces on railway platforms, stations, coaches and on railway crossings	Ministry of Railways
		For use of spaces in the premises of airports etc.	Ministry of Civil Aviation/AIA
		Advertising and visual publicity charges and film rentals by DAVP, Films Division etc.	
11	Charges for Art shows etc.	For hosting air/painting shows by artists in Art Galleries, museums, stadia, parks etc.	Ministry of Culture, Ministry of HRD/I&B etc.
12	Entry charges	For entry into trade fairs For visiting historical and national monuments and other such places of interest For visiting museums	ITPO, Archaeological Departments, Culture
13	Licence Fee/Lodging/Boarding etc.	Of residential accommodation provided by the Govt. Lodging charges in Govt. guest houses, Dak Bungalows, hostels, Sarais etc. Charges for boarding/lodging in hotels, motels run by the Government Ground rent in respect of Govt. property on lease	Ministry of UD, Railways, P&T, Tourism, Defence
14	Toll charges	Charges levied form commuters using bridges, highways etc. under BOLT, BOT etc.	Ministry of Surface Transport
15	Inland River Transport	Charges levied by the operating agency for using inland river system for transportation	Ministry of Surface Transport

Sl.No.	Item	Purpose	Ministry/ Department/ Organisation
16	Royalty	From leasing of coal and other mines/mineral deposits, and royalty on crude oil & gas.	Ministry of Mines & Minerals, Petroleum & N.G.
17.	Premia (Insurance)	From the policy holders in respect of life insurance and property assurance including agriculture/crop insurance, medical insurance etc.	LIC, GIC, NIC, UIC, NIA (Min. of Finance)
18.	Parking charges	In respect of vehicles in the parking areas in Govt. premises particularly in metro/urban areas- hospitals, airports, railway stations, ports and offices with public dealings.	Railways, AIA, Port Trusts, etc.
19.	Charges for using facilities	Charges paid by private and other Airlines to Air-India/Indian Airlines/AAI for using workshop, hangers and other facilities.	Civil Aviation
20.	Passenger Fares	Fares levied for passenger transport in Metros and other areas by Govt. transport undertakings including on concessional rates etc. Concessional fares, passes for students, employees, senior citizens, MPs etc. levied by railways, airlines etc.	Ministry of Transport/Railway
21	Inspection/grading charges of stores, samples	Charges levied by inspection agencies and quality control departments for certifying agricultural and industrial commodities for home consumption as well as export and also for excise/custom certification.	Ministry of Food Processing, Civil Supplies & Commerce, Finance, DGS&D.
22	Stationery/ printing charges	Charges levied for sale of govt.stationery, gazettes, govt. publications etc.	Ministry of UD, Commerce
23	Light (navigational) charges	Levied on ships and other vessels for using radio and visual navigational facilities.	Ministry of Surface Transport, Department of Light Houses and Light Ships.
24	Refining & Assaying Charges	For refining and assaying of gold etc.	Ministry of Finance, GOI

Sl.No.	Item	Purpose	Ministry/ Department/ Organisation
25	Quarantine Charges	For import and export of plant/plant materials.	Ministry of Agriculture, Dte. Of Plant Protection
26	Charges for Sports	Levied from participants and trainees and users of sports facilities, gymnasiums and health/body building centres Coaching charges.	Sports Authority of India, Stadia & Centres Also such facilities provided by GOI Welfare Bodies
27	Charges for Quality Certification/ Sale of Opium etc.	In Opium and Alkaloid factories.	Department of Revenue
28	Fee for purchase of stores	Levied from various Departments/users by the DGS&D	DGS&D
29	Service charges	Fee realised by NIC for its services rendered to non-govt. bodies	Ministry of Information Technology, National Informatics Centre
30	Survey & Registration	Fee charged from ships and ferry services	Ministry of Surface Transport
31	Charges for use of National Highways etc.	Fee for use of national highway, permanent bridges and departmental charges recovered from State Government s	Ministry of Surface Transport, Border Roads Development Board
32	Sale & Service charges	Sale & Services provided by various divisions of BARC (Atomic Energy)	Department of Atomic Energy
33	Charges for specified jobs	Specified jobs undertaken by the Geological Survey of India, Survey of India, National Atlas & Thematic Mapping Organisation	Ministry of Science & Technology
34	Meteorological Charges	From various agriculture & other users/body for services rendered	IMD
35	Agricultural Education	Fee charged for providing agricultural extension services	Ministry of Agriculture & Cooperation
36	Fee under labour laws	Fee charged under labour laws, factories and mines Act.	Ministry of Labour

Sl.No.	Item	Purpose	Ministry/ Department/ Organisation
37	Canteen Services		MOD etc.