

Part B: Issues from Indian Public Finance

Unit 4: Fiscal Federalism

Reading 3: Report of the Committee on Fiscal Statistics, September 2018 from National Statistical Commission, Government of India.

Chapter 1: Fiscal Data Systems in India: Key Issues

1. Fiscal Data System in India: Key Issues

All data pertaining to inflows into and outflows from government treasuries constitute fiscal data. Broadly, fiscal data comprise data relating to government accounts including public sector accounts at all levels of government. A typical government budget not only summarises past fiscal transactions into suitable categories but also provides estimates of anticipated or planned receipts and expenditures. Thus, all fiscal data are not records of past transactions but these may also provide estimates of transactions that are yet to occur. Since India has a federal system of governance consisting of central, state and local governments, fiscal data cover the budgetary accounts of each individual government, their consolidated accounts, and all the inter-governmental transactions.

Fiscal statistics like all other official statistics is a public good. As a public good, fiscal statistics must be reliable, transparent and publicly provided. It is to be funded by the taxpayers for the collective consumption of the citizens and the institutions.

Fiscal policy plays a critical role in the overall policy framework of the government. The economic health and well-being of a country crucially depends on the quality, availability, and accessibility of fiscal data, which provides valuable information to both governmental and non-governmental entities.

The compilation and dissemination of fiscal data in India falls well short of desirable norms and suffers from a number of infirmities. Improving our fiscal data system may lead directly to augmenting policy efficiency, increased growth, and welfare-enhancing outcomes. In this context, the National Statistical Commission (NSC) constituted the Fiscal Statistics Committee (FSC) mandating it to examine the fiscal data management in India with reference to the following ToR.

Terms of Reference for the Committee on Fiscal Statistics

1. To review the status on implementation of recommendations of National Statistical Commission on Institutional Mechanism for repository of Fiscal Statistics and subsequent committees of NSC to identify areas needing action for improving fiscal statistics;
2. To recommend suitable measures to strengthen systems and processes for collection, collation and dissemination of these statistics with possibility for improving timeliness;
3. To take stock of existing Information Technology deployment for collection of granular data from primary sources and recommend suitable measures to establish/revamp system for

(1)processing and (2) periodic audit through deep drive of integrated system for and recommend a nodal agency as data repository;

4. To examine present system for dissemination of data and recommend measures for improvement consistent with international standard.

In a meeting of the Chairpersons, Co-chairpersons and Member Secretaries of the 5 Committees constituted by the NSC that took place in the Niti Ayog on 24 October 2016, Dr. Barman, NSC Chairman had suggested that these committees should look at the following subjects:

- Identifying the data inputs, data source agencies and data definitions
- Output based on input periodicity-In the context of fiscal data, linking the outlays at the level of implementation and outcome
- Methodology for aggregation of data at various levels
- Audit trails-audits at various levels
- System of online reporting of data wherever possible
- Master data management and data governance framework
- Development of dataset, data models including tools for multidimensional view and analysis

India's System of Federal Governance

India is a system of federal governance with three tiers of government and certain specialized levels of autonomous governance organizations.

Apart from the central government, there are 29 state governments, 5 Union Territories (UTs) of which 2 are with their own legislatures, and nearly 2.67 lakh local governments consisting both of urban and rural local bodies.

Conceptualizing Information Federalism

Information Federalism has the potential to develop into the critical dimension of relationship between the central, state and local governments in a federal system. The central government has access to the largest amount of information including fiscal information among these governments. It has access to various digital platforms and has the power to regulate on most of these subjects. Under the Constitution, it is the central government which has the overarching powers in managing and communicating information through its responsibility for handling statistics and communications. Under the Constitutional powers, the CSO, the RBI and the offices of the CAG and CGA have been set up to serve as the key institutions in managing fiscal statistics.

Telecommunications have become a significant source of access to granular or micro-level economic data including fiscal data. The central government has the power to explore the space by building and sending satellites into space which have become a major vehicle for obtaining information. The state and the local governments can play the role of gathering highly diffused field level information on their own and on behalf of the central government.

The essence of federalism consists of cooperation, coordination and competition among the federating units namely, the central, state and local governments. The endeavour to cooperate, coordinate and compete should extend to the field of information as well. Cooperation in sharing of information is vital not only for tax intelligence purposes but also for making public provision of public and merit services more effective.

A major requirement in obtaining a comprehensive view of fiscal statistics in a federal set up requires not only accounts of individual governments but also their consolidated accounts at different levels of consolidation. In terms of the consolidated accounts, the following categories may be considered as relevant.

1. State and UT level consolidated fiscal account of all PRIs
2. State and UT level consolidated fiscal account of urban local bodies
3. State and UT level consolidated fiscal account of all local bodies, rural and urban
4. State and UT level consolidated fiscal account of state government and state level local bodies
5. All India consolidated fiscal account of PRIs
6. All India consolidated fiscal account of urban local bodies
7. All India consolidated fiscal account of state governments and UTs
8. All India consolidated fiscal account of state governments, UTs and local bodies
9. Consolidated fiscal account of central government and UTs
10. Consolidated fiscal account of central and state governments
11. Consolidated fiscal account of central, states and UT governments

Out of these, consolidation is being done only with respect to the fiscal accounts of central and state governments. The practices being followed in these cases are also not uniform over time or across institutions. Government accounts at appropriate levels should also be integrated with public sector accounts. The regular government accounts include accounts of departmental enterprises but exclude non-departmental public sector enterprises.

Typical Structure of Government Accounts

The typical structure of government accounts consists of a receipt side and an expenditure side. In both cases, a distinction is made between the revenue account and the capital account. On the receipts side, on the revenue account, there are tax and non-tax revenues, and receipt of fiscal transfers in the form of grants and, if applicable, a share in the tax revenues of another tier. On the capital account, there are capital receipts in the form of borrowing, non-debt capital receipts and receipt from repayments on loans extended by the concerned government to other entities. Interest payments received on such loans are part of non-tax revenues and shown on the revenue side. Accumulated borrowing that has not been repaid adds to government liabilities. On the expenditure side, on the revenue account, one classification of expenditure is with respect to general, social, and economic services. On the capital account, there are capital outlays and loans and advances that lead to creation of physical or financial assets. Assets and liabilities are stock variables whereas current revenues and expenditures pertaining to a given period are flow variables. Aggregate borrowing is in gross terms and when repayments are netted out, net borrowing is obtained.

Since there are two sides to the budget, namely the receipts and expenditure sides, government accounts requires balancing of the two sides. If revenue or current expenditure exceeds revenue receipts, there is a deficit on the revenue account. This revenue deficit must be financed by excess of capital receipts over capital expenditures. Part of capital receipts may be in the form of borrowing. Further, any investment that cannot be financed by current revenues also needs to be financed by borrowing. Together net borrowing to finance either revenue deficit or capital expenditures comprise fiscal deficit. Net borrowing is equivalent to change in government debt. Fiscal deficit net of interest payments is called primary deficit. Typically taxes are classified in terms of direct and indirect taxes or income and expenditure taxes. Expenditures are classified as revenue and capital expenditure or developmental and non-developmental expenditures. Until recently, these were also classified as plan and non-plan expenditures in India.

Changes in Ground Conditions

In the context of assessing fiscal data management in India at the current juncture, a number of ground changes in the Indian economy have occurred in recent times that need to be taken into account.

1. Abolition of Plan Non-Plan Distinction

Following the recommendations of the Fourteenth Finance Commission, the distinction between plan and non-plan expenditures has been abolished. This was initiated by the central government. The related institution, namely the Planning Commission has also been abolished and replaced by the NITI Aayog at the central level. The state governments are either abolishing the corresponding planning departments or redefining their roles.

2. Goods and Services Tax

A major change in the field of taxation is the implementation of the Goods and Services Tax (GST). Correspondingly, a new body tasked with deliberating on GST matters with representation from the central government and each state government and UTs with legislatures, namely a GST Council has been set up. Another entity, namely, a GST Network (GSTN) has also been established through which significant amount of information relating to GST and its tax bases is flowing. The GSTN platform serves as a comprehensive interface between the tax authorities and the taxpayers. It also serves as an information platform for input providers and input users.

3. Digital Technologies

There has been a change in the technology associated with data and information management with the onset of extensive digitization platforms. With growing digitization, information can be sourced from websites associated with almost every department of the central and state governments.

Managing Fiscal Data: Key Issues

1. Non-availability of Critical Data

Consolidated accounts of governments at different levels of aggregations are simply not available. In the cases where these do become available, often long time lags are involved. Government employment data and the related salary payment data often provide an incomplete

and unreliable picture. Data on pay and allowances/ spending on payroll are not available on a timely and reliable basis. The amount of salary payments that is reported by the Centre, for example, under the head pay and allowances, is a gross underestimate. According to available information, even the data used in the Pay Commission's calculations was an estimate gathered from alternate sources.

Issue relating to both direct and indirect tax statistics pertains to the publication of fiscal data. The Income Tax Department used to prepare a document called 'All India Income Tax Statistics' giving income tax collections as well as information on income tax base and number of assesses according to different rate categories. Although this document was prepared for departmental use, it was also accessible for the use of researchers. However, the compilation and publication of this document was discontinued in the early 90's. More recently, the CBDT published a set of data relating to such information for PIT and CIT as a one-time publication. Non-availability of fiscal data pertains to local governments as well. The availability of these data is limited and discontinuous. There are hardly any compilations of local government consolidated fiscal accounts at the level of states.

Divergence/ Discrepancy in Data from Alternative Sources

An important issue pertained to the divergence/discrepancy in the same data for general government across different sources. Fiscal data are being compiled by the CAG, the CGA (for the Centre), and in the NAS (MOSPI) and data given by the central and state budgets. The Indian Public Finance Statistics (IPFS) that is published by the Ministry of Finance also provides a fiscal data compilation.

There is lack of transparency and consistency in regard to data on inter-governmental transactions such as inter-governmental grants. The amount given by the Centre as transfers is not shown as the same as that received by the states in the respective accounts. The amount received by the states has not been equal to the share of transfers as prescribed by the FCs. There is ambiguity in the policy regarding the specific cesses and surcharges which the GoI collects, which reduces the sharable pool and ultimately the transfers received by the states. At the same time, cesses are often not used for the purpose for which these are collected.

Another aspect of non-transparency of fiscal data relates to the information on cost of collection. The cost of collection is determined by the CAG but the methodology for this is not disclosed and therefore it remains as an unknown amount. Although in the Union Budget, on the expenditure side, under fiscal services, there is an entry for cost of collection, but what is actually deducted from Centre's gross taxes is not known.

Distinction between Actual Fiscal Data vis-à-vis. Estimates

It has been noted that fiscal aggregates often consist of a mix of actual data and 'estimates'. The proportion of existing fiscal data that is actual and the proportion that pertain to 'estimates' differ. Many fiscal parameters such as deficits and debt are often measured as a ratio of GDP/GSDP. Since most data provided by the CSO regarding the National Income Accounts are forward estimates, the process of reconciliation keeps continuing, thereby requiring multiple revisions to past years' GDP numbers, leading to several releases of revised estimates for GDP. Therefore, there is a need to make a clear distinction between actuals and estimates which must be clarified.

There is the related question whether the historical GDP data are estimates or actuals. The GDP numbers get finalized after undergoing 2 or 3 revisions and further revisions could only be due to changes in the base year, if any. Although, the final estimates for GDP numbers exist, but they still remain estimates. The presence of unorganized sector where firm data do not exist adds to this problem.

Classification Issues

Classification of expenditure into various categories is also an issue. This classification scheme is maintained by the RBI. As per the Constitution, expenditure is to be classified into revenue and non-revenue, that is, capital. In India, until recently, government expenditures were classified as plan and non-plan expenditures.

The development revenue expenditure was net of plan grants to states. The RBI had maintained this classification as it was required for the netting out process in the calculation of general government's development and non-development revenue expenditure based on the existing methodology of the RBI. Since plan grants are no longer in the Central budget for 2017-18, the non-plan grants were deducted from total grants and the residual so obtained was considered as plan grants. This was necessary because although the 2017-18 central budget had classified expenditure into only revenue and capital, the states continue to use the old classification of expenditure into plan and non-plan in their state budgets.

The development non-development classification is an additional classification and the relevant revenue and capital expenditure could easily be derived even in the presence of such a classification. But such a classification could also be potentially misleading. The definition of development expenditure as per the RBI is, "*development expenditure is the expenditure on Social services, Economic services, non-Defence General services*". It is not appropriate to consider, for e.g., expense on administration in defence services as non-developmental and the expense on administration in non-defence general services as developmental.

There is a need to ensure that wherever relevant classification of budgetary heads or that of goods and services or tariff heads in the case of customs duties are used, there is a need to consider the corresponding international classification.

Revenues caught up in legal disputes

At any point of time, large amount of tax revenues may be shown as due to the tax authorities but may actually be caught up in unresolved legal disputes. These may be shown as arrears but it may turn out that the claims of the tax department may be set aside by the judiciary.

Transactions through Funds

Governments maintain a number of public accounts and often use these funds to camouflage the true nature of fiscal transactions. Thus, expenses may be charged to government treasury and the corresponding money may be transferred to a public account where it may be simply lying as a balance but actual expenditure in terms of purchase of goods and services may not take place. Still in budgetary transactions, it will be shown as government expenditure.

Accounts of Autonomous Bodies

Sometimes funds are transferred to the bank accounts of autonomous bodies outside the state budgets. Bypassing the state budgets used to be a common practice for a number of centrally

sponsored schemes including the Sarva Shiksha Abhiyan whereby funds transferred to the bank accounts of autonomous bodies may lie there unspent but may be shown as expenditures in the central or state budgets. This matter was examined at length by the High Level Expert Committee (HLEC) on Efficient Management of Public Expenditure constituted by the Planning Commission. The Committee had submitted its report in July 2011.

Aggregation of Fiscal Data

Aggregation of fiscal data over the accounts of the central and subnational governments is required to obtain an idea of the overall government intervention in the economy. However, this aggregation requires netting out of intergovernmental flows so as to avoid double counting. Thus, a state may receive grants from the centre and pass it on to the local bodies leading to additional expenditures. The actual expenditure is done finally by the local body only but in the individual budgets of the centre as well as the state concerned, it will be shown as transfer to the subnational government. For the system as a whole, this would overstate government expenditures. There is a further difficulty in this netting out because often, until accounts are finally settled, there are differences between what a higher tier government may give and what may be shown as receipt by a lower tier of government.

Long Period Fiscal Data

The analysis of long-term fiscal trends provide valuable insights regarding the underlying drivers of macro as well as fiscal trends. But, such long term trends cannot be identified unless long term series of fiscal data are made available on a comparable basis. Sometimes data series get broken because of changes in definitions and classifications. Sometimes an existing fiscal data series or set of series are simply discontinued. Continuity of series and data structures are critical for economic and fiscal research of lasting value.

Time Lag Issues

Fiscal data are getting generated all the time. But their compilation, classification into suitable categories and eventual publication on a website or in printed form is replete with instances of heterogeneous time lags. These time lags may be different for different series within the central fiscal accounts and between centre and states and states and local bodies. Actual compilation is usually postponed and the speed of compilation depends on the most delayed component of the fiscal data series. In India, there is a noticeable heterogeneity in the timing of release of monthly fiscal data by the CGA and CAG for various state governments.

Deficit Measurement

Measuring general government deficit indicators is also an issue. Various terms are used such as gross fiscal deficit (GFD) and fiscal deficit (FD). The gross FD is not netted out for net lending. Fiscal deficit implies that it is netted out for net lending, which is defined by the RBI as loans and advances from Centre to States minus recovery of loans and advances from States. As per the RBI's definition, GFD is gross borrowing minus repayment of past borrowing while FD is gross borrowing minus repayment minus net lending. There is also an issue relating to whether or not the revenues from disinvestment should be considered as a part of receipts in the calculation of FD. It was indicated that in the methodology used by the IMF to calculate

FD, revenues from disinvestment are excluded from receipts. Selling of assets means a reduction in the existing liabilities, affecting servicing of debt and eventually a reduction in the borrowing requirement. Terming fiscal deficit as GFD is a definitional issue which needs to be resolved.

For some years, the central government had introduced the concept of 'effective revenue deficit' where any deficit on the revenue account on account of expenditure that might ultimately lead to creation of a capital asset possibly at the subnational level was to be deducted. This concept has now been discontinued.

Non-standard templates

There are significant issues regarding the methodology used for compilation of data for the Centre and states. There is also the bigger issue of not being able to capture and appropriately aggregate granular data which is getting generated by the IT-enabled institutions. It should be a mandate for the states to report their budgetary data in a standard template, which could be the same as that used by the Centre. Templates should be similar at different levels of government for uniformity, comparability and aggregation.

Data for local bodies

A major deficiency of India's fiscal data system relates to finances of the local governments. In recent year considerable gaps have appeared in the collection of data of local bodies. According to available information at the time when the Fiscal Statistics Committee held these discussions, it was indicated by the CSO, which uses this data in the NAS compilation, that fiscal data for local bodies could be gathered only for only about 11 states, and even that was with gaps and deficiencies. One of the main challenges is that there is no uniformity in reporting data at the local level. Secondly, there is still no availability of the soft version (electronic format) of consolidated demand for grants by the local and autonomous bodies.

Inter-face of Fiscal and Macro-economic data

There is a close relationship between fiscal data and macro-economic data. Fiscal data constitute a key ingredient of macro-economic data. Formulation of fiscal policy is critical to the formulation of macro-economic policy. Fiscal data are themselves presented in two forms or classifications: functional and economic. In the economic classification, fiscal data are arranged in the form of consumption and investment expenditure, etc. that are part of the macro-economic aggregates in the economy. Government expenditures and revenues represent an important component of the macro-economy. Inflation, interest rate, and other important macro variables have a direct influence on fiscal aggregates and *vice versa*. Often fiscal variables are measured in relation to GDP/ GSDP at current prices. Transformation of budgetary classification into economic classification often involves considerable time lags.

Summary and Recommendations

Fiscal data relate to accounts of the government. India has a three-tier system of governance, there are more than 2.67 lakh governments. Apart from individual government accounts, their

consolidated accounts at different levels of aggregations are also needed. Further, reliable data on intergovernmental flow of resources and expenditures are also required. Much of this data is not readily available. There has been some important changes in the ground conditions in India affecting the management of fiscal data. In particular, we may take note of the abolition of plan non-plan distinction, the implementation of GST, and the extensive spread of digital platforms to capture data including fiscal data.

The fiscal data system in India suffers from various deficiencies such as:

1. Non-availability of critical fiscal data such as the data on pay and allowances
2. Divergence/ Discrepancy in data from alternative sources
3. Absence of distinction between actual fiscal data vis-à-vis. Estimates
4. Classification issues particularly on the expenditure side
5. Lack of transparency and reliability of fiscal data due to cash based accounting
6. Large amounts of tax revenues caught up in legal disputes
7. Transactions through different Funds
8. Issues with the accounts of autonomous bodies
9. Absence of accurate aggregation of fiscal data at different levels of the government
10. Lack of continuous long term series of fiscal data
11. Time lag issues
12. Issues in deficit measurement
13. Non-standard templates at different levels of the government
14. Lack of comprehensive and timely data for local bodies

Fiscal data has the characteristics of being both a consumption good and investment good. It provides information that can directly be of value or utility in understanding the working of the governments and their departments. It can also serve as inputs to policymakers, economists and researchers whose work may improve the efficiency of policymaking. It can also facilitate purchase and supply decisions of private firms and investment and credit decisions of banks and financial institutions as well as exporters and importers. Thus, it can uplift the efficiency of the overall economy and lead to welfare improving outcomes. India's fiscal data system should be developed in the framework of 'information' federalism wherein cooperation, coordination and competition among the different tiers of federal governance would build up a modern state-of-the-art fiscal data system. This would require considerable investment of resources. There is a need for preparing consolidated accounts of the public sector, the central government, the state governments and the local governments. Such consolidation is required at different levels. This exercise should be undertaken at the central or an apex level and a suitable institutional mechanism requires to be set up for this purpose. The concept of a Fiscal Council has been discussed subsequently in this Report. The Fiscal Council can also be entrusted with the task of preparing these consolidated statements in coordination with the CAG, the CGA, the central and state governments and the RBI.