

Part B: Issues from Indian Public Finance

Unit 4: Fiscal Federalism

Reading 4: Report of the Committee on Fiscal Statistics, September 2018 from National Statistical Commission, Government of India.

Chapter 2: Sources of Fiscal Statistics: Aggregation and Coordination

There is a clear distinction between primary and/ or micro-level fiscal statistics and their aggregation into secondary and/ or macro-level fiscal data such as budgetary data. Transactions relating to purchases of goods and services involve some element of central and state taxes. These related prices may also contain, in some cases, government provided subsidies. Similarly income and wages earned and paid may have relevance for income tax payments. Individual transactions of imports and exports of goods and services would have implications for import duties and domestic indirect taxes including the GST. In the case of taxes, micro data may be getting generated through the filing of returns at different frequencies for different types of taxpayers and through the payment of taxes particularly advance taxes and the payment of refunds by the concerned departments at different times within the fiscal year.

**Sources of Fiscal Data**

Fiscal statistics are provided by a large number of stakeholders in the fiscal system. These can be grouped as (a) primary fiscal data providers, (b) secondary fiscal data providers and (c) third party sources.

**Primary Data Sources**

Primary fiscal data sources consist of the body of taxpayers who may be individuals, firms and businesses, financial and other institutions, and public sector enterprises as well as government departments. Generally these taxpayers would be registered with one or more tax authorities of the central and the state governments. In fact, indirect taxes are paid in all taxable transactions where buying and selling are involved. In each completed transaction, there may be a tax payment involved. This tax payment is collected by the seller and then the collected taxes are deposited with the tax authorities. The seller is likely to be a registered dealer with some tax authority and he plays the role of a revenue collection agent of the government. Such fiscal data are primary in nature and have remained highly diffused until the availability of large digital platforms where they may be accessed and utilized as long as the transactions involve payment through some formal financial mechanism. Similarly, with respect to direct purchases of publicly provided goods from the governments/ departments, fiscal information is involved, leading to generation of non-tax revenues. Non-tax revenues are generated through payments of fees and penalties and other charges. These are also generated through access to rights to use of assets owned by the governments. All license holders who make use of these rights are primary fiscal data sources.

**Secondary and Apex Level**

All of the departments can be considered as the secondary level data aggregators who compile the data submitted by registered dealers and assesseees. The concerned Ministry/ Department of Finance compiles departmental data into broader categories of expenditures and revenues. According to approved heads of the Budget, different demand for grants are sanctioned which

authorize undertaking of expenditures. These expenditures are undertaken at the secondary level and the beneficiaries of these expenditures and recipients of any direct payment from the government whether in the form of interest payments, pensions, wages and salaries, subsidies or payments for purchases of goods and services undertaken by the government departments, are diffused throughout the economy.

### **Third Party Sources**

Modern digital platforms have also provided access to third party information sources which may have fiscal implications. Most economic activities such as travels undertaken, major assets purchased, marriages being organized, social functions being held may all carry third party information which may contain information about the potential tax base or about the impact of government's fiscal policies.

### **Processing of Fiscal Data**

There are four key steps in processing fiscal statistics until it reaches the usually visible form as budgetary data of governments at different levels. These stages may be referred to as (a) Anonymization, (b) Compilation, (c) Aggregation, and (d) Verification.

#### **Anonymization**

Anonymization preserves the privacy of the individual. It makes data sharable both at a micro and macro levels. Aggregation of micro-data into broader homogenous categories is usually done with respect to anonymized data.

#### **Compilation**

Compilation usually involves capturing of micro-level and primary data pertaining to individuals or individual transactions through specified formats including periodic returns submitted by individual entities. Compilation prepares the primary data for direct analysis and for aggregation. Important places where micro-level fiscal data are compiled into suitable formats mainly consist of government departments at all levels of government or approved authorities such as the GSTN. Compilation also requires development and upkeep of suitable formats.

#### **Aggregation**

Aggregation can be considered at three levels: space including levels of government, time and categories. Fiscal data makes sense when these are compiled into suitable aggregates and presented at suitable time frequency. The relevant aggregates are often defined in terms of relevant categories such as tax and non-tax revenues, revenue and capital expenditures.

The processes of anonymization and aggregation together convert private data containing fiscal information from a private good to a public good which is meant for common use. Aggregation over space also implies aggregation to cover different levels of government and their consolidated accounts. Aggregation can be for local, state, and the central governments and according to monthly, quarterly and annual aggregates. Uniform definitions and classifications are critical for aggregation and subsequently, analysis of this data.

Important sets of aggregated fiscal data include flows into and out of various funds of the respective governments including the Consolidated and Contingent Funds as well as the numerous public accounts both at the central and the state level including the National Small Saving Fund (NSSF). There are also significant receipts from non-tax sources which are aggregated into suitable categories. Similarly, pension data is available from the Central Pension Accounting Office (CPAO). Suitable data could also be sourced from the Department of Public Investment and Asset Management.

Aggregation of the revenue, expenditure and capital receipts data for all three tiers of the government (which could be extended to public sector and departmental enterprises) at an annual, quarterly and monthly frequency is a vital step in fiscal data compilation. Thus, as far as the central government budgetary transactions are concerned, the CGA compiles data on revenue receipt and expenditures at a monthly frequency. These data capture all critical dimensions of central government fiscal operations in terms of receipts, expenditures and borrowing. Other important institutions that play the role of fiscal data aggregators are the CAG, CGA, RBI and CSO.

### **Verification**

The CAG has the constitutional authority to audit the central and state government accounts. The local governments constitutionally derive their powers from the state governments and since these are autonomous bodies but extensions of the state governments, the CAG has the authority to audit all government accounts. The CAG also has the authority to audit all public sector accounts. State level AGs are part of the office of the CAG. They have the responsibility of auditing the state and local government accounts.

Auditing, in fact, is a two-stage process. First, internal audits are arranged for the departmental accounts and for the accounts of the public sector enterprises. The audit of the CAG comes as an apex level of auditing and verification. The auditing is required first to verify whether an expenditure shown as expenditure has actually been incurred and second, whether it has been incurred in line with the purpose which was approved by the concerned legislature or Parliament or any other approving authority. Similarly, on the revenue side, claims made on account of exemptions and deductions need to be verified to ensure that these meet the conditions of the approved provisions regarding exemptions and deductions etc.

If certain irregularities are identified by the concerned audit officials, the related objections are raised through audit paras. Subsequently, the concerned departmental/ public sector authorities attempt to reconcile the differences with the audit authorities. Some audit paras are then removed or modified but there are others that may remain unresolved. Sometimes, finally verified and approved fiscal statistics after due audit may never become available. In any case, the finalized version of government accounts become available only after considerable revisions involving substantial time lags.

### **Aggregation according to Time**

#### **Annual Data**

A cross-check and reconciliation happens at an annual frequency when the central government's Annual Financial Statement (the Budget) is prepared by the Ministry/ Department of Finance. The same process happens through CAG's state level offices for state governments' budgetary operations. These data are consolidated to give an annual consolidated picture of the operations of the central and state governments after reconciling the differences in definitions and reporting practices and taking into account inter-governmental flows.

#### **Monthly Data**

The CGA (Controller General of Accounts) publishes fiscal data on a monthly basis for the central government for a selected set of aggregated series. State level AGs publish state level monthly fiscal data although availability of such data across states at the same time remain heterogeneous. There is a clear challenge in obtaining and aggregating revenue and expenditure data on a monthly basis for the state and local governments. Monthly data on revenue and expenditure of the state governments is published by the CAG, although comparability of data may still be an issue. In any case, month-wise consolidation of fiscal data for all states is not being done.

### **Quarterly data**

Quarterly fiscal data is of special relevance since a number of other macro variables including National Income data and data regarding other key economic aggregates relating to money supply, current account deficit etc. are also available on a quarterly basis. This facilitates formulation of macroeconomic policy interventions at quarterly intervals. Monetary policy is already being made at key defined periodic intervals. Quarterly fiscal data can be obtained by aggregating individual monthly series wherever relevant.

### **Sources of Fiscal Data: Key Institutions**

A number of important institutions are involved in compiling and publishing aggregated fiscal data. Although fiscal data pertain to the governments, many entities other than governments and many agencies within the governments are involved in generating, compiling, keeping and aggregating fiscal data. Some of the key institutions playing this role are briefly described below.

#### **Central Government**

The principal source of Centre's fiscal data are the ministries and departments of the central government. The Ministry of Finance maintains a website to share with the public, important fiscal information regarding the central government. Taxes constitute withdrawal of money from private circulation and deposit of money into government accounts. High frequency tax account data is useful for macroeconomic policy calibration since it affects overall spending and disposable incomes. It also has implications for cash flow management for the central and state governments.

The fiscal data presented in the budget cover budget estimates (BE) for the next fiscal year, revised estimates (RE) for the current fiscal year and final account figures (un-audited) for the previous year. The budget documents also provide time series data on select fiscal variables.

#### **Comptroller and Auditor General of India (CAG)**

The CAG derives its authority from Article 149 of the Constitution. The CAG is responsible for the following:

- a. Compilation of accounts of each and every State of the Union with those initial and subsidiary accounts which are given to the audit and accounting offices under its control by the treasuries, offices or departments responsible for keeping such accounts; And
- b. Keeping such accounts in relation to any of the subjects specified in clause (a) which are necessary

The CAG is also the external auditor of Government owned corporations. It conducts supplementary audit of government companies, i.e., any non-banking/ non-insurance company in which Union Government has an equity share of at least 51 per cent or subsidiary companies of existing government companies. The reports of the CAG are considered by the Public Accounts Committee and the Committee on Public Undertakings.

#### **Reserve Bank of India (RBI)**

The RBI compiles and publishes general Government fiscal data, including debt, derived from the budget documents of the Central Government and State Governments. The data disseminated by the RBI may be linked as follows:

- a. The accounts of Central Government are analysed and published as an article on Central Government Finances in the RBI Monthly Bulletin within a period of two months after the presentation of Union Budget.
- b. The accounts of the State Governments and NCT Delhi and Puducherry are compiled, analysed and published as a comprehensive Study on Finances of State Governments. While earlier there used to be a lag of 6 to 7 months in the release of this Study after the presentation

of the State budgets, beginning July 2018, the Reserve Bank has eliminated the lag in data availability by releasing the study few days after the last State Budget was presented. The latest issue of the Report thus, covers developments right up to budget estimates for 2018-19.

c. The accounts of the Central Government and State governments along with the NCT Delhi are consolidated into Combined General Government Fiscal Data and published in the RBI Annual Report and Handbook of Statistics on Indian Economy. The data disseminated by the RBI through its publication and web portal 'Database on Indian Economy' also include details on central and state government market borrowings, net RBI credit to Government, outstanding liabilities and explicit guarantees of both Centre and State Governments.

d. Reserve Bank also compiles the Consolidated General Government Fiscal Data for the purpose of the Special Data Dissemination Standards (SDDS) of the International Monetary Fund. The data are disseminated through the RBI website and published in the RBI Monthly Bulletin.

Apart from annual data, the RBI is also a source of high-frequency economic data including fiscal data. It provides online access to data available at different time frequencies including weekly, fortnightly, monthly, quarterly, and annual data.

The Reserve Bank of India Act, 1934 requires the Central Government to entrust the Reserve Bank with all its money, remittance, exchange and banking transactions in India. The Government also deposits its cash balances with the Reserve Bank. The Reserve Bank may also, by agreement, act as the banker and debt manager to State Governments. Currently, the Reserve Bank acts as banker to all the State Governments in India (including Union Territory of Puducherry), except Sikkim. For Sikkim, it has limited agreement for management of its public debt.

State level borrowing is managed by the RBI. To formulate the borrowing programme for the year, a number of factors are taken into account, such as, the amount of Central and State loans maturing during the year, the estimated available resources, market appetite and the absorptive capacity of the market. The Reserve Bank also acts a cash manager to the central and the State governments. For cash management as also for liquidity management purposes, flows or changes in the Central Governments' cash balances are monitored and projected based on history and experience.

The Reserve Bank has well defined obligations and provides several banking services to the governments. As a banker to the Government, the Reserve Bank receives and pays money on behalf of the various Government departments. The Reserve Bank also undertakes to float loans and manage them on behalf of the Governments. It provides Ways and Means Advances (WMAs) and Overdraft facility which are short-term interest bearing advances to the Governments to meet temporary mismatches in their receipts and payments. The RBI also arranges for investments of surplus cash balances of the Governments. The Reserve Bank acts as adviser to Government, whenever called upon to do so, on monetary and banking related matters.

Under the administrative arrangements, the Central Government is required to maintain a minimum cash balance with the Reserve Bank. Currently, this amount is Rs.10 crore on a daily basis and Rs.100 crore on Fridays, as also at the annual account closing day of the Centre and the Reserve Bank (end of March and June). Under a scheme introduced in 1976, every ministry and department of the Central Government has been allotted a specific public sector bank for handling its transactions. Hence, the Reserve Bank does not handle government's day-to-day transactions as before, except where it has been nominated as banker to a particular ministry or department. As banker to the Government, the Reserve Bank works out the overall funds position and sends daily advice showing the balances in its books, Ways and Means Advances

granted to the government and investments made from the surplus fund. The daily advices are followed up with monthly statements.

The Reserve Bank of India (RBI) is responsible for the overall supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies (NBFCs). The functions of the RBI include regulation and supervision of banking and non-banking financial institutions, including credit information of companies and regulation of money, forex and government securities markets as well as certain financial derivatives. RBI also acts as the banker to banks and to the central and state governments. The RBI is responsible for the oversight of the payment and settlement systems, currency management and research and statistics. Both the CBDT and the CBIC exchange data or information with the RBI and other banks on a regular basis. For example, data on all foreign remittances are routed electronically through the RBI to the IT department for verification of TDS payment (if leviable) on such transactions. Similarly, data on foreign remittances or export proceeds are transmitted from the RBI to the customs department in the form of bank realisation certificates.

### **Central Statistical Organization (CSO)**

The CSO compiles fiscal data in a manner such that these become part of the National Income Accounts. Since National Income Accounts require consideration of the consolidated fiscal accounts of central and state governments and to an extent local governments, the CSO presents estimates of the National Income equivalents in terms of aggregates such as government consumption expenditure, government investment expenditure etc. In fact, CSO compiles Public Sector Accounts data and also integrates these with the government accounts to provide a broader picture of the Public Sector Accounts.

CSO's Public Sector Accounts provide a set of classifications which are comparable but are different from the budgetary aggregates. CSO provides selected quarterly data also but its annual publications give details of public sector transactions classified into suitable economic categories.

### **State Governments**

#### **AGs at State Level**

Individual departments within the state government may keep their accounts which are consolidated by the Department of Finance and the state governments. These accounts remain estimates at different stages such as BE and RE until these are audited and Final Accounts become available after resolving any issues that may have arisen due to audit objections.

The accounts of each state government are audited by the state level Accountant General who are all part of the Office of the CAG. State level AGs also publish Monthly Accounts of taxes, non-tax revenues and expenditures undertaken by the concerned state governments. In most cases, these are available online and can be used to compile an aggregate monthly picture of state finances.

### **Local Bodies**

The entire set of local governments constitute their own primary source of fiscal information. The fiscal data pertaining to local Governments are not systematically codified nor presented as the budgetary operations of local Governments are generally subsumed in the States' or Central budgets. The database relating to the local authorities for the requirement of the national accounts statistics needs to be strengthened.

Local bodies are supposed to maintain their budgetary accounts in suitable formats. The budgetary accounts of local governments are not being compiled in a satisfactory way or being aggregated to provide the picture of local government budgetary operations for the state as a whole. There are classification related issues as well as issues in getting audited accounts. The

Finance Commissions (FCs) have been recommending from time to time about the need for uniformity in maintaining local government accounts in suitable ways. However the progress in this regard has been limited.

The CAG is also the authority for auditing the local government accounts. The CAG had at one time prepared, relatively uniform format for keeping local government accounts in different states. However, one of the basic deficiencies in managing India's fiscal data system is the non-availability of audited local government accounts pertaining to many years.

### **Public Sector Accounts**

The duties of the Comptroller and Auditor General extend to audit of Government companies and corporations and bodies and authorities in accordance with the laws made by the legislature. The public sector undertakings are of three types namely, Government departments engaged in commercial activities such as the Railways, Corporations created under Acts of Parliament or the State Legislatures and companies having majority shareholding by the Government. In addition, there are societies promoted by government that function under separate laws applicable to them.

The details on the financial position of Public Sector Enterprises both at the Central and State levels are made available with considerable time lag. Financial results of commercial undertakings like Posts and Telecommunication, etc. at the Central level are limited to the extent of those available in the budget documents. The Railway finances used to be available, in detail, separately in the Railway Budget. Now these are merged with the general Budget. Different public sector enterprises are themselves the primary sources of information as they have to keep their accounts and get these duly audited.

### **Inter-governmental Fiscal Flows**

Under the Constitution, the central government has been authorized to raise relatively larger revenues in relation to its needs and the excess that arises is meant to be transferred to the subnational governments in the form of tax revenue sharing and grants under the recommendations of the FCs that are set up from time to time. Intergovernmental fiscal flows are in the following forms:

- a. Share in central taxes
- b. Grants under Article 275 of the Constitution
- c. Grants under Article 282 of the Constitution
- d. On-lending of borrowing from the central to the state governments including external assistance

The Finance Commission(FC) is a constitutional authority which periodically provides specialized fiscal data in relation to central, state and local governments. This data generally provides comparability across states so that various inter-state parameters can be estimated. The FC provides an assessment of the state of finances in the country, generally at five-yearly intervals. As an institution, it is one of the most important user and provider of fiscal data. Since it is not a permanent body, it has to spend considerable time after it is constituted to compile a vast array of fiscal and macroeconomic data on a comparable basis. Similarly a significant amount of fiscal data remains unused or underutilized after the Commission winds up its work because the compiled series are not continued to provide an unbroken fiscal perspective.

Since states are indebted to the central government, having borrowed from it in the past, they have to service this debt in the form of interest payments and repayments. These also constitute intergovernmental fiscal flows. Since resources flow out from one tier of government to another tier of government, consistency of data of these intergovernmental fiscal flows is of

considerable importance. It is expected that if there are any data differences between what is transferred and what is received, over time, these would be reconciled. In practice however, these reconciliations may take a long time.

Another important issue in relation to intergovernmental fiscal flows pertains to preparation of consolidated accounts of central and state governments, state and local governments and central, state and local governments. In preparing these consolidated accounts, these intergovernmental fiscal flows need to be netted out.

Intergovernmental transfers and inter-fund transfers are critical to compilation of fiscal statistics. The main channels of such transfers are from central to state governments and state to local governments and vice-versa. From central to state governments, payments are made through three channels, (a) states' share in central taxes, (b) grants of various kinds given by the central government to the state governments, and (c) on-lending by the central government which may borrow on behalf of the state governments in the domestic market or through NSSF and from multilateral and bilateral lenders who lend through the central government to the state governments. A reverse flow is involved from the lower to the higher tier of governments when debt servicing in the form of repayment and interest payment is undertaken by the local and state governments.

Interest payment flows depend on (a) existing stock of debt for which disaggregated data would be available, (b) the term structure of interest rate and repayment profile, and (c) increment to debt based on borrowing rules. As such, the forecasting framework for interest payments can be built in a different way compared to other budgetary aggregates. Interest payments involve intergovernmental flows and provide an opportunity for consistency checks. Thus, central government receives interest payments from state governments and such payment data for the state governments is also receipts data for the central government. Furthermore, in aggregating combined interest payment of central and state governments, the intergovernmental interest payments need to be netted out.

### **Consolidated Government Accounts**

The constitutional authority for the preparation of the consolidated government accounts of the central and state governments is with the CAG. The CAG comes out with an annual publication entitled "Combined Accounts of Central and State Governments". So far, consolidated accounts of state and local governments or central, state and local governments are not being prepared.

RBI is another source which prepares a consolidated fiscal account of all state governments. This compilation is based on the State Budgets. The general government statistics compiled by the Reserve Bank of India are based on the budget data of the central and state governments. As per the present practice, the data on general government finances are published by the RBI twice a year. Provisional data are published in August (Annual Report) and September (RBI Bulletin). Then, revised data are published in RBI Bulletin at the time of the publication of the Report '*State Finance: A Study of Budgets*' by the RBI. Revised data is generally published between January and March. The database is entitled as '*Combined Receipts and Disbursements of the Central and State Governments*'.

### **Summary**

The fiscal data sources mainly consists of sources at primary, secondary and apex levels. At the primary level, all buyers and sellers, registered taxpayers and assesseees are involved. At the secondary level, various government ministries and departments and specialized institutions and platforms such as the RBI, CGA, CAG, CSO, GSTN and PFMS are involved. At the apex level, it is the central, state and local governments who are the owners of their fiscal data. They also have the right and duty to publish and share these data.



In processing fiscal data such that they become sharable and presentable at different stages, some key steps are involved. These may be referred to as (a) Anonymization, (b) Compilation, (c) Aggregation and (d) Verification.

Institutions that play a key role at the apex level are the central and state governments. The local bodies have the responsibility and right to publish and share their data but so far, their fiscal data management has remained considerably deficient in India. At the secondary level, the important institutions are the CAG, CGA and the RBI. Newly created digital platforms such as the GSTN and the PFMS will play an increasing role in the compilation, sharing and utilization of fiscal data in future. A key institution which has a constitutional place and recognition is the FC of India which is usually constituted every five years. The FC is both a key user and provider of inter-state fiscal data on a comparable basis. However, lack of continuity in the series provided by the FCs underline the underutilization of the fiscal data that can potentially result from a follow-up of the FC work on a continuous basis. This effort would also facilitate the working of the succeeding FCs.