CAG report on Government Spending

Why in news?

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The Comptroller and Auditor General of India (CAG) on Tuesday recently tabled its report on spending in Parliament.

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What does the report say?

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- It said that **off-budget financing** was being used by the government (in the fiscal 2016-17) to defer fertiliser arrears, food subsidy bills and outstanding dues of Food Corporation of India (FCI).
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- Off-budget financing includes mechanisms like market borrowing and ways and means advances, which are outside the purview of parliamentary oversight.
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- e.g Special banking arrangements were used to conceal the deferment of fertiliser subsidies.
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- Spending on irrigation was masked by borrowing by the National Bank for Agriculture and Rural Development (NABARD).
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- Railway expenditure was covered by borrowing by the Indian Railway Finance Corporation, and spending on power projects by the Power Finance Corporation.
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- Though these provides flexibility in meeting requirement of capital intensive projects, it would pose fiscal risk in the long term in cases the entity that raises the funds fails to meet debt servicing.
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- Despite this, the government resorts to off-budget methods of financing to meet its revenue and capital requirements.
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- The quantum of such borrowings is huge and current policy framework lacks

transparent disclosures and management strategy for comprehensively managing such borrowings.
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- Thus, any framework created by the government should specify the rationale and objective of off-budget financing, quantum of off-budget financing and sources of fund, among others.
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- The government should also consider disclosing the details of off- budget borrowings through disclosure statements in Budget as well as in accounts.
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What is the case with Food Corporation of India?

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- To illustrate off-budget financing, the CAG report gave the example of Food Corporation of India (FCI).
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- The difference between the cost of procurement of foodgrains and cost of providing them to fair price shops is what FCI demands from the government as subsidy.
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- When the budget allocation of a financial year is not sufficient to clear all the dues of food subsidies bill raised by FCI, the dues of such subsidies are carried over to next financial year.
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- It is evident that there was increase of about 350% in carried over subsidy arrears in the five years preceding 2016-17.
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- But the government has passed on its own food subsidy burden on to the FCI, rather than servicing it from the budget.
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- This require financing from a number of methods including very high interest cash credit facility which increases actual cost of this subsidy substantially.
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- The FCI has borrowed to pay for that burden and has also borrowed from NSSF to the tune of tens of thousands of crores to service that debt.
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- In 2017-18, the FCI took loans of Rs 65,000 crore from the NSSF, partly for fresh expenditure and also to repay some of the principal of an earlier loan.

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- However, all this money should have been part of official government expenditure in the Budget.

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What should be done?

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- The objective of the FRBM Act, 2003 was to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long-term macro-economic stability.

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- However, successive governments have resorted to methods like –

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1. Rolling over additional subsidy burden

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2. Taking back unspent amounts from ministries

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3. Converting certain expenditure entries to ways and means advances

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4. Running down the cash reserves

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- In 2018-19 as well, such steps are expected as the centre looks to meet an increasingly difficult fiscal deficit target of 3.3% of GDP.

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- The CAG is thus right to question the credibility of government fiscal statistics.

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- The forthcoming Union Budget should thus give the true picture of central finances.

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- Investors require a fiscal deficit number that is credible and that reflects the true level of government borrowing and spending.

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- The more transparent it is, the better the market works and the more money can be raised going forward.

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- Thus, the government should not sacrifice the effectiveness of the bond markets to its short-term desire to raise more finance while appearing fiscally conservative.
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- Also, investing the small savings fund (NSSF) into the troubled and loss-making public sector units like state-owned airline Air India should be avoided.
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Source: Business Standard

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