Public Account – An Abiding Distortion in Our Financial System

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Abstract: *Public account by its very structure has created a lot of distortions in the government accounting system. Being inseparable from the cash balances, and also allowing the government to use these funds at their discretion, such distortions have jeopardized the management of public finances in India. This also has serious repercussions on the fiscal deficit as many of the public accounts are interest bearing and interest is always paid from the revenue account of the Government. For the interest of efficient management of public finances, it is time to rethink the whole structure of Government accounts and separate the public account from the cash balances of the Government. That will be possible only when the public account is freed from Government controls by separating it from the Government accounts and entrusting their management to professional trusts independent of Government control. Apart from making these funds self-sustaining, this would also enforce much greater discipline in the management of fiscal deficits and public debt.*

As a principle, government accounts closely follow the budget which determines the level of government activities during the year in terms of allocation of resources among different sectors and developmental programmes. At the federal level, the Union budget requires parliamentary approval for raising revenues and incurring expenditure, while at the provincial level, the respective provincial Legislatures accord approval to the revenue and expenditure proposals of the provincial governments. However, the budgeting system in India lack transparency due to a typical feature of the government accounting system called the Public Account, which distorts the public financial management system and renders the system of public accountability vulnerable to misuse. Very few countries in the world today has such a system of government accounting.

Structure of Government Accounts

Part XII of Indian Constitution deals with government finance which is organized under three funds. Under article 266 (1), all revenues received by the Government of India or any state, all loans raised by the issue of treasury bills, loans or ways and means advances and all moneys received by the Government in repayment of loans shall form one consolidated fund, to be entitled the Consolidated Fund of India or of the State, as the case may be. Article 266 (2) says that all other public moneys received by or on behalf of the Government of India or of a State, shall be credited to the Public Account of India or of the State. Finally, a Contingency Fund will be created under article 267 with a fixed corpus to enable the Government to make unforeseen expenditure without prior legislative approval (e.g. expenditure on relief after a natural calamity), later to be recouped from the Consolidated Fund under the usual legislative approval procedures. Government accounts record all transactions pertaining to the above three funds.

Further, article 266 (3) states that no moneys out of any Consolidated Fund shall be appropriated except in accordance with law - for the purposes and in the manner provided in the Constitution. The manner of such appropriation falls under the respective "Procedure in Financial Matters"

under Chapter II for the Parliament (articles 112 to 117) and Chapter III for the State Legislatures (articles 202 to 206) of the Constitution. No such legislative approval, however, has been prescribed for withdrawing any money from the Public Account, which does not involve revenues or debt of the Governments but other public moneys that do not belong to the Government as such. Thus there is no legislative control over the use of funds from the Public Account, and it is this lack of legislative control that makes the article 266(2) somewhat intriguing, and this is what also makes it vulnerable to misuse and subject to many aberrations in our financial system. Only three countries in the Indian subcontinent – India, Pakistan and Bangladesh - that share the common burden of partition, population and poverty and still nurture a dated Government financial system bequeathed by the British two thirds of a century ago, have a public account - no other country in the world has such distortion in their financial system.

It is interesting to trace how this article came to be included in the Constitution. Many articles in our Constitution can be traced to the earlier Government of India acts, but article 266(2) did not have any corresponding presence in those Acts - it came into existence only after independence when the Constitution of the new republic was adopted. Proposing this article on the creation of Public Account, the Constituent Assembly had noted:

"in drawing the definition of the Consolidated Fund we lumped along with it certain other moneys which were received by the state, but which were not the proceeds of taxes or loans, etc., with the result that public money received by the state otherwise than as part of the revenues or loans also became subject to an Appropriation Act...Obviously the withdrawal of money which should strictly not form part of the Consolidated Fund of the State cannot be made subject to any Appropriation Act. They will be left open to be drawn upon in such manner, for such purposes and at such times subject to such conditions as may be laid down by Parliament in that behalf specifically. It is, therefore, to enlarge the definition expressly of the Consolidated Fund and to separate the Consolidated Fund from other funds which go necessarily into the public account that these changes are made. There is no other purpose in these changes."[1]

Thus the Public Account came into existence more as an administrative convenience rather than an economic necessity: *"The Finance Ministry drew attention to the fact that our provision in regard to the Appropriation Act was also made applicable to other moneys which generally went into the public account and that was likely to create trouble. It is in order to remove these difficulties that these provisions are now introduced in the original article."*[2]

It is to be noted that no procedure as promised in the debate above has since been laid down by the Parliament, in the absence of which the Governments have complete liberty to use these funds the way they like - a liberty that overrides all accountability and legislative control. But before proceeding further, let us understand the nature of transactions that go into the Public Account.

Structure of Public Account

There are five major heads of accounts under the Public Account: (i) Small Savings, Provident Fund and Other Accounts; (ii) Reserve Funds; (iii) Deposits and Advances; (iv) Suspense and

[1] Constituent Assembly Debates, Book No 4, Vol IX, Lok Sabha Secretariat, 2009 Reprint, Pp 1191.
[2] Ibid.

Miscellaneous; and (v) Remittances. A full length discussion on these is beyond the scope of this paper. Briefly, these accounts comprise funds that do not belong to the Government, but which the government holds in trust and manages on behalf of their owners who can be ordinary people or government contractors or anyone, and sometimes even the Government itself when it holds taxpayers' money outside of Consolidated Fund. Once some money gets parked in the public accounts, the legislative process of voting the appropriations and exercising controls over the use of those appropriations through examination of audit reports by the Public Accounts Committee cease to operate in respect of these funds. Some of these funds are interest bearing on whose balances the Government has to pay interest from the Consolidated Fund using taxpayers' money - others may not carry any interest liability.

The first three of these accounts deal with receipts and payments in respect of which the Government is liable to repay the moneys received or has a claim to recover the amounts paid. In respect of these transactions, the Government acts as a banker, receiving amounts which it later repays and paying out advances which it subsequently recovers. Provident Funds of Government Employees, Deposits of Local Funds, Reserve Funds Deposits made by outside agencies, Departmental Advances, etc. fall under this category. Balances in these accounts constitute a part of the overall financial liabilities of the Government, a proposition whose logic is not beyond doubt.[3] The other two accounts – Suspense and Remittances - are used only for adjustment purposes; all initial debits or credits to these accounts are made pending final adjustments and cleared eventually by mutual adjustments once their final destinations are traced. Suspense temporarily accommodates all governmental/ inter-governmental/ departmental transactions pending availability of the requisite details in corresponding vouchers/ challans that would identify their final destinations. It also includes temporary investments of cash balances in short term loans or Government securities at nominal rates of interest. Remittances concern intra- and inter-Governmental cash remittances between its various departments / ministries and also between the central bank of the country, the Reserve Bank of India (RBI) and various Governments and Government Departments.

The most important of these accounts is of course the ''Small Savings, Provident Funds and Other Accounts" that includes a number of interest bearing obligations in respect of provident fund contributions of all Government and non-Government employees and some other contributions. Small Savings include National Savings Deposit, Post Office Savings and Recurring, Post Office Time Deposits, Post Office Monthly Income Account, Senior Citizen Savings Scheme, Sukanya Samriddhi Account, National Savings Certificates, Defence Savings Certificates, National Development Bonds, Post Office Certificates, etc. All these are put together into the National Small Savings Fund (NSSF) from which investments are made by way of issuing securities to the central and state governments. Provident Funds include the Public Provident Fund (PPF) and State Provident Funds which include GPF, CPF, Defence, Railways and Other Provident Funds. Other Accounts include Special deposits by retirement funds with the Central Government and Insurance and Pension Funds like Family Pension, CGEGIS, State Government Employees' Group Insurance Scheme, Post Office Insurance Funds, etc. Besides, there are securities issued in lieu

[3] The other financial liabilities of the Government being its public debt liabilities and contingent liabilities on account of outstanding guarantees given to public sector entities and public bodies/ authorities.

of subsidies to the Oil Marketing Companies, FCI and fertiliser companies, as well as some other special deposits and accounts.

Government has to pay interest on moneys deposited in these funds at the prescribed rates, and in return can use these funds for investment in specified Government securities; such investments can eventually be channelled for development purposes for which the funds provide a ready source of capital at the disposal of the Government. Because of this reason, the logic of including these balances in the Government's total financial liabilities along with outstanding public debt is perhaps understandable, but the logic behind including the balances of other heads of Public Account in the Government's total liability is often baffling. For example, the Reserve Funds are created by debit to the Consolidated Fund to create reserves which are assets, e.g. for the renewal/ replacement of assets of Governments / parastatals (Depreciation Reserve Funds of Government Commercial Concerns), for amortization of loans raised by the Government (Sinking Funds) and for other specific and sometimes esoteric purposes, such as Hindu Religious and Charitable Endowment Fund or various Development and Welfare Funds, etc.[4] But these are shown as Government's funds liabilities to the respective funds. The Consolidated Sinking Fund (CSF) and Guarantee Redemption Funds (GRF) are maintained by the States with the Reserve Bank as buffer for repayment of their liabilities. As of March 2019, 24 states are members of the CSF while 18 are members of GRF. Outstanding investment by States in the CSF and GRF as at end-March 2019 stood at Rs 1.1 lakh crore billion and Rs 65000 crore respectively.

Some of these are interest bearing and some are not, and all these funds are managed by the Government usually through the Secretaries / Principal Secretaries of the concerned Departments/ Ministries. The Government creates these funds out of taxpayers' money and then pays interest to these funds again by using taxpayers' money; it also controls the use of these funds through its administrators who are its own bureaucrats, but without any accountability to the Legislature, as these funds are maintained outside the Consolidated Fund. Interest bearing funds include Depreciation Reserve Funds of PSUs, Sinking Funds for amortization of loans raised by the Government and for other purposes, Hindu Religious and Charitable Endowment Fund, Various Development and Welfare Funds, State Roads and Bridges Fund, etc., while the non-interest bearing funds include Famine Relief Fund, National/ State Disaster Response Fund (SDRF), Guarantee Redemption Fund, Railway Safety Fund, Rural Employment Guarantee Fund, etc. Many of these funds also remain inoperative for a number of years; CAG had pointed out earlier that Rs 1,674.75 crore was lying in 48 dormant reserve funds of the Government of India by the end of 2014-15. The number of such funds lying with the states run into hundreds.

The Deposit head under 'Deposits and Advances' includes sums deposited with Government in the daily course of business by members of the public, e.g. deposits made in connection with revenue administration, deposits made in civil and criminal courts, security deposits taken from government servants/ contractors when required, public works and earnest money deposits, deposits made by electoral candidates, deposits of local funds of municipalities and panchayats,

[4] Some of these funds - like the Sinking Fund, Calamity Relief Fund or State Disaster Response Fund etc.- have been created as per recommendations of the successive Finance Commissions.

electricity boards, housing boards, universities, etc.[5] Like the reserve funds, some of these again carry interest liability while others do not; but all these are included in the Government's total financial liabilities. The non-interest bearing deposits include Defence Deposits, Postal Deposits, Telecom Deposits, National Investment Fund, etc. Civil Advances relate to interest free temporary advances including advances of a permanent nature held by Government officers to enable them to incur contingent expenditure in the day-to-day administration like the Permanent Cash Imprest. They also include the Departmental Advances given to the Departments of Forest, Telecom, Railways, Defence, etc.

Tables 1 through 7 show the Public Account Liabilities of the Central Government, and the liabilities pertaining to the individual components. It is noted that these liabilities amounting to Rs. 9.14 lakh crore constitute 11.7 percent of the total outstanding liabilities of the Government, spread unevenly across its constituent parts.

There is another problem also in the way the government accounts are presented. In the government accounts, Part III - Public Account has the following 6 sectors (indicated by letters of alphabet as per Government accounting procedures):

Public Account

I. Small Savings, Provident Fund and Other Accounts

J. Reserve Funds

K. Deposits and Advances

L. Suspense and Miscellaneous and

M. Remittances

N. Cash Balance

Thus from the above, it would appear that all individual components of Public Account stand merged with the cash balance of the Government. But the cash balance is actually a balancing item, and is affected by all the three accounts: Consolidated Fund, Contingency Fund and Public Account. Public Account balances, being shown to be merged with the cash balances of the Government, thus inflate them and also make the cash management of the Government fraught with risks. It may be mentioned that balances in Suspense and Remittances are transitional in nature pending their final identification and clearance and do not actually constitute a liability of the Government; the FRBMA 2003 also recognises this and does not consider these as part of the "Other Liabilities" of the Government of India. It would thus stand to reason to club the Suspense and Remittances balances along with Cash Balance and treat this as a separate balancing item, instead of treating these as part of the Public Account.

The way these accounts are maintained, especially the interest bearing ones, again defies all logic. For example, there is one fund created in April 1999 under the Small Savings called the National Small Savings Fund (NSSF) to which all public deposits under the Central Government's small savings schemes (PPF, NSC, KVP, etc.) are credited. States were obliged to borrow 80 percent from this fund initially (and hence pay interest to the Centre), with the option to go up to 100 percent. This borrowing, strangely, is based on availability rather than requirement. Since 2002-03, the net collections were being invested only in State Govt. Securities and thus States are forced to borrow the entire proceeds. But the responsibility to repay to the investors lies

[5] All these are interest bearing funds.

with the Centre and these schemes are linked to tax deductions under sec 80C of the Income Tax Act 1961. They carry interest higher than the market rates and these rates are administered by the Centre.

Securities issued to NSSF used to be a major source of financing the GFD of the States till 2006-07 when the interest rates became more favourable to the market loans and the NSSF share had dwindled; excess NSSF flows before that were also responsible for the subsequent build-up of surplus cash with the State governments.[6] Following the recommendations of 14th Finance Commission, since 2016-17, save Madhya Pradesh, Kerala, Arunachal Pradesh and the Union Territory of Delhi, all other states and Union Territories have opted out of the scope of borrowings through NSSF investments and hence, NSSF no longer finances their GFD. For the Central Government, however, borrowing from NSSF continues to be a source of financing its fiscal deficit and such borrowing was shown under public debt as these were part of the Consolidated Fund; these borrowings comprised the investments in Central Government Special Securities against collections net of withdrawals and reinvestment of proceeds of such investments therein.[7] The remaining liabilities, (i.e. total liabilities of NSSF – such investments) are treated as Public Account' Liabilities of the Centre in the Union Budget.[8]

Similarly, provident funds, the most important constituent of the Public Accounts of the states, are unfunded debt of the State Governments carrying higher than market rates of interest. The net proceeds are entirely available to the states and though the Centre has the ultimate responsibility to repay the amounts to the depositors, it has no control over the loans taken by the states or their ability to repay the same.

Also, prior to 2009-10, the balances under Small Savings, Provident Fund and Other Accounts used to be in the total outstanding liability of the state governments and other public account balances were excluded as they had the effect of distorting the actual liability carried by the States. These balances often did not represent any real liability; further, their effect would show up in higher cash balances of the state governments leading to a position where most states have surplus cash balances and yet resort to heavy borrowings, the surplus cash being invested under Cash Balance Investment Accounts.

Many of these Public Account funds are again created by transferring taxpayers' money from the Consolidated Fund, and kept at the disposal of the Government. The license to do so freely often allows the Government to devise ingenious ways to defeat the normal accountability controls. One such control is the "Rule of Lapse" of funds at the end of every financial year under any budget grant for which the legislature had voted; such unspent funds, or 'savings', cannot be carried over to the next year and must be surrendered back at the close of the financial year, to be included in the fresh budgetary appropriations next year if needed. One mechanism the Governments often use to defeat such statutory control is to withdraw these savings from the

[6] Report of the committee on comprehensive review of the NSSF- MoF, GOI, June 2011, http://finmin.nic.in/ reports/ report_committee_comprehensive_review_nssf.pdf

[7] Also includes securities which were issued after inception of the NSSF in April 1999 against the outstanding balances under various small savings schemes at the close of March 31, 1999.

[8] This also include the borrowings by States from the NSSF against special securities and loans given to public agencies from the NSSF which should be netted out to reflect solely the Central Government liabilities to NSSF.

Consolidated Fund and park them in the so-called Personal Ledger Accounts (also sometimes called Personal Deposit Accounts) maintained under the Public Account so that the funds can remain there indefinitely at the disposal of the Government without any legislative scrutiny - an aberrations made possible by the nature of Public Account. Table 8 shows the number of such accounts lying with the states.

The interest liability of the Government of India during 2017-18 on its public account balances was Rs 39485 crore, or 7.8 percent of its total interest liability. In all other countries, similar funds are managed by professional bodies that determine their investment in appropriate assets so as to earn commercial interests to make these funds self-sustainable, without forcing the taxpayers to foot their interest bills.

Paradox of Surplus Cash and Heavy Borrowing

The Gross Fiscal Deficit (GFD) of the Government- the total resource gap in the economy- can be computed as the sum total of its revenue deficit, capital outlay and net lending which is equal to the total expenditure (revenue plus capital) minus revenue and non-debt capital receipts. It is financed partly by raising public debt through borrowing under the Consolidated Fund, partly by using the Public Account resources and the rest by drawing down the cash balances. The entire resources under the Public Account is available to the Government and often the Government is forced to resort to over-borrowing – such over-borrowing leads to building up of idle cash balances that earn very little from their investments in low-earning Treasury Bills, while the Government continues to pay much higher rate of interest on the borrowed funds. Most state governments resort to over-borrowing despite having substantial surplus cash balances that could otherwise be economically utilised to finance their fiscal deficits.

RBI is the banker to any Government and besides the State's deposits with RBI, the cash balance of the State also comprises the investments held in the Cash Balance Investments Account, cash and permanent advances for contingent expenditure with Departmental officers plus the investments of Earmarked Funds under the Reserve Funds. Under agreements with the RBI, every State Government has to maintain a minimum cash balance with it *(about Rs 2-3 crore)*. If the actual cash balance falls below the agreed minimum on any day, the deficiency is made good by taking normal and special ways and means advances/overdrafts and if there is any surplus above the specified minimum, it is automatically invested in 14-day Intermediate Treasury Bills (ITBs) of the Government of India. This interest rate is significantly lower than that paid on the market borrowings by the governments and hence the interest paid constitutes a negative carry for them. RBI also conducts weekly / fortnightly auctions of treasury bills for maturity periods of 91 days, 182 days or 364 days (Auction Treasury Bills or ATBs) that carry slightly higher rates of interest. Since surplus can be invested cash only in ITBs or ATBs, particularly for the states, they earn lower returns on these investments compared to the interest they pay on their market borrowings; ideally, they should then use their surplus cash balances to meet their GFD financing requirement and thereby curtail their market borrowings.

The surplus cash balance is the difference between the total financing raised by the government (net of all repayments and disbursements) through borrowing under the Consolidated Fund plus the surplus in the Public Account less their GFD requirements. While the borrowing under Consolidated Fund can be adjusted according to the needs, the surplus in Public Account is totally

beyond Government's control, and this is what leads to over-borrowing. From Tables 9 and 10, it can be seen that there surplus borrowings were made by both the Centre and the States in some years. In 2016-17, the over-borrowing by the Central Government touched almost Rs 90000 crore, on which the annual average interest liability was Rs 6200 crore calculated at the weighted rate of 6.9 percent. During 2016-17, the Government earned interest amounting to Rs 4851 crore on investments of its cash balance. Even assuming that the entire cash balance investment came from this surplus, the different of additional interest of around Rs 1350 crore was avoidable. Over-borrowing by the States amounted to Rs 31000 crore in 2015-16, Rs 14000 crore in 2016-17 and Rs 17000 crore in 2017-18. Given that states are perennially short of funds, teh excess interest paid on such amounts would have dented their capacity to spend on social or economic services for development.

Government Accounting Standards Board

Thus too many distortions in the government accounting system have been created by the structure of Public Accounts. The Comptroller and Auditor General of India who under Article 150 of the Constitution has the responsibility of prescribing the form of accounts constituted Government Accounting Standards Board (GASAB) in August 2002 for establishing and improving governmental accounting standards for Union and the State Government accounts. The mission of the Government Accounting Standards Advisory Board (GASAB) is to formulate and recommend Indian Government Accounting Standards (IGASs) for cash system of accounting and Indian Government Financial Reporting Standards (IGFRS) for accrual system of accounting, with a view to improving standards of Governmental accounting and financial reporting for enhancing the quality of decision-making and public accountability.

The Government of India, Ministry of Finance, has so far notified only three standards under the IGAS series so far:

1. Guarantees given by Governments: Disclosure Requirements (IGAS 1)
2. Accounting and Classification of Grants-in-aid (IGAS 2)
3. Loans and Advances made by Governments (IGAS 3)

Three more standards already approved by the Board and sent to the Government years ago are yet to be approved or notified by the Government of India:

1. Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations (IGAS 7)
2. Government Investments In Equity (IGAS 9)
3. Public Debt and Other Liabilities of Governments: Disclosure Requirement (IGAS 10)

As far as accrual based Accounting Standards IGFRS series is concerned, the following five standards have been approved by the Board years ago, but again are yet to be notified by Government of India:

1. IGFRS 1: Presentation of Financial Statements
2. IGFRS 2: Property, Plant & Equipment
3. IGFRS 3: Revenue from Government Exchange Transactions
4. IGFRS 4: Inventories
5. IGFRS 5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements

If the Government treats its recommendations with such scant regard, then perhaps there is a case for the CAG either to revisit these standards or rethink the purpose of creation of the GASAB itself.

Inconsistency in IGAS 10

As stated above, IGAS 10, the Accounting Standard relating to Public Debt and Other Liabilities of Governments: Disclosure Requirement is still under consideration of the Government. However, the Government Accounts, both at the Union as well as at the State levels, have already incorporated these proposed standards and liabilities are shown accordingly. However, this standard has its own limitations.

Under Article 292 of the Constitution, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits as may be prescribed by Parliament by Law. Article 293(1) of the Constitution provides a similar provision in respect of State Governments. The Fiscal Responsibility Legislations (FRBM Acts) enacted by the Union and each state place the limits upon their borrowing powers, defined in terms of an upper limit of the ratio of their Gross Fiscal Deficits (GFD) to their Gross State Domestic Products (GSDP). States were given various fiscal incentives under recommendations of the 12th and 13th Finance Commissions for keeping their fiscal deficits within the limits defined in their FRBM Acts.

The objective of the proposed IGAS 10 is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements. It ensures consistency with international practices for accounting of public debt in order to ensure transparency and adequate disclosure. The proposed IGAS 10 now apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature. The IGAS also covers “other obligations”, but does not include in its ambit, guarantees and other contingent liabilities and non-binding assurances on behalf of the Government. The disclosure requirement under this IGAS requires that the financial statements of the Union Government, State Governments and the Union Territories with legislature shall disclose the opening balance, additions and discharges during the year, closing balance and net change in rupee terms with respect to internal and external debt as well as other obligations, and also the interest paid by the governments on public debt, small saving, provident funds, reserve funds and on other obligations, and also the interest received on loans and advances given by the governments besides the interest received on investments of cash balances and other items.

The public account by its very structure creates a large number of distortions and anomalies in the Government accounts as explained in the succeeding paragraphs.

1. Fictitious Liability:

As explained earlier, many of these do not represent any real liability, and including them in liabilities has the effect of introducing distortions in the accounts. While some accounts (e.g. provident fund) may represent a real liability, the liability is actually that of the Central Government, while the balances are available to the States for borrowing. The debt is thus guided by availability rather than need for funds. This creates its own distortions in turn, as states

often borrow unnecessarily, and as a result build up reserves of surplus cash. If they could use the available cash judiciously, they would be in a position to limit their borrowings to that extent.

2. Interest to be paid public account balances from the Consolidated Fund

Merging of the public accounts into the cash balance creates further distortions; these balances get invested in Treasury Bills with the RBI, earning nominal interest while the actual interest liability of the State Government on these accounts is much more, hence the Government loses money on that account. It is to be noted that interest liability is paid from the Consolidated Funds, even on public account balances in respect of all interest bearing accounts. Hence public account creates a liability for the exchequer even though the legislature has no control over it, neither in respect of the balances nor in respect of the interest. It exercises very limited oversight in respect of utilisation of some of these funds.

3. Funds under Public Account created by transfer from Consolidated Fund

Often funds are transferred out of the Consolidated Funds and kept in the Public Account, outside the constant watch of the auditor and the legislature. Thus funds transferred from the Consolidated Fund to the Personal Deposit accounts in the Public Account to avoid lapse, funds transferred to various reserve funds – many of whom bear interest, balances in numerous deposit accounts, many of which become inoperative over a period of time, continue to distort not only the accounts but also the public finances. No country outside the subcontinent has such a convoluted system of public accounting. These reserve funds are administered by Secretaries of concerned departments and are vulnerable to misuse also.

4. Over-borrowing by States and Surplus Cash Balance

As already discussed, structure of the public account and their merger with the cash balance leads to the problem of over-borrowing by the States. The surplus cash balance is the difference between the total financing raised by the states (net of all repayments and disbursements) through borrowing under the Consolidated Fund plus the surplus in the Public Account less their GFD requirements. While the borrowing under Consolidated Fund can be adjusted according to the needs, the surplus in Public Account is totally beyond Government's control, and this is what leads to over-borrowing.

But the most perilous and unpredictable consequence of this cash surplus would be its impact on the Union finances, because all cash surpluses from the States invested in treasury bills are automatically available to the Central Government and constitute part of its total financial liability. This is a huge reservoir of resources and temptation to indulge in populism at the cost of these funds is often irresistible, even if we have to ignore their inflationary potential. If these surpluses could be utilized pragmatically to finance the fiscal deficits of the States, the public finances in our country then would be a different story altogether.

5. Anomaly arising out of suspense and miscellaneous and remittances balances being kept outside the scope of IGAS-10

It is to be noted that two components of Public Account, (1) Suspense and Miscellaneous and (2) Remittances we have discussed earlier are not included in the Other Liabilities, for reasons not very well understood. Though both these accounts are of interim, adjustment nature, they holds transactions pending their final identification and consequent credit/ debit to a particular head

of account, or to cash. Hence these transactions are as much a part of the accounts as any other; their exclusion thus is not supported by a sound logic.

The logic gets further twisted when we take into account the fact that the entire balance of public account, including the suspense and remittance balances, are taken into account while financing the fiscal deficits of the states. Fiscal deficit is financed by the net borrowing on the Consolidated Fund, together with the net balance available under all public account heads taken together plus the net changes in cash balance of the State. This would create an unresolved anomaly if these two heads of public account are not taken into account while determining the other liabilities of the Government.

As discussed earlier, pragmatic solution to this situation would be to separate the suspense and remittance balances and club these two items with the cash balance. These together then can constitute a new balancing item – instead of only the Cash Balance as is the case now.

6. Application of new definition of Other Liabilities in Government accounts

It is to be noted that with effect from 2009-10, the new definition of the outstanding liabilities of the Government as per IGAS-10 has already been applied in preparation of Government Accounts, even though this standard is yet to be notified by the Ministry of Finance, Government of India. Earlier the total liabilities of the Government used to comprise the public debt of the Government, that is, internal debt of the Government plus loans from the Centre, besides the public account liability in the form of loans from small savings and provident fund and other accounts only. As per the new proposed accounting standard, Other Liabilities of the Government are now being shown as inclusive of all public account balances, minus the Suspense and Miscellaneous and Remittances balances. This has the effect of depicting the liabilities that may not represent the actual liability of the Government.

Summing Up

The above anomalies will continue to distort the Government account and public finances of the State as well as Union Governments until the public account is completely separated from the Government account. It is high time the Public Account funds are separated from the cash balances and their management entrusted to professional managers relatively free from Government control. That would need appropriate institutional and administrative mechanisms to be set up for the purpose, without perhaps any Constitutional amendment to be made for the purpose. For this, the CAG, CGA, RBI must arrive at a convergence, in consultation with the Union and State Governments to consider separation of public accounts and taking it outside of Government control in a phased manner. This will make these funds self-sustaining and would not create any additional burden for the taxpayers.

It is important to appreciate that efficient debt management requires equally effective cash management which will not be possible till the time the cash balances are separated from public account. At the same time, since on many public account heads, the Government carries an interest liability, it is imperative that these funds be deployed in such manner so as earn the maximum return without compromising the safety of money that belongs to the public. Since these funds are not taxpayers funds, it is improper to make the taxpayers shoulder the burden of paying interest on these funds. These funds should be deployed in such a manner so as to make them self-sustaining in discharging their interest and other obligations.

Tables

Table 1: Public Account Liabilities of the Central Government

	2013-14	2014-15	2015-16	2016.17	2017-18
Total Public Account Liability (Rs Lakh Crore)	7.23	7.61	8.16	8.57	9.14
Public Account Liability as % of Total Liability, of which	13.6	13.0	12.5	12.2	11.7
NSSF	2.0	1.7	2.0	2.0	1.7
State Provident Fund	2.7	2.6	2.6	2.6	2.6
Other Accounts	5.9	5.4	4.9	4.6	4.2
Reserve Funds and Deposits, of which	2.9	3.2	3.0	3.0	3.2
Bearing Interest	1.8	1.9	1.9	1.8	1.8
Not Bearing Interest	1.1	1.4	1.1	1.1	1.4

Source: Status Report of Public Debt 2017-18, Govt. of India and Union Finance Accounts for respective years

Table 2: Liabilities and Investments of NSSF (Rs Lakh Crore)

	2013-14	2014-15	2015-16	2016.17	2017-18
Total Liabilities of NSSF	8.58	9.08	10.15	11.32	12.90
Investments of NSSF, of which	7.49	8.06	8.85	9.90	11.53
Borrowings by Centre	2.29	2.61	3.13	3.81	4.84
Borrowings by States	5.19	5.43	5.71	5.38	5.07
Loans to IIFCL	0.02	0.02	0	0	0
Loans to Public Agencies	0	0	0	0.7	1.6
Net Liabilities	1.09	1.02	1.3	1.42	1.37
Net Liabilities of NSSF as % of GDP	1.0	0.8	0.9	0.9	0.8

Source: Status Report of Public Debt 2017-18, Govt. of India and Union Finance Accounts for respective years

Table 3: Liabilities of State Provident Funds (Rs Lakh Crore)

	2013-14	2014-15	2015-16	2016.17	2017-18
Total Liabilities	1.43	1.55	1.67	1.85	2.01
As % of GDP	2.7	2.6	2.6	2.6	2.6
As % of Total Liabilities	1.3	1.2	1.2	1.2	1.2

Source: Status Report of Public Debt 2017-18, Govt. of India and Union Finance Accounts for respective years

Table 4: Liabilities of Other Accounts (Rs Lakh Crore)

	2013-14	2014-15	2015-16	2016.17	2017-18
Special Securities Issued in lieu of Subsidies, of which	1.66	1.63	1.63	1.63	1.63
Securities Issued to Oil Marketing Companies	1.34	1.31	1.31	1.31	1.31
Securities Issued FCI	0.16	0.16	0.16	0.16	0.16
Securities Issued to Fertiliser Companies	0.16	0.16	0.16	0.16	0.16
Other Accounts Liabilities as % of Total Liabilities	3.1	2.8	2.5	2.3	2.1

Source: Status Report of Public Debt 2017-18, Govt. of India and Union Finance Accounts for respective years.

Table 5: Liabilities of Reserve Funds (Rs Lakh Crore)

	2013-14	2014-15	2015-16	2016.17	2017-18
Total Reserve Fuds	0.30	0.35	0.32	0.26	0.44
As % of Total Liabilities, of which	0.6	0.6	0.5	0.4	0.6
Bearing Interest	0.2	0.2	0.2	0.1	0.1
Not Bearing Interest	0.4	0.4	0.3	0.3	0.5

Source: Status Report of Public Debt 2017-18, Govt. of India and Union Finance Accounts for respective years

Table 6: Liabilities of Deposits (Rs Lakh Crore)

	2013-14	2014-15	2015-16	2016.17	2017-18
Total Deposits	1.26	1.53	1.66	1.82	2.09
As % of Total Liabilities, of which	2.4	2.6	2.5	2.6	2.7
Bearing Interest	1.6	1.7	1.7	1.7	1.7
Not Bearing Interest	0.7	0.9	0.9	0.9	0.9

Source: Status Report of Public Debt 2017-18, Govt. of India and Union Finance Accounts for respective years

Table 7: Liabilities of Advances (Rs Lakh Crore)

	2013-14	2014-15	2015-16	2016.17	2017-18
Total Advances	-0.02	-0.02	-0.01	0	0
As % of total Liability	-0.03	-0.03	-0.02	0	0

Source: Status Report of Public Debt 2017-18, Govt. of India and Union Finance Accounts for respective years

Table 8: Number of Personal Deposit Accounts in States

State	Total Number of PD Accounts as on March 31, 2017	Balance as on March 31, 2017 (₹Crore)	Nature of Balance (Dr/ Cr).
Andhra Pradesh[9]	58539	357	Cr.
Arunachal Pradesh	15	0	Cr.
Assam	26	1	Cr.
Bihar	177	4459	Cr.
Chhattisgarh	281	1892	Cr.
Goa	118	67	Cr.
Gujarat	478	395	Cr.
Haryana	124	235	Cr.
Himachal Pradesh	113	2	Cr.
Karnataka	64	2942	Cr.
Kerala	1144	126	Cr.
Madhya Pradesh	799	5350	Cr.
Maharashtra	2528	13335	Cr.
Manipur	2	2	Cr.
Meghalaya	7	6	Cr.
Nagaland	1	0	Cr.
Odisha	827	456	Cr.
Punjab	161	34	Cr.
Rajasthan	1528	5196	Cr.
Tamil Nadu	735	442	Dr.
Telangana[8]	28087	33	Dr.
Uttar Pradesh	1317	13	Dr.
Uttarakhand	19	185	Cr.
West Bengal	153	5141	Cr.

Source: Union Finance Accounts and CAG Audit Reports on State Finance of individual states for 2016-17

[9] Andhra and Telangana marks every grant relating to devolution or transfer either from the state or the centre to the third tier of government as a PD account (8448-106). Other states mark them under 8443-106. CAG has constitute a Committee to regulate the PD accounts and to see that it is not opened only to avoid the lapse of funds, and also to ensure that PD accounts remain open for not more than a limited period.

Table 9: Financing of GFD of the Centre (Rs Lakh Crore)

	GFD	Cash Drawdown	Over-borr0wing
2013-14	5.0	-0.2	0.2
2014-15	5.1	+0.8	
2015-16	5.3	+0.1	
2016-17	5.4	-0.9	0.9
2017-18	5.9	+0.4	

Source: Union Finance Accounts for respective years

Table 10: Financing of GFD of States (Rs Lakh Crore)

Year	Gross Fiscal Deficit (GFD)	Cash Drawdown	Over-borrowing
2013-14	2.48	0.18	
2014-15	3.27	0.18	
2015-16	4.21	-0.31	0.31
2016-17	5.34	-0.14	0.14
2017-18	4.10	-0.17	0.17

Source: State Finances: A Study of Budgets of 2019-20, RBI