Government Proposes Higher Reporting Limits for Ministry Expenditure

For Prelims: **Public Accounts Committee**, New Service and New Instruments of Service, Supplementary Demands for Grants**,** GDP growth rate**,** Comptroller and Auditor General

For Mains: New Financial Limits Proposed by the Finance Ministry, Potential Benefits and Drawbacks of Increasing the Financing Limit

Source: IE

Why in News?

The **Public Accounts Committee** of Parliament has recently endorsed the Finance Ministry's proposal to increase the financial thresholds for expenditure on **'New Service' and 'New Instruments of Service'** by government ministries and departments.

- This proposed revision in financial limits marks the 4th instance since Independence. The last revision occurred in 2005 but came into effect in 2006.

What are the New Financial Limits Proposed by the Finance Ministry?

- **New Service and New Instruments of Service:**
    - **New Service (NS)** denotes expenditure resulting from a **new policy decision not previously brought to Parliament's notice,** encompassing new activities or investments **(Article 115(1)(a)** of the Constitution).
    - **New Instrument of Service (NIS)** refers to a relatively significant expenditure stemming from a **notable expansion of an existing policy.**
- **New Limit:**
    - For expenditures between **Rs 50 crore and Rs 100 crore,** reporting to Parliament is mandatory, but approval is not needed upfront.
        - Prior parliamentary approval is required only if the spending surpasses Rs 100 crore.
    - The reporting limit for **'New Instrument of Service'** has been fixed at up to 20% of the original appropriation or up to Rs 100 crore, whichever is higher.
        - Parliament's approval becomes mandatory for amounts exceeding 20% of the original appropriation or above Rs 100 crore, subject to savings within the same grant section.

Note

Previously, the limits were very low between **Rs 10 lakh to Rs 2.5 crore** and the value differed across nearly 50 items of expenditure.

What are the Potential Benefits and Drawbacks of Increasing the Financing Limit?

- **Potential Benefits:**
  - **Reduced Frequency of Supplementary Demands**: In recent years, PAC and CAG highlighted increased supplementary spending without proper reporting or approval.
    - By raising the financial limits for spending, the need for **Supplementary Demands for Grants** would decrease. This streamlines the budgetary process.
  - **Reduced Administrative Bottlenecks:** The revision in financial limits reduces **bureaucratic hurdles** associated with seeking approvals for relatively smaller expenditures.
    - This promotes efficiency in decision-making and implementation processes within government departments and agencies.
  - **Adaptation to Economic Growth:** With an expected GDP growth rate **of 6-7%** year-on-year, the size of the budget is anticipated to increase substantially in the coming years.
    - Raising financial limits ensures that the budget can accommodate the evolving needs of a growing economy.
- **Potential Drawbacks:**
  - **Undermining Budgetary Discipline:** There is a risk that higher financial limits could be exploited for **misuse or misallocation of funds** if adequate oversight mechanisms are not in place.
    - This may lead to instances of corruption or wasteful spending.
    - It may also result in budgetary overshooting or deficits, impacting overall **fiscal health.**
  - **Lack of Accountability**: Increased financial autonomy for ministries and departments might result in **reduced accountability for how public funds are utilized**.
    - This could make it challenging to track expenditures and ensure that they align with intended purposes.
  - **Impact on Parliamentary Oversight:** Raising financial limits might reduce the frequency of parliamentary scrutiny over government expenditures, **limiting opportunities for meaningful debate and oversight.**
    - This could weaken the checks and balances essential for transparent governance.

What is the Public Accounts Committee?

- **About:** The Public Accounts Committee is an entity composed of selected members of parliament, established by the **Parliament of India**, with the primary mandate of **scrutinizing the revenue and expenditure** of the Government of India.
  - Its primary responsibility lies in auditing the reports provided by the **Comptroller and Auditor General (CAG),** with the assistance of the CAG during investigations.
    - Notably, none of its members are permitted to hold ministerial positions in the government.
- **Members:** The PAC consists of a maximum of 22 members, with 15 elected by the Lok Sabha and up to 7 members from the Rajya Sabha.
  - Members are chosen annually through proportional representation via **a single transferable vote.**
  - The chairperson is appointed by the **Lok Sabha speaker**, and the term of office for members is 1 year.
    - The chairperson is predominantly from the opposition party.

What are the Different Types of Grants under Article 115?

- **Supplementary Grant:**
  - **Purpose:** When unforeseen expenses arise **during the current financial year,** and the allocated budget **for a specific service is insufficient**, a supplementary grant is sought.
  - **Approval Process:** The government presents an estimate of the additional funds required

before Parliament for **approval before the end of the financial year.**

- **Additional Grant:**
    - **Purpose:** This grant is requested when a **need arises for additional expenditure on a completely new service** not foreseen in the original budget for the current financial year.
    - **Approval Process:** Similar to the supplementary grant, the government presents an estimate of the required funds before Parliament for approval before the end of the financial year.
- **Excess Grant:**
    - **Purpose**: This grant deals with situations where the **actual expenditure on a service has exceeded the amount** originally budgeted and **sanctioned by Parliament.**
    - **Approval Process:** Unlike the previous two, **an excess grant is presented after the end of the financial year in which the expenses were incurred.** The Ministry of Finance and Ministry of Railways present a "Demand for Excess Grant" to Parliament for their consideration.
        - Before the demands for excess grants are submitted to the Lok Sabha for voting, they must be approved by the Public Accounts Committee of Parliament.

UPSC Civil Services Examination, Previous Year Question

Q. Which of the following are the methods of Parliamentary control over public finance in India? (2012)

1. Placing Annual Financial Statement before the Parliament
2. Withdrawal of moneys from Consolidated Fund of India only after passing the Appropriation Bill
3. Provisions of supplementary grants and vote-on account
4. A periodic or at least a mid-year review of programme of the Government against macroeconomic forecasts and expenditure by a Parliamentary Budget Office
5. Introducing Finance Bill in the Parliament

Select the correct answer using the codes given below:

(a) 1, 2, 3 and 5 only
(b) 1, 2 and 4 only
(c) 3, 4 and 5 only
(d) 1, 2, 3, 4 and 5

Ans: (a)