



Note  
ON  
Financial Administration  
UNDER THE  
Reforms Scheme

BY  
E. A. H. BLUNT,  
Financial Secretary to Government,  
United Provinces.



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## PREFATORY NOTE.

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THIS note has received the *imprimatur* of His Excellency the Governor: but for the opinions expressed therein I am alone responsible. In compiling this note I have used freely the following works and desire to acknowledge my obligations to their authors:—

- “Public Finance” by Professor C. F. Bastable.
- “Indian Finance and Banking” by G. Findlay Shirras.
- “The Science of Finance” by Professor H. C. Adams.
- “The Principles and Practice of the System of Control over Parliamentary Grants” by Col. A. J. V. Durell, C.B.
- “The System of National Finance” by Lieutenant-Commander E. Hilton-Young, D.S.O., M.P.

E. A. H. BLUNT.

*The 7th January, 1921.*



# Financial Administration under the Reforms Scheme.

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## INTRODUCTORY:

1. The various regulations governing financial administration under the reformed constitution are scattered through the Government of India Act, the rules made under that Act, and in standing orders. The objects of this note are—

- (1) to bring together in one place all regulations that apply to the financial administration of a Governor's province, such as the United Provinces will be in future (this is done in an appendix):
- (2) to explain these regulations where necessary: and in so doing, to give a picture of the new financial administration as a whole:
- (3) to consider the results which the changes made by the new system will produce on the financial position.

2. There are only seven sections of the Act that apply to provincial finance. Of these seven—

- (i) section 21 reserves a power of general control over the expenditure of the revenues of India to the Secretary of State in Council:
- (ii) section 26 lays down that complete accounts of past and estimates of future revenue and expenditure must be laid annually before the Houses of Parliament:

(iii) section 45A gives power to make rules regarding various financial matters (amongst others):

(iv) section 80A (3) (a) defines the powers of a provincial legislature in respect of taxation :

(v) section 80C makes it impossible for any member of a provincial legislature to introduce any measure affecting revenues or creating expenditure without the previous sanction of the Governor.

3. No explanation is required of the first, second, third and fifth of these sections, save that the last embodies a well-known parliamentary principle. The fourth has been resolved into rules, which will be discussed later, and no remarks are therefore necessary in respect of the parent section.

The other two sections are—

(a) section 30 which gives a Local Government—

(1) power to sell Government property, to raise money on such property, and to purchase property—an old power that requires no commentary, and

(2) power to raise money on the security of its revenues—a new power that can be most appropriately discussed with rules relating to the question of loans :

(b) section 72D, which deals with the presentation of the budget in the Council and cognate subjects, which can most conveniently be discussed with the rules relating to financial business.

4. There are several sets of rules made under the Act. These are—

- (1) the Devolution Rules made under section 45A of the Act. Parts II and III of these relate to finance ;
- (2) the Local Government Borrowing Rules made under section 30 (1a) of the Act ;
- (3) the Scheduled Taxes Rules made under section 80A (3) (a) of the Act ;
- (4) rules of business made under section 72D(6) of the Act ;
- (5) standing orders made under section 72D(7) of the Act.

5. For the purposes of explanation and discussion, however, it will be convenient to re-arrange these rules under various heads as follows :—

A.—FINANCIAL ARRANGEMENTS.

I.—The system of taxation.

II.—The share of income-tax.

III.—Public debt—

(a) The creation of public debt.

(b) Irrigation debt.

(c) The provincial loan account.

(d) Debt for works of public utility.

IV.—Balances.

V.—Extraordinary receipts.

VI.—The contribution.

VII.—The famine insurance fund.

VIII.—Transferred expenditure.

IX.—Allocation of revenues.

B.—THE FINANCE DEPARTMENT.

I.—Functions of the Finance department.

II.—Constitution of the Finance department.

III.—The Finance Committee.

IV.—The Public Accounts Committee.

C.—FINANCE IN THE COUNCIL.

A.—FINANCIAL ARRANGEMENTS.

I.—THE SYSTEM OF TAXATION.

6. In the following paragraphs are described—

- (1) the existing sources of revenue; and
- (2) the new taxes which a Provincial Government may raise under the Scheduled Taxes Rules. This preliminary examination will enable us ultimately to decide how far increase of taxation is possible: for the possibility of increase depends very largely on the nature of the tax.

7. (1) *Land revenue*.—The principle underlying the land revenue system is that the State is the ultimate owner of all land: or, in other words, that the whole of British India is "State domain." Revenue, therefore, in theory is—or might be—rent. On the other hand assessment and collection are compulsory, and the processes involved resemble rather those of the tax-collector than those of the landlord. It is not true rent: for revenue has little relation to the customary or competitive rent of the landowner, nor is it revised at frequent intervals

[References—  
D. R. 14(b),  
14(f), S.T.R.]

in accordance with the movement of land values. Nor is it a tax, for it is not and cannot be changed to suit the needs of the State. On the contrary it is fixed, for a considerable period, and consequently admits of capitalization. It is in fact a fixed charge upon land of the nature of rent, variable (in this province) at intervals of not less than 30 years. The above remarks apply to ordinary land revenue and malikana.

(2) *Stamps and Registration*.—It is usual to speak of "stamp duties" as if the stamp itself was essential to the duty. But in fact the stamp is merely a convenient method of collection. The revenue under Stamps falls into three main heads: that collected by general stamps, that collected by court-fee stamps, and the duty paid on impressing documents. The first of these duties is a "tax on acts": in other words a tax on commercial and legal transactions, the documents connected with which have to be stamped. The court-fee duty, as its name implies, is in essence a fee charged for judicial services: but inasmuch as "fees" in the financial sense become "taxes" as soon as they exceed the cost of the service for which they are paid, and as further in theory all judicial services should be given free, this duty also is a "tax on acts," viz. on litigation. The duty on impressed documents is clearly a fee.

Registration is in its nature a fee, but inasmuch as the return greatly exceeds the cost of the service, has become a tax.

(3) *Excise*.—Duties are levied on intoxicating liquors and drugs, and form a tax on commodities, of a sumptuary nature. Like all sumptuary

taxation, it aims as much at reduction of consumption as at revenue. Excise policy has always been directed to obtaining a maximum of revenue from the minimum of consumption. A tax on commodities is a voluntary tax, in the sense that payment can be evaded by ceasing to use the commodity. At present the point has not been reached where an increase of duty is likely to produce a decrease of revenue. This is the only tax on commodities in our tax system.

(4) *Forests*.—The forests belong to the State and are consequently "State domain": and the revenues from forests are income from that domain. Their expansion depends on ordinary economic laws and there is no question of artificial increase. Other receipts falling under the head of income from "State domain" are the collections from Government estates, receipts from nazul, and the bulk of the receipts under the head Civil Works, consisting mostly of rent of Government houses. In the case of all important receipts of this kind there is a constant natural growth: that growth, however, is largely dependent on improvements which are not yet completed and involve heavy expenditure, so that the net increase of revenue is not yet as large as it will ultimately become.

(5) *Irrigation*.—Our irrigation system is a State industry, and the net revenue derived therefrom forms its profits. The revenue, therefore, is governed by economic laws. It rises and falls with variations in the demand, and can only be artificially raised if water for any reason appreciates in value. Other receipts from State industries are receipts from quarries and minor mineral products

under "Land Revenue," receipts from jail manufactures, and those under Sanitation, Agriculture, and Stationery and Printing. Of these none at present pay their way, but increased receipts can be expected in all of them.

(6) *Other items of receipt* are comparatively unimportant, and include (1) *fees for services* under various departments, of which education is much the most important: (2) *regalia* (to use the phrase of a German economist), i.e. the State prerogatives in such matters as penalties, or escheat of unclaimed properties: (3) *profits from capital* in the shape of that part of the receipts under Interest which represents the additional charge taken from the State's debtors over and above the interest which Government has to pay to its creditor (the Government of India): and finally (4) *repayment of debt*, which is the other portion under the head of Interest.

8. The following figures based on the revenue of 1920-21 show with sufficient accuracy the nature of the present system of taxation:—

Nature of receipt.	Amount (in thousands).
Rent charge ...	7,01,00,
Taxes on commodities ...	1,81,00,
Taxes on acts ...	1,63,00,
Income from State industry ...	1,24,00,
Income from State domain ...	1,21,00,
Fees for services ...	19,00,
"Regalia" ...	7,00,
Profit from capital ...	2,00,
	<hr/>
	13,18,00,
Appropriation to repayment of debt ...	15,00,
	<hr/>
Total ...	13,33,00,
	<hr/>

9. Such then is the existing system of taxation. The Scheduled Taxes Rules passed under the Government of India Act, however, empower the provincial legislature at its discretion to impose certain new taxes. Of these the first is—

(1) *A tax on other than agricultural land.*— In theory all land whatsoever is liable to land revenue: in practice all land but land covered with buildings is so assessed. Even waste land pays revenue on the *sayar* income that it produces. A tax of this kind, therefore, must necessarily be a tax on land covered with buildings. It would no doubt be productive: but a preliminary valuation would be necessary, consisting probably first of an elaborate survey to ascertain the boundary of properties, such as is the French *cadastre*, with the task of economic valuation to follow. The process, therefore, will be long, costly and difficult. Valuation could scarcely be based on ground rents simply because the house and the land on which it is built generally belong to the same owner and no ground rent, as such, is recognized. The selling value of land set apart for building sites might possibly be used as a criterion, or assessment might be made on the basis of house-rents, since these usually include ground rents and it should be possible to ascertain some definite proportion between the two elements. But whatever method is adopted it is certain that the tax, though a good one, with many precedents in other countries, can only be imposed after careful preliminary investigation.

It is worth noticing that a tax on land is included in both schedules I and II of the Scheduled Taxes Rules, that is to say, it can be imposed both as a

provincial and as a local tax. In actual practice this tax, as has been shown above, can only be imposed in towns and consequently will naturally be imposed chiefly in areas managed by a local body (municipality, notified area or town area). Probably, therefore, when such a tax is contemplated it will be desirable to arrange that all existing local taxes on land put to uses other than agricultural should be abolished, and a proportion of the new tax assigned to local bodies.

10. (2) *A tax on succession and acquisition by survivorship.*—This is a tax corresponding to the well-known death duties of the English system. Such a tax is apt to press heavily on the heirs at a time of need, at all events in the case of the smaller successions. Further, unless gifts and sales are taxed in the same way as inheritances the risk of evasion is great. In India both these drawbacks would be prominent: a high exemption limit would be necessary, and the tax on the lower taxable inheritances must be very light if its burden is not to become intolerable. As for evasion, the owner of property is already well acquainted with the transfer *inter vivos* as a means of disappointing his heirs, and would not hesitate to use the same method of disappointing Government. But even if these difficulties were overcome, India presents others of its own. The peculiarities of the laws of inheritance, whether Hindu or Muhammadan, make testamentary dispositions uncommon, and it would not be easy to ascertain the value of the property to be taxed, except in the case of landed property when the mutation proceedings laid down by the Revenue law would help. Further, the joint

family system with its law of inheritance by survivorship would complicate matters : yet it would be impossible to exclude such inheritance, for then the major part of the population would escape and the burden would fall solely on the minority. In short, the tax, though not an impossible one, presents so many difficulties that the lot of the financier who undertakes to impose it will be unenviable.

11. (3) *A tax on any legal form of betting or gambling.*

(4) *A tax on amusements.*

(5) *A tax on any specified luxury.*—All these taxes can be considered together. They are no doubt legitimate, but they are scarcely suited to India as conditions are at present. For, firstly, they would not be productive : and secondly, they would not be fairly distributed. The “legal forms of betting and gambling” begin and end with the betting-ring at a race-course, so far as this province is concerned. It might be possible to license book-makers, or to take a percentage of the proceeds of the totalizator. But race meetings are few, betting is on a small scale and the tax would not bring in much revenue. As regards amusements, theatres, picture-palaces, dancing-halls and race-courses can all be taxed either by licence or by some other means, but save in the case of the race-courses the tax would fall almost entirely on Europeans, for there are practically no taxable Indian “amusements.” Much the same would apply to luxuries. These taxes, therefore, besides being unproductive, would also be unequally distributed.

12. (6) *A tax on advertisements.*—This would be definitely a tax on commerce and trade ; and

inasmuch as advertisement is still in its infancy in India, it is much more important to encourage than to impede it. Such a tax would be thoroughly bad.

13. (7) *A registration fee.*

(8) *A stamp duty other than duties of which the amount is fixed by Indian legislation.*—Amongst the provincial subjects in part II of schedule I, no. 20 is shown “non-judicial stamps, subject to legislation by the Indian legislature, and judicial stamps, subject to legislation by the Indian legislature as regards amount of court-fees levied in relation to suits and proceedings in the High Court under their original jurisdiction.” This rule means in practice that the local legislature can enhance all non-judicial stamp duties, except such as may be reserved by the Central Government for Indian legislation. It is understood that this reservation will be sparingly used and apply to little more than the duties collected by means of unified stamps (stamps on cheques and receipts, etc.). As regards judicial stamps the power of the Local Government to enhance is complete, except as regards the particular court-fees mentioned in the rule. The Scheduled Taxes Rules give the Local Government power to impose new stamp duties. It is no doubt possible, and it might even be advisable, to insist on the registration of documents at present unregistered; and there are no doubt still documents on which a stamp duty might well be levied. But it may be doubted whether there are many such new registration fees or new stamp duties possible, and the tax, so far as it is new, is not likely to be productive.

II.—THE SHARE OF INCOME-TAX.

[Reference—D.  
E. 14(c), 15.]

14. Under rule 14 (c) it is declared that one of the sources of provincial revenue is—

“a share (to be determined in the manner provided by rule 15) in the growth of revenue derived from income-tax collected in the province so far as that growth is attributable to an increase in the amount of income assessed.”

Rule 15 reads as follows:—

- (1) “There shall be allocated to each Local Government a share in the income-tax collected under the Indian Income-tax Act, 1918, within its jurisdiction. The share so allocated shall be 3 pies on each rupee brought under assessment under the said Act in respect of which the income-tax has been collected.
- (2) In consideration of this allocation each Local Government shall make to the Governor General in Council a fixed annual assignment of a sum to be determined by the Governor General in Council as the equivalent of the amount which would have accrued to the Local Government in the year 1920-21 (after deducting the provincial share of the cost of special income-tax establishments in that year), had the pie rate fixed under sub-rule (1) been applied in that year, due allowance being made for any abnormal delays in collection of the tax.

- (3) The cost of special income-tax establishments employed within a province shall be borne by the Local Government and the Governor General in Council in the proportions of 25 and 75 per cent. respectively."

The easiest method of explaining this rule is by taking an example.

We will suppose—

- (1) that the total collections in 1920-21 were 54 lakhs ;
- (2) that there is only one income-tax rate of 9 pies ;
- (3) that the cost of special income-tax establishment was Rs. 2,40,000 in 1920-21 ;
- (4) that the total collections in 1921-22 were 60 lakhs and the cost of establishment 3 lakhs.

Then with total collections of 54 lakhs at 9 pies in the rupee, the number of " rupees brought under assessment in respect of which the income-tax has been collected" [rule 15(2) read with rule 15(1)] would be 1,152 lakhs. The 3-pie rate applied to this figure would give 18 lakhs. From this must be deducted 25 per cent. of Rs. 2,40,000 or Rs. 60,000. The net amount would therefore be Rs. 17,40,000: and this would be the "fixed annual assignment" of rule 15(2). In 1921-22 with total collections of 60 lakhs the total income assessed would be 1,280 lakhs. The 3-pie rate applied to this would give 20 lakhs and this would appear as the provincial revenue from income-tax under rule 14 (c), balanced by items on the expenditure side of Rs. 17,40,000 fixed assignment, and

Rs. 7,50,000 being 25 per cent. of the cost of establishment in 1921-22. The net gain to the province on these figures would be Rs. 1,85,000.

15. It must not, however, be supposed that the working of this rule will be as simple as this calculation suggests. Various difficulties have still to be removed, various controversial questions to be decided. One of these is of special interest to the United Provinces. There is an important class of assessee—commercial and industrial companies with registered head offices in Calcutta or Bombay—whose income is earned in this province, but whose tax is collected elsewhere. It is manifestly equitable that this province should reap the benefit of such income: yet unless the rule is amended it will go to Bengal or Bombay, since it is laid down that each Local Government is to get its share of the income-tax collected *within its jurisdiction*. And the loss to the province would be considerable. It is understood that the matter is being examined.

### III(a).—THE CREATION OF PUBLIC DEBT.

16. All modern authorities on finance agree that expenditure should normally be met out of revenue: and that if revenues are insufficient, then they should be increased by additional taxation. But there is also general agreement that for extraordinary expenditure such as that caused by war or famine, or for works of public utility it is sound finance to create public debt, either as a substitute for additional taxation where this is undesirable, or as a complement to it where it is insufficient. Under the old régime a province was not allowed to use its credit at its own discretion, but the Reforms Scheme has given it the necessary power. The rules are the Local

[References—  
D. B 14(d)  
and 14(g), 25,  
26, L.G. B.R.]

Government (Borrowing) Rules framed under section 30 (1a) of the Government of India Act, and may be summarized as follows.

17. Local Governments may raise loans—

- (1) for any work in connection with a project of lasting utility, provided the expenditure is too large to be "reasonably" met from current revenues, and provided that arrangements are made for the amortization of the debt, if the Governor General in Council considers it insufficiently remunerative:
- (2) for irrigation works already financed from loans:
- (3) for famine and scarcity expenditure:
- (4) for financing the provincial loan account:
- (5) for repayment or consolidation of existing loans.

The sanction of the Governor General in Council is required for loans raised in India, and of the Secretary of State for loans raised out of India: and these authorities may specify the amount of the issue and the conditions. Of the various purposes for which debt under these rules can be created, it is unnecessary to consider the fifth at all: the third will be dealt with under VII—Famine Insurance Fund: and it will be convenient to deal with the second and fourth before examining the first.

III(b).—IRRIGATION DEBT.

18. Expenditure on irrigation works is at present financed from loans raised by the Government of India. Of the total interest charge on the capital thus spent in this province, about one-fifth is paid

(References—  
D. R. 24:  
L.G.B.R.)

from imperial and four-fifths from provincial revenues. Under rule 24 of the Devolution Rules these capital sums will now be treated as advances made to the Local Government from the revenues of India. The debt is perpetual and no question of repayment of the principal arises, save if the province itself desires it.

19. There is no reason why debt created for the purpose of meeting irrigation capital expenditure should not remain perpetual.

### III(c).—PROVINCIAL LOAN ACCOUNT.

20. Under rule 23 of the Devolution Rules the old provincial loan and advance account will be closed. Advances in the past were made from this account to private persons and local bodies, and the sums necessary for financing it were provided by the Government of India on payment of interest. All sums still owing in this account on the 1st April, 1921, will be treated, from that date, as an advance made to the province by the Government of India and must be repaid in 12 annual instalments, with interest, though the province may, when convenient, make an excess repayment. It will now be necessary to create a new provincial loan account, which will be financed by the Local Government from its own revenues, or from borrowed funds. It follows, of course, that future recoveries of old loans in the defunct loan and advance account, as well as recoveries of any loans made in the new provincial loan account, belong to the Local Government [rule 14(d) of the Devolution Rules], and can be used for non-recurring expenditure. The financing of this loan account can most conveniently be considered in connection with the

(References—  
D. R. 23.  
L.G.B.R.)

financing of works of public utility falling under rule 2(a) of the Borrowing Rules.

III(d).—DEBT FOR FINANCING OF WORKS OF  
PUBLIC UTILITY.

21. It is unnecessary to overload this note with figures : it will suffice to say that on the best estimates at present available—

(Reference—  
L.G.B.B.)

(1) a sum of Rs. 9,18,00,000 is required for roads, bridges, buildings, sanitary works, and extra establishment to carry them out. Of this Rs. 6,61,00,000 will be spent on provincial works proper, or in grants to local bodies, which sum will be irrecoverable : the rest, some Rs. 2,57,00,000, will be given in loans to local bodies, be recoverable, and dealt with in the provincial loan account.

(2) It will be necessary further to make provision for forest capital expenditure, for grants and loans to Improvement Trusts, and for agricultural and miscellaneous loans. The amounts will vary from year to year, but may be taken at an average of 45 lakhs for two years, and thereafter 55 lakhs. Of this 35 (or 42) lakhs will be recoverable and dealt with in the provincial loan account.

22. Assuming, therefore, that the main programme can be completed according to the engineers' estimates by 1929-30, the sum required under all heads for this non-recurring expenditure during the period 1921-22 to 1929-30—nine years—will be Rs. 13,93,00,000. It is obvious that the province if it is to make up its arrears of progress must use its credit freely.

## IV.—THE BALANCES.

23. The balances of a province are its surplus funds. Under the existing financial system a province's resources, apart from assignments made by the Government of India for specific expenditure, consist entirely of the receipts accruing from its revenue-making departments : its balances, therefore, represent accumulated savings of income, and, save in exceptional circumstances, such as those created by the war, are relatively small. Under the new system the resources of a province are more numerous ; they include not only revenue receipts, but such items as recoveries of debt and proceeds of loans : its balances will include, therefore, not only savings of income but deposits of capital, and from time to time may be very large indeed.

24. It is important, therefore, that a provincial Government should have as complete a control as possible over its balances. This has not been the case in the past. The provincial balances formed part of the all-India balances : the province could only draw on them with the permission of the Government of India, who had power to refuse their permission.

25. The new arrangements in respect of balance are embodied in rules 16, 21, and 22 of the Devolution Rules. Rule 16 lays down that (1) all provincial moneys must be paid into a public account of which the Governor General in Council is custodian, and (2) that the Governor General in Council may, with the previous sanction of the Secretary of State in Council, make rules regulating such matters as the payment of moneys into, or the withdrawal of moneys from, the public account, and for the custody of money standing in the account. Rule 21 permits a province to

(References—  
D.R. 16, 21  
and 22.)

draw on its balances at will after due notice, and subject to the Central Government's power to prohibit or restrict drawal when it seems essential to do so " in the financial interests of India as a whole." When it has exercised this power it must under rule 22 pay interest to the Provincial Governments on all sums of which it has refused to allow drawal.

26. The effect of these rules can be briefly described. The Central Government is responsible for coinage operations, for the working of the currency system, for the maintenance of the exchange standard—all matters of vital importance to the commerce and industry of the country. To discharge these responsibilities it is essential that the Central Government should retain ultimate control of the balances: which control is secured by the single public account and the reserve power to prohibit or restrict drafts on the provincial balances in cases of emergency. At the same time, though the provinces must still " bank with " the Government of India through the public account, their banker is now pledged to honour all cheques and repay all deposits, save at times when it would be as much to the interest of the depositors to suspend demand as of the banker to suspend payment. The control of a provincial Government over its balances will be as complete as is possible in the special circumstances of Indian finance, provided that the rules are worked as liberally as they are conceived.

27. Rule 16, however, needs special consideration. It gives the Central Government power to regulate the custody of the moneys standing in the public account. Under the existing system the usual

location of public funds will be in the treasury balances, which are kept either in the district or reserve treasuries or in the presidency banks ; and it is essential that these should be maintained at a sufficient level, for it is on these balances that the Central Government's resource operations ultimately depend. But on the other hand under the new régime there will be times when these balances are increased far beyond the present normal figures and far beyond the reasonable requirements of the Central Government. For instance, the average cash balances between 1910—1919 amounted to 22 crores. The 9 crore Bombay loan lately raised will increase this figure by about 40 per cent. : and should several provinces take loans at the same time the figure might easily be doubled. These surplus funds, so long as they remain in the treasury balances, are idle ; and a Local Government, if unable to utilize at once all these funds, might desire to place them in a bank deposit, or to invest them, with the object of securing a return from them in the shape of interest. Such action would be sound both from the financial and economic points of view. Financially, it would increase revenue ; economically, if placed in a bank or invested, it would become available for use in the development of trade and commerce.

28. On the other hand it would benefit the Central Government considerably to compel, by the use of rule 16, all public moneys to remain in the treasury balances. The proceeds of one or two provincial loans, if retained there, would ease their financial position for many years and enable the issue of treasury bills to be restricted. The Bombay Government, however, have been permitted to invest the surplus proceeds of their development loan, the

subscriptions to which have just been closed, and have purchased a considerable number of treasury bills. Though therefore the power conferred on the Central Government by rule 16 *could* be used to the detriment of the Local Governments, there is some hope that it will not be so used, and that the Local Governments will be permitted to put their surplus funds in deposit or in investments beyond such amount as must be kept in the treasury balances for the support of the Government of India's resource operations.

Should the Government of India refuse to permit the withdrawal from the treasury balances of the full amounts that a Local Government desires to withdraw, interest can certainly be claimed under rule 22, and would as certainly be paid.

#### V.—EXTRAORDINARY RECEIPTS.

29. Amongst the sources of provincial revenue are mentioned "payments made to the Local Government by the Governor General in Council or by other Local Governments, either for services rendered or otherwise." The "services rendered" by this province are principally the training of students from other parts of India at institutions belonging to the United Provinces Government, such as the Civil Engineering College at Rurki, the Agra Medical School, and others. It has been suggested to the Governments concerned that they should pay a sum based on the average cost per student. This province, of course, receives similar services from other Local Governments and there is not likely to be any net advantage. The Governor General in Council also has power to declare other sources to be "sources

[References—  
D. B. 14 (c)  
and 14 (b).]

of provincial revenue." At present there are no obvious sources that he could so declare, save perhaps the income-tax.

#### VI.—THE CONTRIBUTION.

(References—  
D. R. 17 to 30.)

30. A great deal has been written about the provincial contributions to the Central Government, and it is unnecessary to discuss the matter in detail afresh. The redistribution of revenues which forms part of the Reforms Scheme has resulted in leaving the provinces with surpluses of varying amounts, and the Central Government with a considerable deficit. To enable the latter to meet its charges, it has therefore been necessary to impose on the provinces the payment of these contributions. The necessity itself cannot be challenged: the inadvisability of continuing these payments longer than can be avoided is admitted. Controversy has raged chiefly round the method of apportioning the total contribution required amongst the various provinces. No more need be said of the past history of this question.

31. The arrangements suggested by the Committee on Financial Relations were modified in some particulars by the Joint Committee of the Houses of Lords and Commons. They are now embodied in rules 17 to 20 of the Devolution Rules. Firstly, by rule 17 a sum is fixed for each province to be paid in the year 1921-22 annually until it is possible to reduce it. The apportionment has been made generally on the principle that the province who can afford it best must pay most. Secondly, in rule 18 are stated certain proportions which are those laid

down by the Committee as the ideal proportions of the total contribution that the provinces, having regard to their population, area, taxable wealth and other similar circumstances, ought to pay. The initial sums fixed, their proportion to the whole; and the fair proportions given in rule 18 are shown in the table below. (For some reason these are shown in the rule as ninetieths; in the table they are also shown as percentages) :—

Provincia.	Initial contribution in lakhs.	Proportion of whole.		Fair proportions of whole.	
		Per ninety.	Per cent.	Per ninety.	Per cent.
Madras ..	348	31·86	35·40	17·00	18·89
Bombay ..	56	5·13	5·70	13·00	14·45
Bengal ..	63	5·77	6·41	19·00	21·12
United Provinces ..	240	21·98	24·41	18·00	20·00
Punjab ..	176	16·02	17·80	9·00	10·00
Burma ..	64	5·86	6·51	6·50	7·22
Central Provinces ..	22	2·02	2·24	5·00	5·55
Assam ..	15	1·36	1·53	2·50	2·77
Total ..	988	90·00	100·00	90·00	100·00

32. Under rule 18, whenever the total amount of the contribution is reduced, the reduction is to be made "in the contributions of those Local Governments only, whose last previous annual contribution exceeds the proportion specified below" (i.e. the "fair proportions" mentioned above) "of the smaller sum

so determined as the total contribution : and any reduction shall be proportionate to such excess." The meaning of this not too lucid rule can best be explained by an example. Let us suppose that the Central Government reduces its deficit and consequently the total contribution by 173 lakhs to 810 lakhs. We then get rounded figures (in lakhs) as follows :—

Province.	Last previous contribution.	Fair proportion of new contribution.	Excess of last contribution.	New contribution.
Madras .. ..	348	163	195	258
Bombay .. ..	56	117	..	56
Bengal .. ..	63	171	..	63
United Provinces .. ..	240	162	78	204
Punjab .. ..	175	81	94	131
Burma .. ..	64	58.5	5.5	62
Central Provinces .. ..	22	45	..	22
Assam .. ..	15	22.5	..	15
Total .. ..	983	810	173	810

[The figures in the fourth column are obtained by subtracting the figures in the third from those in the second column. The figures in the last column are obtained, e.g. in the case of Madras by the calculation  $348 - \frac{195}{372.5}$  of  $(983 - 810)$ .]

The advantage of this method is that whereas all the benefit of a reduction goes to the provinces who are contributing more than their share, no province is asked to increase its contribution, which would have been the result of the method proposed originally by the Committee on Financial Relations. The

method now proposed will make matters much easier for the provinces who are paying less than their share.

### VII.—THE FAMINE INSURANCE FUND.

33. Under schedule IV appended to the Devolution Rules, Provincial Governments must make annual provision in their budgets for expenditure upon famine relief and insurance. The annual assignment in the case of the United Provinces is Rs. 39,60,000 which money can be expended upon famine, protective irrigation works, and loans to agriculturists: the unexpended balances must be transferred to the fund. As soon as the fund amounts to six times the annual assignment—i.e. to Rs. 2,37,60,000—the provision of the assignment may be suspended. The fund forms part of the all-India balances, and interest will be paid by the Government of India and credited to the fund.

(References—  
D. R. 29 and  
Schedule IV.)

34. It is not proposed to finance loans to agriculturists out of this fund except in connection with a declared scarcity or famine: ordinary loans of this kind will as now be met from the provincial loan account. It is unnecessary to give the detailed calculations here: but it may be said that for the financing of a famine the sum required is estimated at 240 lakhs of which 200 will be recoverable. Expenditure on protective irrigation works will average Rs. 9,60,000 per annum: so that 30 lakhs in ordinary years can be transferred to the fund. Allowing for the interest that will be paid by the Government of India, and assuming that there will be a sufficient succession of normal years, we may calculate that the fund will be completed in the seventh year.

35. The assumption mentioned, however, is a big one. Judging from the past, we must expect a big famine about 1929-30, which would give sufficient time to complete the fund. And once the fund has been completed, even if it be found necessary to spend the whole of it on a famine, it will not take another seven years to complete it afresh : for recoveries of taqavi loans will be credited to it and reduce the period very considerably. \* But besides the big famines which have occurred regularly in every eleventh year since 1896-7, there are also partial famines to upset calculations and delay the completion of the fund. The power to borrow conferred under the Borrowing Rules therefore is an important power to have in reserve.

36. Of the soundness of famine insurance there can be no doubt. Famine expenditure is extraordinary expenditure : but it recurs at intervals and it is good finance to create savings with the object of reducing the burden of such expenditure when it becomes unavoidable : or, in Sir Guy Fleetwood-Wilson's famous phrase, " to make provision against a rainless day."

#### VIII.—TRANSFERRED EXPENDITURE.

37. Rule 27 of the Devolution Rules gives full power to the Local Government to sanction expenditure on transferred subjects within the voted grants, with certain exceptions. These exceptions are detailed in schedule III. The result of these rules are briefly as follows. In regard to transferred subjects, the Local Government may sanction—

- (1) the creation of a new permanent post on a pay of Rs. 1,200 per mensem or less :
- (2) the increase of the pay of an old permanent post up to Rs. 1,200 per mensem :

(References—  
D. B. 27 and  
Schedule III)

provided that in these cases the post in question is not one that would ordinarily be held by the member of an "All-India Service":

- (3) the creation of a temporary post on a pay of Rs. 1,200 per mensem or less for any length of time :
- (4) the creation of a temporary post on a pay exceeding Rs. 1,200 but not exceeding Rs. 4,000 per mensem for a period of two years :
- (5) the grant of allowances, pensions and gratuities admissible under the rules made by the Secretary of State :
- (6) all other expenditure whatsoever, save expenditure on imported stores which is not permitted by the rules governing Stores purchase.

No rules have yet been made regarding the Local Government's powers of sanctioning expenditure on reserved subjects.

#### IX.—ALLOCATION OF REVENUES.

38. Rules 31 to 35 of the Devolution Rules describe the procedure to be followed when the two parts of the Government fail to agree on the apportionment of funds between the reserved and transferred subjects. In such a case the Governor has power to specify the fractional proportions of the revenues and balances that shall be assigned to each class of subject. The order of allocation must remain in force for not less than the duration of the existing Council, and not more than one year after its dissolution. The allocation may, however, be altered or revoked at the joint request of both parts of the Government. We

(References—  
D. B. 31 to 35.)

are here concerned only with the financial aspect of this question. There can be no doubt that allocation will prove financially pernicious. An allocation of revenue can only be based on the requirements for expenditure as they exist at the time when the allocation is made. But these requirements vary from year to year, and sooner or later one side of the Government or the other will find itself with more money than it can profitably spend, while its rival will have less than it ought to spend. This surplus money, if spent, will be wasted, if not spent will be useless—and must remain so either till the allocation determines, or the Members and Ministers can agree on a variation.

## B.—THE FINANCE DEPARTMENT.

### I.—FUNCTIONS OF THE FINANCE DEPARTMENT.

39. The old financial system was one of complete dependence: a province was allotted by the Central Government just as much of its own revenues as was necessary to cover its normal expenditure, which allotment was eked out by occasional doles when there was money to spare. Writers on financial subjects are wont to compare the financial methods of a prudent state to those of a prudent householder. The financial methods of an Indian province under the old régime can be likened to those of that householder's undergraduate son, who lives on an allowance, and rejoices to receive an occasional tip.

40. Under the reformed constitution, the position will be very different. With the abolition of the old "settlement" system of finance will go the old financial methods.

The functions of the new Finance department are fully described in paragraphs 74 and 75 of the

Government of India's first despatch on the reforms, dated the 5th March, 1919 : and the Devolution Rules merely crystallize the principles there stated. It is worth while to reproduce these paragraphs *in extenso* :—

“ It is not a body that either dictates or vetoes policy. It watches and advises on the financial provisions which are needed to give effect to policy. It criticises proposals and can ask for further consideration. It points out defects in methods of assessment and collection ; it can demand justification for new expenditure from the department which proposes it ; it can challenge the necessity for spending so much money to secure a given object. But in the last resort administrative considerations must prevail. If there is a dispute regarding expenditure on a reserved subject, the Finance Member may urge that it is wrong or wasteful or that it will entail fresh taxation. But he can be overruled by the Governor in Council. If the dispute relates to expenditure on a transferred subject, the Finance department may similarly expostulate. But the Minister in charge of the particular subject can overrule it and its objections, taking the full responsibility for so doing. In England, he would, in theory, have to get the Cabinet to endorse his view in such a case ; in an Indian province he would need only the concurrence of the Governor. As practice crystallizes and grows familiar, we are confident that Ministers will find friendly and valuable help from the Finance department in developing their schemes of expenditure on sound and economical lines.”

“ [75]. We trust we have made it clear that the relations of the provincial Finance department with

both parts of the Government will be precisely the same. We would emphasize the necessity for strengthening its position as external control is withdrawn. Its duties, as we conceive them, may briefly be described as below :—

- (i) In its association with the revenue departments the Finance department will exercise steady pressure in the direction of efficient assessment and collection of every kind of public due.
- (ii) It will examine all schemes of new expenditure for which there is a proposal that budget provision should be made ; and an invariable rule should be established that no new entry may be made in the budget until it has been scrutinized in the Finance department, which should certify that it has been examined by it. At this stage the duty of the department is to discuss the necessity for the expenditure and the general propriety of the proposal. It has also to advise as to the provision of the requisite funds ; whether they can be met from the existing resources of the province, or whether they will involve new taxes ; or in the alternative whether they constitute a proper purpose for borrowing.
- (iii) The next duty of the department may conveniently be described in the words of rule 13 of the rules in force for our own Executive Council, namely :—  
' No proposal involving an abandonment of revenue for which credit has been taken in the budget, or involving expenditure

which has not been provided for in the budget . . . . shall be brought forward for the consideration of the Government, nor shall any orders giving effect to such proposals issue without a previous reference to the Finance department.'

Insertion of a project in the budget means that the legislature gives the proper executive authority power to sanction the expenditure; it is not an order to disburse the money. That order must be given separately by the duly empowered authority; and in the case of any new or important expenditure, it should not be given without prior consultation with the Finance department.

- (iv) The Finance department should be employed as a safeguard against the influences which make for the lavish growth of public appointments. We should like to see it prescribed in the new Act that no public office is to be created or its emoluments determined without prior consultation with the Finance department. This will insure publicity and need not debar the delegation of minor powers of appointment.
- (v) The Finance department must be in a position to check expenditure for which there is no budget provision or which is in excess of the budget provision, whether it is covered by the appropriation of savings from another budget grant or not. The matter is one which can be examined more satisfactorily in connection with the Audit

and Exchequer bill which we hope to draft for your approval. Stated very generally, our intention is that the purposes of the budget may not be seriously departed from without the knowledge of the Finance department, which will, of course, be responsible for interpreting its provisions in a reasonable spirit.

- (vi) Finally the Finance department must be in intimate relations with the audit. It will have to advise the auditor regarding the scope and intentions of schemes of expenditure, having been itself apprised of these in its discussion with the executive authority at the preliminary stages. It will be consulted by the auditor about the detailed application of financial principles and the interpretation of financial rules. It will keep him informed about prices, local rates of labour and many other facts which are relevant to his audit, but of which he has no direct source of knowledge."

41. It will be noticed that "Treasury" is used as a synonym for "Finance department:" the reference of course is to the "Treasury" of the British constitution: and we are thus given both an example to imitate and a standard by which to measure. It may be stated at once that to the Finance department of the future has been assigned nearly every important function which the British Treasury carries out, and every important power which it possesses. In explaining the functions of the Finance department in subsequent paragraphs constant reference will be made to the parallel of Treasury procedure.

42. In the discussion that follows the functions assigned by the Devolution Rules to the Finance department are sub-divided thus:—

A. Functions connected with expenditure—

(1) Control of new demands.

(2) Control of estimates.

(3) Control of voted grants.

B. Functions connected with revenue and taxation.

C. The control of debt.

D. Functions connected with the services.

E. Miscellaneous functions.

43. A. (1) **Control of new demands.**—

The Treasury's "first and foremost function is to consider and judge any proposal made by a department which would have the effect of imposing a new or an increased charge on the public purse." This function is already exercised by the Finance department under the present régime: all proposals for new expenditure, as they are made by the spending department concerned, come automatically to the Finance department which examines them both qualitatively and quantitatively. When it is satisfied that the new expenditure is necessary or desirable and that the amount of it is not wasteful or excessive, it will order the proposal to be listed, as approved expenditure, in the "schedule of new demands." Precisely the same procedure is observed at home: "during the prior months (i.e. before the budget is framed) the departments will have been discussing with the Treasury and obtaining authority to include new or exceptional items, and the completed estimates will embody the result of such discussions."

[Reference—  
D. R. 37(g)(iii).]

44. The Finance department thus has no small measure of control over new expenditure, but the effectiveness of its control varies with circumstances. The Finance department can undoubtedly insist on the reduction of a particular item of expenditure as unnecessarily extravagant. But it cannot condemn expenditure as altogether unnecessary. It is for the Executive department to decide whether expenditure on a particular object is necessary or not : and though the Finance department may advise and remonstrate, it cannot refuse to sanction the expenditure if the Executive department overrules its remonstrance : for that were to veto the policy of the administration.

45. The effectiveness of the control also varies with the nature of the charge. "New charges . . . divide themselves into two chief classes. One includes charges for establishments, the other includes charges for grants and purchases. Over the latter class the control of the Treasury must in the nature of things be weak. . . About the expediency of fresh grants and fresh purchases during the coming year the responsible executive officers alone can have the knowledge necessary for judgment. If somebody at the War Office says that the future of the race depends on having Smith's range finders at ten guineas instead of Brown's at five, who at the Treasury shall say him nay? In contrast with such affairs as these, the class of establishment charges is that over which the control of the Treasury and its influence for economy are most close and efficient."

46. As in England, so in the United Provinces, the Finance department has not the right to tell a Chief Engineer that he must not substitute motor transport for the older *byle* cart, or that he must

buy an American instead of an English lorry. It can at most ask for proof of the need for the substitution, or the inadequacy of the American lorry—but solely from the point of view of comparative cost. But it can and does control almost absolutely such matters as the creation of new posts and the salaries to be attached to them.

47. The pre-budget control does not end with the listing of a new demand. At a later date the Finance department must examine all these demands as a whole and consider how far they can be met from the revenue available. Should resources prove insufficient, it will have to report the fact to the Government, who must then consider whether taxation is to be raised to provide the necessary funds, or whether the new demands must be reduced, and if so, which are to remain and which to go. In such a discussion it is inevitable that the voice of the Finance department should be heard: for it is that department alone which, because it is in close touch with all other departments, can balance the needs of one against the needs of another. But the final decision does not and cannot rest with it: that again is a matter of policy, and its function at this stage is merely advisory.

48. **A. (2) Control of estimates.**—Both in the Indian and English systems the annual estimates of expenditure are prepared by the Executive departments, and then sent to the Finance department to be examined and co-ordinated. There is, however, this difference between the Indian and English practice, that whereas at home new demands after approval by the Treasury are inserted in the estimates in the department, in India these are dealt

[Reference—  
D. R. 37(g) (i)  
and (iii).]

with in separate schedules and subsequently inserted by the Finance department. This, however, is a mere matter of convenience and connotes no difference of principle.

49. The departmental estimates, therefore, contain, when received in the Secretariat, only old demands. They are scrutinized from three points of view—

(a) *To make sure that every demand is covered by sufficient sanction.*—This is a simple matter to which the Accountant-General, through whose hands the more important estimates pass before they reach the Finance department, gives special attention.

(b) *To exclude obsolete expenditure.*—In framing its estimates for a particular year an executive department may be tempted to repeat the estimates of the preceding year with additions where increased expenditure is foreseen. The method saves trouble, but nothing could be more wasteful, for it makes it possible for obsolete expenditure to appear year after year, long after the need for it has vanished. The Treasury regards the matter as of sufficient importance to warrant them in issuing an annual warning against the adoption of this method of estimating; and it will undoubtedly need close investigation in the Finance department.

(c) *To see that the provision made for each particular demand is not excessive, i.e. that it can be spent completely within the year.*—This is the most important and laborious

part of the Finance department's duties in connection with the preparation of the estimates. The department is responsible for their correctness, and to discharge its responsibility must neglect no proceeding necessary to obtain from the Executive department the material on which it can base a correct decision. But here again the effectiveness of its control varies with the nature of the demand. In a question affecting establishment, pay, allowances, the Finance department has ample information available on which to base a decision : in questions involving technical knowledge, it is compelled to accept the assurance of the expert. If an engineer insists that he can spend one hundred on a work, who in the Finance department can write fifty ?

**50. A. (3) Control over voted grants.—**

The estimates set forth in detail the anticipated programme of expenditure during the year : the objects to which each department intends to devote money, and the sums to be expended on these objects are specifically stated. The legislature by voting the necessary grants has sanctioned that programme : it is incumbent on the departments to carry it out and it is equally incumbent on them not to depart from it without further sanction. The nature of the sanction required for divergence from the voted grants depends partly on the nature of the divergence itself, partly on the method in which it is proposed to find the money necessary to meet the new charge. But in every case before the expenditure is incurred, a reference to the Finance department is imperative.

[Reference—  
D. R. 37(f)  
and (h), 82.]

51. On receiving such a reference the first duty of the Finance department is to scrutinize the demand, in precisely the same way as it scrutinizes all other demands. Having satisfied itself that it is justified, it will next consider whether there are funds available to meet the proposed expenditure. The funds required may be found within the grant, in which case the possibility of *reappropriation* would be considered. If there were no funds within the grant, or if such funds, though available, could not be reappropriated without impropriety, the Finance department would proceed by means of a *supplementary estimate*. These are the only two methods of obtaining provision for unbudgetted expenditure and must be separately considered.

52. Reappropriation means the diversion of funds voted for one service to expenditure on another service, and in English terminology is called "virement." It is only possible, of course, when it is known that the grant voted for the service from which it is to be diverted will not be expended in full. Its use is subject to two restrictions—

- (1) Reappropriation from one grant to another, or "virement between votes," is prohibited.
- (2) Reappropriation within a grant, or "virement between sub-heads" can only be made, if such action does not diminish the control of the legislature or oppose its intentions.

53. The prohibition against reappropriation from one grant to another is absolute, and exists also at home, with certain exceptions presently to be mentioned. The reasons for this prohibition are clearly stated in the following quotation: "The

parliamentary grant is made for the vote as a whole, and in the absence of further parliamentary authority, the expenditure must be confined to the vote for which it is granted, while at the same time a grant cannot be exceeded. The transfer of a portion of a grant from one vote to another would, therefore, result in a double irregularity, first, in the misappropriation of the money granted for the former vote to the service of the latter, and secondly, in exceeding the legal parliamentary provision for the latter." This prohibition is absolute in the case of all civil votes. Virement is permitted within the group of votes administered by the War Office and the Admiralty, respectively, but that is merely because the total army votes and the total navy votes are, and are treated as constituting, each a single service, and these apparent exceptions really prove the rule. If legislative control of expenditure is not to be reduced to a mere farce, the prohibition must be rigid and rigidly enforced.

54. The same objections do not arise in the case of reappropriation within the grant. No evasion of legislative sanction occurs, because although the estimates do actually set out the sub-heads of the grants in detail, the grant is voted as a whole and the details given under it are merely intended for the information of the Council. Nevertheless, though there is no legal obligation, there is a moral obligation to keep expenditure within the four corners of the grant, and especially to incur no charge that is explicitly against the wishes of the Council. It is impossible to define what expenditure can, and what cannot be legitimately met by reappropriation : each case must be decided on its merits. But two

instances will serve to illustrate the scope of the restrictions imposed by this moral obligation—

(1) It would be unjustifiable to incur expenditure on an object not specifically included in the estimates, even if similar objects are so included. For example, because a grant-in-aid has been sanctioned for one college, a grant-in-aid could not be made by reappropriation to another college not mentioned in the estimates. It could not be assumed that the Council would regard the two colleges as equally deserving of a grant-in-aid: and such expenditure would clearly be outside the "four corners of the grant." In short, reappropriation can be used to increase the provision for sanctioned expenditure but not to make new provision for unsanctioned expenditure.

(2) It would be unjustifiable to increase by reappropriation the provision for expenditure on an object if it had been specifically reduced by a vote of the Council. Such action would clearly be in opposition to the intentions of the legislature.

55. The rules do not attempt to define the circumstances in which reappropriation may or may not be used. But rule 38 of the Devolution Rules states in precise terms by whom it may be sanctioned. The Member or Minister in charge of the department, or any officer to whom the power is delegated with the sanction of the Finance department, may sanction reappropriation between heads subordinate to a minor head, provided that recurring expenditure is not involved. The Finance department alone

may sanction reappropriation between minor or major heads. In other words except in the most trivial cases reappropriation can be carried out by the Finance department alone, as is also the case in England.

56. Where reappropriation either for lack of available funds or for any other cause is impossible, the money for excess expenditure can only be obtained by a supplementary estimate. Such an estimate is prepared and scrutinized in precisely the same way as the annual estimates. But here a difficulty arises. Supplementary expenditure cannot be incurred till the Council has voted the grant to meet it. Yet the expenditure is often urgent, the Council is not always in session: what is to be done in the interval between the authorization of the estimate by the Finance department and its presentation to the Council? The reserve power given to the Governor to authorize expenditure in cases of emergency [Act, section 72-D (2) (b)] is obviously not meant to be used in a case of this kind: whilst the rules are silent on the point. For light we must turn once again to the Treasury practice.

57. At home the difficulty would be met in one of two ways—

- (a) The Treasury permits the expenditure to be incurred in anticipation of the final sanction, provided the total grant already voted is not exceeded until the supplementary estimate is sanctioned. In other words, the department is permitted to ~~divert~~ for a while any funds available in its budget to the new expenditure, which

funds are made good when the supplementary estimate is passed ; in short to effect a temporary reappropriation.

- (b) The Treasury makes an advance to the department from the Civil Contingencies Fund. This fund consists of a fixed sum, at present £300,000, and is entirely at the disposal of the Treasury. When money is urgently required but has not yet been voted by Parliament, or when small payments have to be made that are not appropriate to any vote and too small to be voted separately, the Treasury finds the money from this fund: an advance is made to the department for the service concerned, and the sum subsequently included either in a supplementary or the next annual estimate to be voted by Parliament. When the grant is voted, the sum is repaid to the fund, which is thus kept at its authorized maximum.

58. The Finance department already possesses full power of reappropriation, and there is consequently nothing to prevent the adoption of the former of the two Treasury methods described, since it amounts merely to a particular kind of reappropriation. The rules contemplate nothing corresponding to the Civil Contingencies Fund: but there is undoubtedly power to create a similar fund to serve the same purpose. The Home fund has taken its present shape after several changes. Before 1816 unexpected demands were met from the Civil List. From 1816 to 1862 an annual vote was taken for civil contingencies: but little control was exercised over the details of

expenditure against the vote, the balance of the fund accumulated, and in 1862 the fund was reconstituted in its present shape; and in its present shape, though effective, it is certainly clumsy. We can adopt its idea without copying its procedure. The simplest method seems to be to place annually on the estimates of the Finance department a provision for civil contingencies, as was the case in England between 1816 and 1862; the unspent balance, like all other unspent balances, should, however, be surrendered, which will prevent the growth of the fund to undesirable dimensions. Advances will be made against this provision, but there will be no question of repayment. Where the sum advanced to a department is ultimately sanctioned in a supplementary estimate a deduction will be made from the gross demand to cover the advance, and the Council will be asked only to vote the net demand. When the advance is ultimately repaid in the succeeding year, then instead of including it, as at home, in the annual estimate, it can form the subject of an excess grant, which will serve to bring it more prominently to the notice of the Council than its inclusion in the annual estimate would. When the first demand for a grant for civil contingencies is made the particular classes of expenditure on which it is to be spent will be fully described: by this method the Council will be able to restrict the operations of the Finance department against this provision to such cases as it considers desirable. Finally it can be made the object of a separate account which will form part of and be presented to Council with the appropriation accounts.

59. Mention has been made in the preceding paragraph of an excess grant. This is governed

by Rule of Business 31 which reads as follows: "When money has been spent on any service for which the vote of Council is necessary during any financial year in excess of the amount granted to that service and for that year, a demand for the excess shall be presented to the Council by the Finance Member and shall be dealt with in the same way by the Council as if it were a demand for a grant." It is, in fact, designed to obtain retrospective sanction to unvoted expenditure, and corresponds to the excess vote of the English system. A supplementary estimate must be presented in the year to which it relates. When overspending has actually occurred, or is certain to occur, and there is no time to present a supplementary estimate, an excess vote has to be taken: very often the need for it is not discovered till the appropriation accounts have been made up and audited, some months after the close of the financial year in which the excess occurred. Then, in Commander Hilton-Young's picturesque phraseology, "the first step usually taken is for all parties concerned, the Auditor-General, the Public Accounts Committee, and the Treasury, to remind the peccant department that it is a canon of the public service that an excess of the sort is a financial offence. . . . After some such suitable admonition the Executive and the Legislature dry their eyes and set to work to mop up the spilt milk." Since human nature is much the same all over the world, no doubt similar processes will take place in India. But though the excess grant may generally be merely an ignoble mop for spilt milk, there is no reason why it should not be put to a less unsavoury use in the manner suggested in the last paragraph.

60. **B.—Revenue and taxation.**—The rules assign to the Finance department three duties in connection with revenue—

[Reference—  
D. B. 37(e),  
37(f), 37 (j)]

- (a) The preparation of estimates of revenue.
- (b) The advising of revenue-collecting departments regarding the progress and method of collection.
- (c) The examination of all proposals for the increase or reduction of taxation.

61. *Preparation of estimates of revenue—*

“ Having calculated what it will have to spend in the course of the coming year, the prudent state like the prudent householder must calculate what income it will have with which to meet its outgoings. It must estimate its revenue as well as its expenditure. For the plan of campaign to raise revenue to meet the estimated expenditure the Chancellor of the Exchequer and under him the Treasury are responsible. The plan is called by the familiar name of the budget. Estimates to be derived in the coming year from existing taxes and any proposed increases therein, or from new taxes, are prepared for the Treasury by the revenue departments. Their preparation is work for those with expert knowledge, and especially for statisticians, and the greater part of it is done by the statistical office of the Board of Customs and Exoise. There they have records of the yields of all taxes for many years, which show their normal rates of increase with growing wealth and population, the effect of any change in rates, and that of any special circumstances, such as strikes, wars and unusual weather. By taking last year's yields as

a basis, adding or subtracting a normal amount for the regular increases or decreases which the records show to be in progress, and making a correction for any abnormal disturbing influence which it is possible to foresee, a very exact estimate can be made of the revenue in the coming year. Armed with that, the Chancellor knows as well as man can know how he stands, and how he may best meet the demands of the spending departments." In a book of 364 pages this is all that the author finds it necessary to say regarding the preparation of the revenue estimates; and indeed there is little else to be said.

62. The quotation is interesting as bearing on the present method of estimating revenue. The original estimate is prepared in the revenue-collecting department: it is of course based, as at home, on the last year's yield with additions or subtractions according to the variations observed and the disturbing influences at work. There are in most departments statistics available to assist in making the estimate, just as they assist at home. These estimates are then examined in the Accountant-General's office and checked, chiefly by comparison with the known actuals of the preceding and current year (the figures of the last months of the preceding and the first months of the current year are taken for this purpose). Lastly, they are checked again in the Finance department, partly by the "normal" which is a figure based on the actuals of the past three years, partly with reference to figures of actuals later than those used by the Accountant-General. The method in which our estimates of revenue are prepared is therefore in essence the same as the method adopted by the Treasury at home.

63. *The advising of revenue-collecting departments regarding the progress and methods of collection.*—The despatch quoted in a preceding paragraph on the subject suggests that “in its association with the revenue departments the Finance department will exercise steady pressure in the direction of efficient assessment and collection of every kind of State receipt. There is little more to be said on this branch of the subject: the department will consolidate its position with experience.” The authors of this despatch and of the report on which it is based were doubtless thinking, when they wrote, of the position in England, where the two great revenue-collecting departments—the Boards of Commissioners of Inland Revenue and of Customs and Excise—are responsible to the Treasury and subject to its authority, and are represented in Parliament by the Chancellor of the Exchequer and the Financial Secretary who are the heads of the Treasury. To reproduce that state of affairs in a province it would be necessary to subordinate the Board of Revenue, at all events, to the Financial department. That is not suggested even by the despatch quoted; and indeed “the exercise of steady pressure in the direction of efficient assessment and collection” will be a new function for that department. In actual practice no change will be required in the present relations of the department with the Board of Revenue, or anybody else. Assessment and collection are both efficient and no pressure is required in that direction. No executive action likely to affect the revenues is usually taken by a revenue-collecting department without first consulting the Finance department; and all that the Finance department need do to carry out this

new function that has been assigned to it is to take care that the occasional exceptions to this practice cease to exist.

64. *The examination of all proposals for the increase and reduction of taxation.*—Rule 30 of the Devolution Rules lays down that all proposals for raising taxation must be considered by the whole Government sitting together ; but the decision must be taken by the Governor in Council or by the Governor and Ministers, according as one or the other originated it. In England proposals for raising taxation could only emanate from the Chancellor of the Exchequer, and the decision would be that of the Cabinet ; the procedure contemplated by this rule is the result of the dual system of government, and is due to a desire to fix on the right shoulders the responsibility for new taxation.

65. **C.—Functions in connection with debt.**—Rules 37 (a) and (d) impose certain responsibilities on the Financial department in respect of all debt transactions. As regards loans *made* by the Local Government its duties are confined to the maintenance of the loan account and to advice on the financial aspect of loan transactions. As regards loans *taken* by the Local Government, it is in charge of all matters relating to their service, it has to examine all proposals for borrowing and to take all steps necessary to carry them out. In respect of borrowing operations, its responsibility is much larger than in respect of lending operations.

66. Government's loans are of three kinds at present—

- (a) loans to agriculturists,
- (b) loans to local bodies,

[Reference—  
D. B. 37(a),  
37(d).]

*(c)* loans to other persons.

Loans to agriculturists, or "taqavi" loans, are entirely controlled by the Board of Revenue, and the Finance department has nothing to do but arrange for the provision of the capital sums that the Board require. All rules regulating the rate of interest, the method and period of repayment, the security—in fact all rules concerned with the matter whatsoever—appear in the Board's circulars. No change is necessary or possible in the present procedure; the transactions are numerous; they relate to sums as small as Rs. 5 and seldom larger than Rs. 1,000, and it would be impossible for the Finance department to advise on each individual transaction. It will, however, have to advise on any proposed change of the rules involving financial questions, e.g. such matters as the rate of interest, the method of appraising security, or of repayment; and as in the case of all other estimates must be satisfied that the provision made for such loans is not excessive.

67. Till recently loans to local bodies were considered, and the decision regarding them taken in the Municipal department, and the Finance department had merely to arrange for the money required. During the current year, however, the procedure has been changed. The duty of examining proposals made by local bodies to borrow money has been delegated to the Boards of Public Health and of Communications, who thereafter make their recommendations to the Local Government in the Local Self-Government department. As a matter of fact, however, these proposals have all been examined from the financial aspect by the Financial department under the directions of the Financial Secretary, who is a member of

both Boards ; and no change will be necessary in the existing procedure, save that the Finance department must now do as part of their regular duties what they have hitherto done as the result of a private arrangement.

68. Loans to other persons, notabilities, landlords, industrialists have all been considered, and the decision in respect of each transaction taken, in the Executive department. In future it will be for the Finance department to examine and advise on the proposed transactions under this head. So far there have been few loans of this kind ; in future they will become more numerous.

69. In the past Local Governments had not the power to use their credit, and all the duties imposed on the Finance department by rule 37 (*d*) in respect of the service of loans are therefore new. Proposals for borrowing will be considered and decided by the Government in the same way as proposals for taxation (D. R. 30). In England the authority to borrow is derived from Parliament ; in the case of some types of loan it is general, in others it is special, but it is always statutory. The Reforms Scheme has not adopted the English practice of giving final (and belated) sanction to financial proposals by an Act ; the final sanction will be the vote of the Council on the demands for grants. It will be as necessary to make such a demand in the case of capital as of revenue expenditure, and the Council has therefore a certain power of control over the loan operations of the Government. For refusal to sanction a demand for capital outlay would make the loan designed to provide the capital unnecessary, and to

that extent be equivalent to a refusal to sanction the loan itself.

70. The Finance department in the matter of borrowing operations has therefore no basis of old practice on which it can build up its new practice ; but the general lines of its procedure are obvious enough. First, it will have to examine the necessity of any proposal to borrow, since borrowing involves expenditure in the shape of interest and sinking fund charges : and also the suitability of the proposals, since it is not every kind of charge that can appropriately be met from capital. Secondly, it must decide on the amount of the loan and its terms, its price, its interest, its nature, the method and period of its repayment. Lastly, having obtained the sanction of higher authority it must issue a prospectus, invite subscriptions, arrange for allotment and receipt of the money. All through it will act in consultation with its bankers (the Imperial State Bank, and until that comes into being, the Bank of Bengal). Such '*mutatis mutandis*' is also the procedure of the Treasury.

71. But it will have also other duties in connection with the service of loans. It will be responsible (a) for all steps that may be taken for the reduction or avoidance of debt, (b) for investment of surplus capital. In these respects, as in its management of the provincial loan account, it will carry out the functions discharged in England by the National Debt Commissioners.

72. D. Functions in connection with the public services.—“There are few greater dangers to a country than the unchallenged growth of the number of functionaries, and in particular there are few occasions on which an executive

[Reference—  
D. R. 40, 41.]

based on a popular assembly is more vulnerable than when it is pressed to add to the list of appointments paid from the public exchequer. A strong Finance department is a powerful safeguard against these influences." This quotation from the memorandum on Finance presented to the Committee on the division of Functions is the basis of rules 40 and 41 of the Devolution Rules, which lay down that no post may be created or abolished, the pay of no post varied, and no allowance of any kind sanctioned unless the Finance department has been first consulted. The English Treasury possesses the same power in still greater measure: for not even Parliament's sanction is sufficient to create new posts, and the Comptroller and Auditor General would disallow any charge on account of such posts unless the department concerned could show Treasury sanction too. There can be no doubt of the importance of these functions. The effect of the rules will be to cast on the Finance department the responsibility for a close scrutiny of all proposals in connection with pay and establishment, many of which now only come to it as accomplished facts, and with the sole object of obtaining the necessary provision of money.

73. **E. Miscellaneous functions.**—Other functions that the Finance department has to carry out are—

- (1) the framing of proper financial rules for the guidance of other departments [Devolution Rule 37(e)]:
- (2) the prescription of suitable accounts to be maintained by other departments [Devolution Rule 37(e)]:

[Reference—  
D. R. 37(e),  
37(i), 39,  
42, 43.]

- (3) the laying of the audit and appropriation reports before the Committee on Public Accounts, and the reporting to that Committee of all unauthorized expenditure and all financial irregularities [Devolution Rule 37(i)]:
- (4) the control of non-votable expenditure [Devolution Rule 39]:
- (5) the control of grants and concessions of all kinds, and of proposals involving abandonment of revenue [Devolution Rules 42-3].

74. It is unnecessary to discuss the first and second of these; they are obviously duties of the Finance department, which under the rule, moreover, has only to see that they are carried out, not necessarily to carry them out itself. Both are big pieces of work that can only be performed at leisure. The third function will be more appropriately discussed in connection partly with audit, partly with the Public Accounts Committee. Non-votable expenditure under section 72D(3) of the Act includes (1) the contribution, (2) interest and sinking fund charges on loans, (3) expenditure of which the amount is prescribed by law, (4) salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council, (5) salaries of the High Court Judges and of the Advocate General. These charges though shown in the budget are not submitted as demands for grants to the Council's vote. Non-votable expenditure exists also at home, being the expenditure on the "Consolidated Fund Services," so-called, because the service is by law charged on the consolidated fund directly; it includes the charges of the national debt, payments to

local taxation accounts, the King's Civil List and a number of special salaries, annuities and pensions, including the salary of the Comptroller and Auditor General and all the expenses of the Courts of Justice. These Consolidated Fund Service charges amount to about one-third of the whole and are managed directly by the Treasury—as under Devolution Rule 39, non-votable expenditure will also be managed by the Finance department. The control of grants and concessions and of proposals involving abandonment of revenue by the Finance department also has its counterpart in the Treasury powers. The need for such control is obvious since in all such cases public funds are involved. The power, however, is a new one: hitherto administrative departments have given all necessary sanctions, and merely informed the Finance department afterwards. And in view of the system of remission or suspension of land revenue in times of difficulty, when large sums are often involved, it is a most important power.

75. This completes the detailed survey of the functions of the Finance department. As a summary of its powers and of their limitations the following remarks from Colonel Durell's "Parliamentary Grants" may be quoted:—

“ The functions of the Treasury are wide: for as the department responsible for financial order, there can be no question on the financial bearings of which it will not have the direct or potential right to express its views. It ought not to, however, and cannot be an authority on extremely scientific or technical proposals. In criticizing, for instance, the professional expenditure of the Army and Navy, the Treasury would soon be infringing upon that criticism of policy which it is not

its duty to exercise . . . On the other hand, its control is not limited to seeing that the money is spent according to appropriation and under authority, but also to seeing that it is wisely and necessarily spent. Nor again must it intervene too much in administration. Though the Treasury is a department having control over other departments, the word "control" implies not that it is its duty to watch them . . . but that whenever changes are made and difficulties occur and scandals are detected, it is the duty of the Treasury to devise regulations for meeting, correcting or remedying them . . . It is impossible that it ever should watch over the expenditure of other departments: it has no machinery for doing so . . . The control of the Treasury does not interfere with the incurring of expenditure in any shape: all that belongs to the executive departments . . . At the same time it is very important that the Treasury should be strong enough to put each department on its defence frequently so that they should know that they always have to make good their case."

II.—THE CONSTITUTION OF THE FINANCE DEPARTMENT.

76. It is not intended here to deal with the question of the sub-division of the department into branches: that indeed is a matter that can only be settled after experience of the new conditions. It will suffice to say that the department to cope with those new conditions must be enlarged considerably: whilst all its members must inevitably take pains to acquire such qualifications as are necessary to enable them to discharge their duties efficiently.

[Reference—  
D. R. 36.]

77. Rule 36 of the Devolution Rules lays down that the Finance department shall be controlled by

a member of the Executive Council, subordinate to whom shall be a Financial Secretary, with whom ' shall be associated if the Ministers so desire, a Joint Secretary appointed by the Governor after consultation with the Ministers. The Joint Secretary shall be specially charged with the duty of examining and dealing with financial questions arising out of transferred subjects, and with proposals for taxation or borrowing put forward by any Minister." The Finance Member corresponds to the Chancellor of the Exchequer: the Financial Secretary combines the functions of the Financial Secretary and the permanent Secretary of the Treasury: but to whom does the Joint Secretary correspond?

78. In paragraph 26 of the memorandum on finance quoted in an earlier paragraph, the following description of the duties of the Joint Secretary is given. "He would be the Financial Adviser in all transferred subjects: he would be wholly at the disposal of Ministers to help and advise them on the financial side of their work: he would prepare their proposals of expenditure and the like for presentation to the Finance department, and he would see that their cases were properly understood and properly dealt with. He would act in liaison between the Finance Member of Council and Ministers, and would ensure that transferred subjects get the same technical assistance and care in their financial bearings as reserved subjects."

79. According to this statement, therefore, the Joint Secretary is to fulfil two functions. Firstly, he is the Ministers' financial adviser and assistant, in which capacity he corresponds to the Financial Secretary to the War Office or the Admiralty: but with

this difference that these Secretaries are members of the executive departments and subordinate in all respects to their heads, whilst the Joint Secretary is to be a member of the Finance department. Secondly he is the protector and advocate of the financial interests of the transferred subjects in the Financial department, in which capacity he has no parallel; but the nature of the reformed constitution makes it desirable to assign the duties in question to the Minister's financial adviser.

### III.—THE FINANCE COMMITTEE.

80. Both in England and in India, the Legislature possesses the right of final decision regarding all proposals of expenditure, and the final responsibility for preventing wasteful and extravagant use of the public money. It is their duty, therefore, to examine and criticize with care all estimates of expenditure. In England, however, that duty is not, and cannot be, adequately discharged. The estimates are intricate, the special and technical knowledge required to understand their details is wide and varied; and as a result the changes made in the House of Commons are insignificant. "Once a thing is down in the estimates as presented to the House, it is a hundred to one that it stays there." And, though to a less extent in view of the smaller range of expenditure covered by the estimates, the same difficulties are likely to confront the Provincial Council. Attempts were made by Parliament to improve the position at different times; the final solution found was the appointment of an "Estimates Committee." This is the Parliamentary prototype of the Finance Committee of the old Legislative Council which it is proposed to revive under the new constitution. But there are striking

[Reference—  
Standing Orders.  
80, 81, 82.]

differences between the two ; not the least striking is that whilst the Finance Committee in its recent incarnation was remarkably successful, the Estimates Committee has always been a remarkable failure. And it is worth while briefly to examine the causes of that failure, as a warning.

81. The obvious way to secure control by the Legislature over the estimates is that a committee should examine them in detail before they are presented ; for it is then only that economies in them can be effected. But such a procedure "strikes at the root of the fundamental principle of ministerial (i.e., executive) responsibility." The estimates embody the policy to which the executive is committed, and by its estimates it must stand or fall : any material alterations made therein against its will involve its resignation. Clearly, therefore, any committee empowered to revise the estimates would accept, for the legislature that appointed it, a part at all events of the responsibility that belongs to the executive : it would give the latter a sufficient reason for disclaiming responsibility not only for the accuracy of the estimates, but for their consequences. It was these considerations that caused the appointment of the Estimates Committee, which was recommended in 1903, to be postponed till 1912. And it was undoubtedly this fact that accounted in part for the insignificant influence exercised by the Finance Committee of the Provincial Council till 1918. It met once a year to consider the estimates before they were presented to the Council. The estimates were then in their final form : the executive Government could not afford to permit any material alterations in them. The composition of the Committee and the Council

may have aggravated the situation, but the real cause of the old committee's lack of power was the late hour at which they were invited to examine the estimates.

82. This difficulty has been solved in one way in England, and in another way in this province. The Parliamentary Committee's examination of the estimates is postponed till after their presentation in the House of Commons, when there is no longer any chance of effective interference with executive responsibility. As a rule they take up only one estimate a year and they deal with it in laborious detail: but lacking all expert knowledge of the technicalities involved, they spend much time groping in the dark to find some important point on which to fix attention, and must depend for enlightenment on the Treasury and the department concerned,—in other words on the very persons who are responsible for the estimates that they are criticizing. Naturally enough they seldom detect imperfections. Moreover "men contending for economy in general are always at a disadvantage when pitched against men contending for expenditure on particulars." Finally, since the estimates are passed before their report is ready, they do not effect economies in the present: they merely suggest possible ways of avoiding extravagance in the future. In short, though the labours of the Estimate Committee are prolonged, the results are trivial.

83. Since 1918, the duties of the Finance Committee have been greatly enlarged. At its monthly meetings, all important proposals for new expenditure are laid before it for detailed criticism as they arise. Subsequently, when the time comes to decide what items can remain in the schedule of new demands

and what items, in view of the estimated revenue receipts, must be cut out, it is again called in consultation : and inasmuch as every important item in that schedule has already been examined by it, its advice is of special value. Lastly, it is called in to examine the complete estimates before they are presented to the Council. It can be claimed that by this procedure the difficulties described above are solved or avoided. Firstly, there is no interference with executive responsibility : for the original criticism of all proposals for expenditure is given at a time when policy is still in a sufficiently fluid state to admit of modifications. Secondly, as each proposal is taken individually, and the estimates are not examined as a whole till the Committee has already become acquainted with all the important (that is to say, all the new) items in it, there is no failure due to "groping in the dark", and no difficulty in acquiring the necessary technical information. Thirdly, the economy is effected at once, instead of in a subsequent year. Lastly, it ensures that there are in the Council a certain number of members to whom the detailed estimates present no terrors, who are able not only to select the right points for criticism, but to criticize them with knowledge.

84. Lately, too, the Finance Committee has been called in to give advice on wider questions. It was, for instance, this Committee that was responsible for the final form taken by the scheme of revision of the salaries of subordinate establishments. It was consulted on two occasions in connection with the contribution, and some of its members gave evidence before the Committee on Financial Relations. It is becoming more and more a standing advisory committee

to the Finance department. The value of its work has been proved again and again : it is scarcely too much to say that it has made itself indispensable.]

85. Neither the Act nor the rules provide for the constitution of a Finance Committee : it is proposed to create it by standing order. Its composition will be similar to that of the Public Accounts Committee with a two-thirds elected majority. In its new incarnation it will have greater influence than ever : and there can be no doubt that it will live up to the traditions of its predecessor.

#### IV.—PUBLIC ACCOUNTS COMMITTEE.

86. It is useless for the Legislature to have the power of voting money for specific expenditure, unless it has power to insist on the money so voted being spent on the purposes to which it was assigned and on no others. In Gladstone's phrase "it is undoubtedly the business of the House of Commons to be responsible not only for the inception of all public expenditure, but also to follow money raised by taxation until the last farthing is accounted for." To carry out this duty the Public Accounts Committee, a standing Committee of the House of Commons, was created in 1861, and its powers were consolidated by the Exchequer and Audit Act of 1866. Though so far no Exchequer and Audit Act has been passed for India, one appears to be in contemplation : meantime the Committee on Public Accounts constituted by the Rules of Business 33 and 34, and Devolution Rule 37(i) is designed to carry out the same functions as its Parliamentary counterpart.

[References—  
Act 72D. D.R.,  
37(i), R.B.,  
33, 34.]

87. Its main function is to consider the audit and appropriation accounts and the reports on them.

The audit report is well enough known: it deals with the salient points in the accounts as they are disclosed by audit, and especially with all financial irregularities that may have been discovered. The appropriation account deals with one particular part of the audit. Just as the detailed estimates show how it is proposed to spend the money voted for any demand by the Council, so the appropriation account shows how the money so voted has actually been spent. In a perfect world the appropriation account would be a mere repetition of the estimate. Who is to prepare these accounts, how they are to be prepared, is not as yet known: we may conjecture that the Accountant-General in a province will take the place of the Comptroller and Auditor-General in England, but for certainty on this and all other principles of audit and appropriation we must wait for the Exchequer and Audit Bill which will correspond to the English Exchequer and Audit Act of 1866. As usual, however, it will be useful to examine English procedure.

88. There are certain differences between the procedure observed at Home and that laid down by the rules for observance in India. In England the reports are prepared by the Comptroller and Auditor-General, an officer of the House of Commons and quite independent of the Treasury or any other department, and laid before the House of Commons, which then refers them to the Public Accounts Committee. This Committee with the assistance of the aforesaid officer and a Treasury official, go through these reports, demand explanations of all financial irregularities from the departments concerned, call for evidence and papers to assist them in their

inquiry and finally present a report to the House of Commons. On this report action is taken sometimes directly by the House of Commons, but generally by the Treasury acting as an administrative department.

89. In India we may take it for granted that the reports will be prepared by the officer that will correspond to the Comptroller and Auditor-General (if he is the Accountant-General he too will be independent of the provincial departments since he will be an Imperial officer). But his reports will go first to the Finance department and after consideration by that department be laid by it before the Public Accounts Committee [Devolution Rule 37 (i)]. Thereafter in the case of certain types of irregularity, notably all sorts of unauthorized reappropriations, the Committee must, and no doubt in the case of all irregularities it may, bring the matter to the notice of the Council. It is not laid down what the Committee's procedure will be, and especially whether it can call for oral and documentary evidence: in practice there will probably be no difficulty for the Finance Member, its chairman, could do what was required in this direction. Nor is it clear what action will follow a report to the Council. In England the House of Commons or the Treasury can on the recommendation of the Committee either—

(a) disallow a charge: or

(b) censure the department: or

(c) technically disallow a charge, in such a way as to allow it to be made at a later date.

Presumably the Exchequer and Audit Act when passed will deal with this matter, as with the powers of the Committee: at present, so far as the rules go, it

would seem that the Council could only pass a resolution recommending action to the Government.

90. Apart from the audit and appropriation reports, the Finance department has to bring all cases of unauthorized expenditure and financial irregularities to the notice of the Committee and may insist on their being brought to the notice of the Council. Such cases are constantly coming to light under the present régime, and are not likely to cease under the new.

91. The rules seem to restrict the duties of the Committee entirely to the investigation of financial irregularities. We need not, however, doubt that it will also inquire into and make recommendations concerning the cause of the irregularities. And in this respect, no doubt, the example of the Parliamentary Committee will be followed. That Committee is very careful not to exceed its powers, and its tendency is rather to restrict than to widen the scope of its inquiries. It is for instance particularly careful not to interfere in matters of policy. Were excess expenditure attributed to a change in policy, it would accept it, though it might and probably would demand proof that the change of policy could not be foreseen in time to allow for provision to be made in the estimates. Or again it would not question the policy that led to unusual expenditure: but it would certainly inquire whether there was power to authorize that expenditure. Nor does it interfere with administration: but if an irregularity is traceable to the system of administration, e.g. a wrong drawal of allowances to the method of payment, or a case of fraud to the system of vouchers, it would

draw attention to the fact and recommend an alteration in the system. The new Public Accounts Committee will, no doubt, build up a systematic practice for itself in such matters as it acquires experience: but it will always have precedents to follow in the practice of the Parliamentary Committee.

### C.—FINANCE IN THE COUNCIL.

92. The provisions regulating the course of financial business in the Council are to be found in sections 72D(2), (3) and (4) of the Act, and Rules of Business 25—30 and may be summarized as follows:—

[Reference—  
Act section 72D,  
R. B. 25—30.]

- (1) On a fixed day the "Budget" is presented to the Council by the Finance Member. The "Budget" is the statement of the estimated annual expenditure and revenue mentioned in section 72D, and contains a list of the demands "for grants" which the Council will be asked to vote.
- (2) On a subsequent day, there will be a full dress debate on the Budget, in which only the Budget as a whole or any question of principle involved therein may be discussed: no motion may be made or vote taken. The Finance Member has a general right of reply.
- (3) At a later date the Council will proceed to consider the separate demands for grants. Each demand is taken separately: the debate on each demand is limited to two days, and the total period allotted for the demands' debate is 12 days. On the 12th day at 5 o'clock, discussion ceases and all

demands still outstanding must be voted on without debate.

93. This simple and expeditious procedure is in strong contrast with the elaborate formalities of the House of Commons. Each individual estimate of expenditure or vote (which corresponds to the "demand for a grant" of our system) is considered and can be discussed first in Committee of Supply, a second time in Committee of Ways and Means, a third and fourth time when the resolutions of these committees are reported to the House. These committees are both Committees of the whole House : the result is that the House, sitting as a House, rediscusses and approves, not once only but twice over, the resolutions which it has itself made as Committee. And as if this were not sufficient, an Appropriation Act has then to be passed embodying the votes granted in supply, which goes through all the regular stages of first reading, second reading, Committee, report, and third reading, both in the Commons and the Lords. The procedure in respect of revenue is simpler, but quite complicated enough. The bulk of the revenue is derived from taxation, and all taxation save the tea duty and income tax are derived from permanent statutes. To complete the revenue system for the year all that is necessary is to re-enact these two taxes, though if alterations are proposed in the permanent taxation a Finance Act will also be necessary to carry them out. Resolutions are proposed to the Committee of Ways and Means accordingly : it is the first of these resolutions which is technically the occasion of the Chancellor of the Exchequer's Budget statement, in which is described his scheme of revenue and taxation. In due course

the resolutions are passed, reported to the House and the necessary legislation passed through both Houses.

94. This brief account will suffice to show how complicated and unwieldy is the financial procedure of the House of Commons. "It has been evolved bit by bit to suit the conditions and needs of the moment. Many of those needs are long since past, and many of the conditions are obsolete: but the procedure devised to suit them still remains, a meaningless ritual." And its results are serious. A very large amount of time is wasted on unnecessary formalities, whilst the only real discussion, that in the Committee of Supply, has to be cut down to 20 days, after which all votes still undiscussed have to be passed without debate. About half the total number of votes come under the guillotine yearly, and the effective control of Parliament over expenditure is thus seriously impaired. The fact is recognized, and more than one authority holds that the financial business of the House of Commons could be compressed, without damage to Parliamentary control, into the "Budget" debate, and the discussion of the votes for expenditure in Committee of Supply. And that is precisely what the system of our Councils provides: the debate on the Budget statement corresponds to the former, the discussion of the individual demands for grants to the latter.

95. Certain other details of the procedure require examination. Of these the first is the restrictions on the powers of the Council in dealing with the demands for grants. It is laid down in section 72D that "the Council may assent or refuse its assent to a demand, or may reduce the amount therein referred to either by a reduction of the whole grant

or by the omission or reduction of any of the items of expenditure of which the grant is composed." This is amplified by Rule of Business 30(2), which lays down that "motions may be moved . . . to omit or reduce any grant, or item in a grant, but not to increase or alter the destination of a grant." There is, secondly, a parallel restriction, stated in the third proviso to section 72D(2) and in Rule of Business 30(1), which prohibits the making of any motion for appropriation except on the recommendation of the Governor communicated to the Council. Since proposals for the appropriation of revenues are made in the shape of demands for grants, the two restrictions taken together amount to a prohibition of the making of new demands or the increase of demands made by the Government, or the decrease of one demand coupled by an increase in another demand. And this is tantamount to depriving the Council of all financial initiative whatever, and placing it entirely in the hands of the executive government. The matter is therefore of importance and requires explanation.

96. These rules are the counterpart of a well-known Standing Order of the House of Commons which provides that "this House will receive no petition for any sum relating to the public service, or proceed upon any motion for a grant or charge upon the public revenue, whether payable out of the Consolidated Fund or out of money to be provided by Parliament, unless recommended by the Crown." Since this is a Standing Order, the limitation on financial initiative has been imposed by the House of Commons on itself: "it is in its own wisdom that the House has established the rule, and its wisdom is beyond dispute.

Limitation of financial initiative to the executive is one of the sheet-anchors of good government." The matter may be regarded from both the theoretical and the practical standpoints. From the point of view of theory, it can be argued that the Council like Parliament is a deliberating and a legislating, not a ruling body. It is not, therefore, competent to initiate a policy: only the rulers, namely, the executive ministers, can do that. But expenditure is merely policy in terms of finance: therefore it cannot initiate expenditure either. From the practical standpoint, it can be argued that "the balancing of revenue and expenditure is a nice and delicate operation: only the executive can have the double knowledge needed for it, of what is needed on the one hand and of how much it will cost, and on the other hand of how much the taxes are likely to yield." Were it possible for a private member of Parliament to propose, *ipso motu*, the building of ten fresh battleships, or for a private member of the Legislative Council to propose, *ipso motu*, the inauguration of a new university, or even (as has actually occurred in the past in Parliament), a large grant for some improvement scheme in his own constituency, the balance of revenue and expenditure would at once be upset, and the public finances thrown into wild disorder. Such a measure, if passed, would necessitate at a moment's notice the immediate introduction of a fresh budget: and budgets do not grow like mushrooms in a night. It is against such financial disasters as these that the self-denying ordinance of the House of Commons and the rules quoted above are designed to protect not only the government, but the taxpayer.

97. As regards revenue proposals, it is possible in Parliament to propose amendments to the Budget resolution: in an Indian Council, though revenue proposals can be discussed in the Budget debate, no motion can be moved. This difference is apparent only and not real. It is necessary to remember that the Budget resolutions in the House of Commons are definite motions to enact particular pieces of legislation, whilst in Council this is not the case. With the exception of the receipts from State domains and State industry, which for obvious reasons are subject solely to economic laws, the greater part of all the revenue of an Indian province is derived directly or ultimately from statutes, whilst legislation would be necessary to impose any new tax: so that the control of the Council over revenue proposals is derived from its legislative powers, and is of precisely the same nature and extent as in England.

98. The Council, as such, has no power to *increase* taxation: this is laid down by section 80C of the Act which prohibits the introduction of any measure affecting the public revenues by the member of a Council without the sanction of the Governor,—which sanction, if given, would make the measure actually though not theoretically a government measure. This restriction is a corollary to the restrictions on proposing new or increased expenditure, is due to precisely the same set of causes, and also exists in Parliament, being covered by the Standing Order already quoted. And in the nature of things the power of the Council to *reduce* revenue must also be limited. Destructive criticism of the revenue proposals must either be accompanied by constructive criticism, or by a reduction of expenditure. So long as it is desired to

maintain expenditure at the proposed level money must be found, and if objection is offered to one source of revenue another must be suggested in its place. If on the other hand it is desired to reduce revenue absolutely, then it can be done only by first reducing or refusing a sufficient number of the demands for grants. Legislative control over the budget proposals, apart from the policy involved in the method of raising the revenue, is therefore almost entirely a question of sufficient control over the expenditure: and that the Council possesses in theory to as large a degree as Parliament, and in practice, because of the inconveniences resulting from the elaborate system of financial procedure in Parliament, to an even larger degree. The sole exception to the efficiency of this control is that involved in the Governor's reserve powers: and these are inseparable from the nature of the present constitution.

99. The nature of non-votable expenditure has already been explained: and it is unnecessary to discuss it afresh. It will be shown separately in the Budget statement, so that its extent and nature will be known to the Council even if they cannot vote it.

100. The Budget statement will consist of two volumes. One volume will comprise—

- (a) a list of the demands for grants:
- (b) a review of the principal elements in the financial situation which affect the Budget:
- (c) an abstract statement of the receipts under the main heads of revenue, and of the estimated expenditure under the main departmental heads:

(d) a detailed explanation of all important variations in the figures and of all new items, whether of revenue or expenditure.

The second volume will exhibit the estimates in the fullest detail : this, which will in future be known as the "Detailed Estimates," corresponds to the former "Civil Budget Estimates."

APPENDIX.

REGULATIONS GOVERNING FINANCIAL  
ADMINISTRATION.

A.—SECTIONS OF THE GOVERNMENT OF INDIA ACT.

\* \* \* \* \*

21. Subject to the provisions of this Act, and rules made thereunder, the expenditure of the revenues of India, both in British India and elsewhere, shall be subject to the control of the Secretary of State in Council, and no grant or appropriation of any part of those revenues, or of any other property coming into the possession of the Secretary of State in Council by virtue of the Government of India Act, 1858, or this Act, shall be made without the concurrence of a majority of votes at a meeting of the Council of India :

Control of Secretary of State over expenditure of revenues.

Provided that a grant or appropriation made in accordance with provisions or restrictions prescribed by the Secretary of State in Council with the concurrence of a majority of votes at a meeting of the Council shall be deemed to be made with the concurrence of a majority of such votes.

\* \* \* \* \*

26.—(1) The Secretary of State in Council shall, within the first twenty-eight days during which Parliament is sitting next after the first day of May of every year, lay before both Houses of Parliament—

Accounts to be annually laid before Parliament.

- (a) an account, for the financial year preceding that last completed, of the annual produce of the revenues of India, distinguishing the same under the respective heads thereof, in each of the several provinces ; and of all the annual receipts and disbursements at home and abroad for the purposes of the

Government of India, distinguishing the same under the respective heads thereof ;

(b) the latest estimate of the same for the financial year last completed ;

(c) accounts of all stocks, loans, debts and liabilities chargeable on the revenues of India at home and abroad, at the commencement and close of the financial year preceding that last completed, the loans, debts and liabilities raised or incurred within that year, the amounts paid off or discharged during that year, the rates of interest borne by those loans, debts and liabilities respectively, and the annual amount of that interest ;

\* \* \* \* \*

(3) The account shall be accompanied by a statement prepared from detailed reports from each province in such form as best exhibits the moral and material progress and condition of India.

\* \* \* \* \*

Power to execute assurances, etc., in India.

30 (1a).—A Local Government may on behalf and in the name of the Secretary of State in Council raise money on the security of revenues allocated to it under this Act, and make proper assurances for that purpose, and rules made under this Act may provide for the conditions under which this power shall be exercisable.

\* \* \* \* \*

Classification of Central and Provincial subjects.

45A.—(1) Provision may be made by rules under this Act—

\* \* \* \* \*

(b) for the devolution of authority in respect of provincial subjects to Local Governments,

and for the allocation of revenues or other moneys to those Governments ;

(c) for the use under the authority of the Governor General in Council of the agency of Local Governments in relation to central subjects, in so far as such agency may be found convenient, and for determining the financial conditions of such agency ; and

(d) for the transfer from among the provincial subjects of subjects (in this Act referred to as "transferred subjects") to the administration of the Governor acting with Ministers appointed under this Act, and for the allocation of revenues or moneys for the purpose of such administration.

(2) Without prejudice to the generality of the foregoing powers, rules made for the above-mentioned purposes may—

(i) regulate the extent and conditions of such devolution, allocation and transfer ;

(ii) provide for fixing the contributions payable by Local Governments to the Governor General in Council, and making such contributions a first charge on allocated revenues or moneys ;

(iii) provide for constituting a finance department in any province, and regulating the functions of that department ;

\* \* \* \* \*

72 D.—(1) The provisions contained in this section shall have effect with respect to business and procedure in Governors' Legislative Councils.

Business and procedure in Governors' Legislative Councils.

(2) The estimated annual expenditure and revenue of the province shall be laid in the form of a statement before the council in each year, and the proposals of the Local Government for the appropriation of provincial revenues and other moneys in any year shall be submitted to the vote of the Council in the form of demands for grants. The Council may assent, or refuse its assent, to a demand, or may reduce the amount therein referred to either by a reduction of the whole grant or by the omission or reduction of any of the items of expenditure of which the grant is composed :

Provided that—

- (a) the Local Government shall have power, in relation to any such demand, to act as if it had been assented to, notwithstanding the withholding of such assent or the reduction of the amount therein referred to, if the demand relates to a reserved subject, and the Governor certifies that the expenditure provided for by the demand is essential to the discharge of his responsibility for the subject ; and
- (b) the Governor shall have power in cases of emergency to authorise such expenditure as may be in his opinion necessary for the safety or tranquility of the province, or for the carrying on of any department ; and
- (c) no proposal for the appropriation of any such revenues or other moneys for any purpose shall be made except on the recommendation of the Governor, communicated to the Council.

(3) Nothing in the foregoing sub-section shall require proposals to be submitted to the Council relating to the following heads of expenditure :—

- (i) contributions payable by the Local Government to the Governor General in Council ; and
- (ii) interest and sinking fund charges on loans ; and
- (iii) expenditure of which the amount is prescribed by or under any law ; and
- (iv) salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council ; and
- (v) salaries of Judges of the High Court of the province and of the Advocate-General.

(4) If any question arises whether any proposed appropriation of moneys does or does not relate to the above heads of expenditure, the decision of the Governor shall be final.

\* \* \* \* \*

80 A.—(3) The local legislature of any province may not, without the previous sanction of the Governor General, make or take into consideration any law—

Powers of local legislatures.

- (a) imposing or authorising the imposition of any new tax unless the tax is a tax scheduled as exempted from this provision by rules made under this Act ;

\* \* \* \* \*

80 C.—It shall not be lawful for any member of any local Legislative Council to introduce, without the previous sanction of the Governor, Lieutenant-Governor or Chief Commissioner, any measure affecting the public revenues of a province, or imposing any charge on those revenues.

Financial proposals.

B.—EXTRACTS FROM THE DEVOLUTION RULES.

*Part II.—Financial arrangements.*

\* \* \* \* \*

Allocation of  
revenue.

14.—(1) The following sources of revenue shall, in the case of Governors' provinces and in the province of Burma, be allocated to the Local Government as sources of provincial revenue, namely :—

- (a) balances standing at the credit of the province at the time when the Act comes into force ;
- (b) receipts accruing in respect of provincial subjects ;
- (c) a share (to be determined in the manner provided by rule 15) in the growth of revenue derived from income-tax collected in the province, so far as that growth is attributable to an increase in the amount of income assessed ;
- (d) recoveries of loans and advances given by the Local Government and of interest paid on such loans ;
- (e) payments made to the Local Government by the Governor General in Council or by other Local Governments, either for services rendered or otherwise ;
- (f) the proceeds of any taxes which may be lawfully imposed for provincial purposes ;
- (g) the proceeds of any loans which may be lawfully raised for provincial purposes ; and
- (h) any other sources which the Governor General in Council may by order declare to be sources of provincial revenue.

(2) The revenues of Berar shall be allocated to the Local Government of the Central Provinces as a

source of provincial revenue. This allocation shall be subject to the following conditions, namely:—

- (i) that the Local Government of the Central Provinces shall be responsible for the due administration of Berar; and
- (ii) that if in the opinion of the Governor General in Council provision has not been made for expenditure necessary for the safety and tranquillity of Berar, the allocation shall be terminated by order of the Governor General in Council, or diminished by such amount as the Governor General in Council may by order in writing direct.

15.—(1) There shall be allocated to each Local Government a share in the income-tax collected under the Indian Income-Tax Act, 1918, within its jurisdiction. The share so allocated shall be three pies on each rupee brought under assessment under the said Act in respect of which the income-tax assessed has been collected.

(2) In consideration of this allocation, each Local Government shall make to the Governor General in Council a fixed annual assignment of a sum to be determined by the Governor General in Council as the equivalent of the amount which would have accrued to the Local Government in the year 1920-21 (after deducting the provincial share of the cost of special income-tax establishments in that year) had the pie rate fixed under sub-rule (1) been applied in that year, due allowance being made for any abnormal delays in collection of the tax.

(3) The cost of special income-tax establishments employed within a province shall be borne by the Local Government and the Governor General in

Council in the proportions of 25 per cent. and 75 per cent. respectively. -

Payment of Government revenues into the public account.

16. All moneys derived from sources of provincial revenue shall be paid into the public account of which the Governor General in Council is custodian, and credited to the Government of the province. The Governor General in Council shall have power, with the previous sanction of the Secretary of State in Council, to prescribe by general or special order the procedure to be followed in the payment of moneys into, and in the withdrawal, transfer and disbursement of moneys from, the public account, and for the custody of moneys standing in the account.

Contributions by Local Governments in 1921-22.

17. In the financial year 1921-22 contributions shall be paid to the Governor General in Council by the Local Governments mentioned below according to the following scale :—

Name of province.	Contributions (in lakhs of rupees).
Madras ... ..	348
Bombay ... ..	56
Bengal ... ..	68
United Provinces ... ..	240
Punjab ... ..	175
Burma ... ..	64
Central Provinces and Berar ... ..	22
Assam ... ..	15

Contributions in subsequent years.

18. From the financial year 1922-23 onwards a total contribution of 983 lakhs, or such smaller sum as may be determined by the Governor General in Council, shall be paid to the Governor General in Council by the Local Governments mentioned in the preceding rule. When for any year the Governor General in Council determines as the total amount of the contribution a smaller sum than that payable

for the preceding year, a reduction shall be made in the contributions of those Local Governments only whose last previous annual contribution exceeds the proportion specified below of the smaller sum so determined as the total contribution ; and any reduction so made shall be proportionate to such excess :—

Madras	...	...	...	17—90ths.
Bombay	...	...	...	13—90ths.
Bengal	...	...	...	19—90ths.
United Provinces	...	...	...	18—90ths.
Punjab	...	...	...	9—90ths.
Burma	...	...	...	6½—90ths.
Central Provinces and Berar	...	...	...	5—90ths.
Assam	...	...	...	2½—90ths.

19. In cases of emergency the Local Government of any province may be required by the Governor General in Council, with the sanction of, and subject to the conditions approved by, the Secretary of State, to pay to the Governor General in Council a contribution for any financial year in excess of the amount required by the preceding rules in the case of that year.

Excess contributions in case of emergency.

20. The contributions and assignments fixed under the preceding rules shall be a first charge on the allocated revenues and moneys of the Local Governments concerned, and shall be paid in such instalments, in such manner, and on such dates as the Governor General in Council may prescribe.

Priority of contributions.

21. At any time which he considers this course to be essential in the financial interests of India as a whole, the Governor General in Council shall have power to require any Local Government to which revenues have been allocated under these rules so to regulate its programme of expenditure as not to reduce the balance at its credit in the public account

Withdrawal of balances.

on a specified date or dates below a stated figure, and shall have power to take the necessary steps by the restriction of issues of moneys to secure this end. Subject to this power, those Local Governments shall be at liberty to draw on their balances, provided that notice of the amount which they propose to draw during the ensuing financial year is given to the Governor General in Council before such date in each year as the Governor General in Council may by order fix.

Interest on provincial balances.

22. Whenever the Governor General in Council has, on receipt of due notice of the intention of the Local Government to draw on its balances, required it to reduce the extent of the proposed draft, he shall at the end of the financial year in which the Local Government is debarred from drawing, credit the Local Government with interest on the amount which it was not permitted to draw. Such interest shall be a charge on the revenues of India, and shall be calculated at the average rate at which the Governor General in Council has borrowed money in the open market during the year by the issue of treasury bills.

Provincial Loan Account

23. Any moneys which, on the 1st day of April, 1921, are owed to the Governor General in Council on account of advances made from the provincial loan account of any province shall be treated as an advance to the Local Government from the revenues of India, and shall carry interest at a rate calculated on the average rate carried by the total amount owed to the Governor General in Council on this account on the 31st March, 1921. The interest shall be payable upon such dates as the Governor General in Council may fix. In addition, the Local Government shall pay to the Governor General in Council in

each year an instalment in repayment of the principal amount of the advance, and this instalment shall be so fixed that the total advance shall, except where for special reasons the Governor General in Council may otherwise direct, be repaid before the expiry of twelve years. It shall be open to any Local Government to repay in any year an amount in excess of the fixed instalment.

24.—(1) The capital sums spent by the Governor General in Council upon the construction in the various provinces of productive and protective irrigation works and of such other works financed from loan funds as may from time to time be handed over to the management of Local Governments shall be treated as advances made to the Local Governments from the revenues of India. Such advances shall carry interest at the following rates, namely:—

Capital expenditure on irrigation works.

(a) in case of outlay up to the end of the financial year 1916-17, at the rate of 3·3252 per centum;

(b) in the case of outlay incurred after the financial year 1916-17, at the average rate of interest paid by the Governor General in Council on loans raised in the open market since the end of that year.

(2) The interest shall be payable upon such dates as the Governor General in Council may fix.

25. The Governor General in Council may at any time make to a Local Government an advance from the revenues or moneys accruing to the Governor General in Council on such terms as to interest and repayment as he may think fit.

Advances by the Government of India.

26. The payment of interest on loans and advances made under the three preceding rules and

Priority of interest charges.

the repayment of the principal of an advance under rule 23 shall be a charge on the annual allocated revenues of the Local Government, and shall have priority over all other charges, save only contributions payable to the Governor General in Council.

Powers of sanctioning transferred expenditure.

27.—(1) The Local Government of a Governor's province shall not, without the previous sanction of the Secretary of State in Council or of the Governor General in Council, as the case may be, include any proposal for expenditure on a transferred subject in a demand for a grant, if such sanction is required by the provisions of Schedule III to these rules.

(2) Subject to the provisions of sub-rule (1), the Local Government of a Governor's province shall have power to sanction expenditure on transferred subjects to the extent of any grant voted by the Legislative Council.

(3) The Local Government of a Governor's province shall have power to sanction any expenditure on transferred subjects which relates to the heads enumerated in section 72-D (3) of the Act, subject to the approval of the Secretary of State in Council or of the Governor General in Council if any such approval is required by any rule for the time being in force.

Delegation of powers of sanction.

28.—(1) The powers of a Local Government under the preceding rule to sanction expenditure may be delegated by the Local Government to an authority subordinate to it, after previous consultation with the Finance department, to such extent as may be required for the convenient and efficient despatch of public business.

(2) Any sanction accorded under these rules shall remain valid for the specified period for which it

is given, subject, in the case of voted expenditure, to the voting of grants in each year.

29. Each Local Government mentioned in Schedule IV shall establish and maintain out of provincial revenues a famine insurance fund in accordance with the provisions of that schedule, and such fund shall be controlled and administered as required by these provisions.

Famine Insurance Fund.

30. All proposals for raising taxation or for the borrowing of money on the revenues of a province shall, in the case of a Governor's province, be considered by the Governor with his Executive Council and Ministers sitting together, but the decision shall thereafter be arrived at by the Governor in Council, or by the Governor and Minister or Ministers, according as the proposal originates with the Governor in Council or the Governor and Ministers.

Taxation and borrowing.

31. Expenditure for the purpose of the administration of both reserved and transferred subjects shall, in the first instance, be a charge on the general revenues and balances of each province, and the framing of proposals for expenditure in regard to transferred and reserved subjects will be a matter for agreement between that part of the Government which is responsible for the administration of transferred subjects and that part of the Government which is responsible for the administration of reserved subjects.

Allocation of revenues for the administration of transferred subjects.

32.—(1) If at the time of the preparation of the budget the Governor is satisfied that there is no hope of agreement within a reasonable time between the members of his Executive Council on the one hand and Ministers on the other as to the apportionment of funds between reserved and transferred departments,

Procedure in event of failure to agree.

respectively, he may, by order in writing, allocate the revenues and balances of the province between reserved and transferred subjects, by specifying the fractional proportions of the revenues and balances which shall be assigned to each class of subject.

(2) An order of allocation under this rule may be made by the Governor either in accordance with his own discretion, or in accordance with the report of an authority to be appointed by the Governor General in this behalf on the application of the Governor.

Period of order  
of allocation.

33. Every such order shall (unless it is sooner revoked) remain in force for a period to be specified in the order, which shall be not less than the duration of the then existing Legislative Council, and shall not exceed by more than one year the duration thereof :

Provided that the Governor may at any time, if his Executive Council and Ministers so desire, revoke an order of allocation or make such other allocation as has been agreed upon by them :

Provided further, that if the order which it is proposed to revoke was passed in accordance with the report of an authority appointed by the Governor General, the Governor shall obtain the consent of the Governor General before revoking the same.

Condition of  
order of  
allocation.

34. Every order of allocation made under these rules shall provide that, if any increase of revenue accrues during the period of the order on account of the imposition of fresh taxation, that increase, unless the legislature otherwise directs, shall be allocated in aid of that part of the Government by which the taxation is initiated.

35. If at the time of the preparation of any budget no agreement or allocation such as is contemplated by these rules has been arrived at, the budget shall be prepared on the basis of the aggregate grants respectively provided for the reserved and transferred subjects in the budget of the year about to expire.

Preparation of budget in default of agreement or order of allocation.

*Part III.—Finance department.*

36.—(1) There shall be in each Governor's province a Finance department which shall be controlled by a member of the Executive Council.

Finance department.

(2) Immediately subordinate to the member there shall be a Financial Secretary, with whom shall be associated, if the Ministers so desire, a Joint Secretary appointed by the Governor after consultation with the Ministers.

(3) The Joint Secretary shall be specially charged with the duty of examining and dealing with financial questions arising in relation to transferred subjects and with proposals for taxation or borrowing put forward by any Minister.

37. The Finance department shall perform the following functions, namely:—

Functions of Finance department.

- (a) it shall be in charge of the account relating to loans granted by the Local Government, and shall advise on the financial aspect of all transactions relating to such loans;
- (b) it shall be responsible for the safety and proper employment of the famine insurance fund;
- (c) it shall examine and report on all proposals for the increase or reduction of taxation;
- (d) it shall examine and report on all proposals for borrowing by the Local Government; shall take all steps necessary for the purpose of raising such loans as have been duly

authorized ; and shall be in charge of all matters relating to the service of loans ;

- (e) it shall be responsible for seeing that proper financial rules are framed for the guidance of other departments and that suitable accounts are maintained by other departments and establishments subordinate to them ;
- (f) it shall prepare an estimate of the total receipts and disbursements of the province in each year, and shall be responsible during the year for watching the state of the Local Government's balances ;
- (g) in connection with the budget and with supplementary estimates—
  - (i) it shall prepare the statement of estimated revenue and expenditure which is laid before the Legislative Council in each year and any supplementary estimates or demands for excess grants which may be submitted to the vote of the Council ;
  - (ii) for the purpose of such preparation, it shall obtain from the departments concerned material on which to base its estimates, and it shall be responsible for the correctness of the estimates framed on the material so supplied ;
  - (iii) it shall examine and advise on all schemes of new expenditure for which it is proposed to make provision in the estimates and shall decline to provide in the estimates for any scheme which has not been so examined ;

- (h) on receipt of a report from an audit officer to the effect that expenditure for which there is no sufficient sanction is being incurred, it shall require steps to be taken to obtain sanction or that the expenditure shall immediately cease ;
- (i) it shall lay the audit and appropriation reports before the Committee on Public Accounts, and shall bring to the notice of the Committee all expenditure which has not been duly authorised and any financial irregularities ;
- (j) it shall advise departments responsible for the collection of revenue regarding the progress of collection and the methods of collection employed.

38.—(1) After grants have been voted by the Legislative Council—

- (a) the Finance department shall have power to sanction any re-appropriation within a grant from one major, minor or subordinate head to another ;
- (b) the Member or Minister in charge of a department shall have power to sanction any re-appropriation within a grant between heads subordinate to a minor head which does not involve undertaking a recurring liability, provided that a copy of any order sanctioning such a re-appropriation shall be communicated to the Finance department as soon as it is passed.

(2) The Finance department shall have power to sanction the delegation by a Member or Minister to

Powers of Finance department with reference to re-appropriation.

any officer or class of officers of the power of re-appropriation conferred on such Member or Minister by clause (1) (b) above.

(3) Copies of orders sanctioning any re-appropriation which does not require the sanction of the Finance department shall be communicated to that department as soon as such orders are passed.

Matters to be referred to Finance department.

39. No expenditure on any of the heads detailed in section 72-D(3) of the Act, which is in excess of the estimate for that head shown in the budget of the year, shall be incurred without previous consultation with the Finance department.

Establishment charges.

40. No office may be added to, or withdrawn from, the public service in the province and the emoluments of no post may be varied except after consultation with the Finance department; and when it is proposed to add a permanent or temporary post to the public service, the Finance department shall, if it thinks necessary, refer for the decision of the Audit department the question whether the sanction of the Secretary of State in Council is, or is not, necessary.

Allowances and pay.

41. No allowance and no special or personal pay shall be sanctioned for any post or class of posts or for any Government servant without previous consultation with the Finance department.

Grants and concessions.

42. No grant of land or assignment of land revenue, except when the grant is made under the ordinary revenue rules of the province, shall be given without previous consultation with the Finance department; and no concession, grant or lease of mineral or forest rights, or right to water power or of right-of-way or other easement, and no privilege

in respect of such rights shall be given without such previous consultation.

43. No proposal involving an abandonment of revenue for which credit has been taken in the budget, or involving expenditure for which no provision has been made in the budget, shall be submitted for the consideration of the Local Government or the Legislative Council, nor shall any orders giving effect to such proposals issue without a previous reference to the Finance department.

Abandonment of revenue, &c.

44. Every report made by the Finance department on any matter on which it is required to advise or report under these rules shall be forwarded to the department concerned and shall, if the Finance department so require, be submitted by the department concerned to the Governor for the orders of the Local Government. The Governor may, if he thinks fit, direct that any such report shall be laid before the Committee on Public Accounts.

Disposal of reports by Finance department.

45. Wherever previous consultation with the Finance department is required by these rules it shall be open to that department to prescribe, by general or special order, cases in which its assent may be presumed to have been given.

Presumption of assent of Finance department.

#### *Part IV.—Agency.*

46. The Governor General in Council may employ the agency of the Governor in Council of any province in the administration of central subjects in so far as such agency may be found convenient.

Agency employment of Local Governments.

47. The cost of an establishment exclusively employed on the business of agency shall be a charge against all-India revenues.

Cost of agency establishments.

Distribution of  
cost of joint  
establishment.

48. If a joint establishment is employed upon the administration of central and provincial subjects, the cost of such establishment may be distributed in such manner as the Governor General in Council and the Governor in Council of the province concerned may agree, or, in the case of disagreement, in such manner as may be determined by the Secretary of State in Council.

### SCHEDULE III.

(SEE RULE 27.)

#### *Rules relating to Transferred Subjects.*

I. The previous sanction of the Secretary of State in Council is necessary—

- (1) to the creation of any new or the abolition of any existing permanent post, or to the increase or reduction of the pay attached to any permanent post, if the post in either case is one which would ordinarily be held by a member of an all-India service, or to the increase or reduction of the cadre of an all-India service;
- (2) to the creation of a permanent post on a maximum rate of pay exceeding Rs. 1,200 a month, or the increase of the maximum pay of a sanctioned permanent post to an amount exceeding Rs. 1,200 a month;
- (3) to the creation of a temporary post with pay exceeding Rs. 4,000 a month, or to the extension beyond a period of two years of a temporary post with pay exceeding Rs. 1,200 a month;
- (4) to the grant to any officer of an allowance, pension or gratuity which is not admissible

under rules made, or for the time being in force, under section 96-B of the Act; and

- (5) to any expenditure on the purchase of imported stores or stationery otherwise than in accordance with such rules as may be made in this behalf by the Secretary of State in Council.

2.—(1) Every application for the sanction of the Secretary of State in Council required by paragraph 1 shall be addressed to the Governor General in Council, who shall, save as hereinafter provided, forward the same with his recommendations, and with such further explanations of the proposal as he may have seen fit to require from the Local Government, to the Secretary of State in Council.

(2) If the application relates to—

(a) the grant in an individual case of any increase of pay, or

(b) the creation of a temporary post, the Governor General in Council may, at his discretion, on behalf of the Secretary of State in Council, sanction the proposal, or may, and if he dissents from the proposal, shall forward the application with his recommendation, and with such further explanations of the proposal as he may have seen fit to require from the Local Government, for the orders of the Secretary of State in Council.

#### SCHEDULE IV.

(SEE RULE 29.)

1. The Local Governments mentioned below shall, save as hereinafter provided, make in every year provision in their budgets for expenditure upon relief of, and insurance against, famine of such amounts

respectively (hereinafter referred to as the annual assignments) as are stated against each:—

	Rs.
Madras ... ..	6,61,000
Bombay ... ..	63,60,000
Bengal ... ..	2,00,000
United Provinces ... ..	39,60,000
Punjab ... ..	3,81,000
Burma ... ..	67,000
Bihar and Orissa ... ..	11,62,000
Central Provinces ... ..	47,26,000
Assam ... ..	10,000

2. The provision shall be made in the shape of a demand for a grant, and the estimates shall show, under the major heads concerned, the method in which it is proposed to utilise the grant.

3. The grant shall not be expended save upon the relief of famine or upon the construction of protective irrigation works or other works for the prevention of famine. Any portion of the grant which is not so spent shall be transferred to the famine insurance fund of the province.

4. The famine insurance fund shall consist of the unexpended balance of the annual assignments for each year, transferred to the fund under paragraph 3 of this schedule, together with any interest which may accrue on these balances.

5. The Local Government may, in any year when the accumulated total of the famine insurance fund of the province is not less than six times the amount of the annual assignment, suspend temporarily the provision of the annual assignment.

6. The famine insurance fund shall form part of the general balances of the Governor General in Council, who shall pay at the end of each year interest

on the average of the balances held in the fund on the last day of each quarter. The interest shall be calculated at the average rate at which the Governor General in Council has during the year borrowed money by the issue of treasury bills. Such interest shall be credited to the fund.

7. The Local Government may at any time expend the balance at its credit in the famine insurance fund for any of the purposes specified in paragraph 3 of this schedule.

8. Such balances may further be utilized in the grant of loans to cultivators, either under the Agriculturists Loans Act, 1884, or for relief purposes. When such loans have been granted, payments of interest on loans and repayments of principal shall be credited to the fund as they occur, and irrecoverable loans written off shall form a final charge against the fund.

9. In case of doubt whether the purpose for which it is proposed to spend any portion of the annual assignment of the famine insurance fund is one of the purposes specified in paragraph 3 of this schedule, the decision of the Governor shall be final.

10. The annual accounts of the annual assignments and of the fund shall be maintained in forms to be prescribed in this behalf by the Auditor-General.

**C.—LOCAL GOVERNMENT (BORROWING) RULES.**

Short title and commencement.

1.—(1) These rules may be called the Local Government (Borrowing) Rules.

(2) They shall come into force on a date to be appointed by the Governor General in Council, with the approval of the Secretary of State in Council, and different dates may be appointed for different parts of India.

Purposes for which loans may be raised.

2. A Local Government may raise loans on the security of the revenues allocated to it for any of the following purposes, namely :—

(a) to meet capital expenditure on the construction or acquisition (including the acquisition of land, maintenance during construction and equipment) of any work or permanent asset of a material character in connection with a project of lasting public utility, provided that

(i) the proposed expenditure is so large that it cannot reasonably be met from current revenues; and

(ii) if the project appears to the Governor General in Council unlikely to yield a return of not less than such percentage as he may from time to time by order prescribe, arrangements are made for the amortisation of the debt;

(b) to meet any classes of expenditure on irrigation which have under rules in force before the passing of the Act been met from loan funds;

(c) for the giving of relief and the establishment and maintenance of relief works in times of famine or scarcity;

(d) for the financing of the Provincial Loan Account ; and

(e) for the repayment or consolidation of loans raised in accordance with these rules or the repayment of advances made by the Governor General in Council.

3.—(1) No loan shall be raised by a Local Government without the sanction (in the case of loans to be raised in India) of the Governor General in Council, or (in the case of loans to be raised outside India) of the Secretary of State in Council, and in sanctioning the raising of a loan the Governor General in Council or the Secretary of State in Council, as the case may be, may specify the amount of the issue and any or all of the conditions under which the loan shall be raised.

Sanction to loans.

(2) Every application for the sanction of the Secretary of State required by this rule shall be transmitted through the Governor General in Council.

4. Every loan raised by a Local Government in accordance with these rules shall be a charge on the whole of the revenues allocated to the Local Government, and all payments in connection with the service of such loans shall be made in priority to all payments by the Local Government other than the payments of---

Priority.

- (i) the fixed provincial contribution payable to the Governor General in Council,
- (ii) interest due on sums advanced to the Local Government by the Governor General in Council from the revenues of India, and
- (iii) interest due on all loans previously raised by the Local Government.

D.—SCHEDULED TAXES RULES.

1.—(1) These rules may be called the Scheduled Taxes Rules.

(2) They shall come into force on a date to be appointed by the Governor General in Council, with the approval of the Secretary of State in Council, and different dates may be appointed for different parts of India.

2. The Legislative Council of a province may, without the previous sanction of the Governor General, make and take into consideration any law imposing, for the purposes of the Local Government, any tax included in Schedule I to these rules.

3. The Legislative Council of a province may, without the previous sanction of the Governor General, make and take into consideration any law imposing, or authorizing any local authority to impose, for the purposes of such local authority, any tax included in Schedule II to these rules.

4. The Governor General in Council may at any time, by order, make any addition to the taxes enumerated in Schedules I and II to these rules.

5. Nothing in these rules shall affect the right of a local authority to impose a tax without previous sanction or with the previous sanction of the Local Government when such right is conferred upon it by any law for the time being in force.

SCHEDULE I.

1. A tax on land put to uses other than agricultural.

2. A tax on succession or on acquisition by survivorship in a joint family.

Short title and commencement.

Taxes which may be imposed for purposes of Local Government.

Taxes which may be imposed for purposes of local authorities.

Additions to schedules.

Saving.

3. A tax on any form of betting or gambling permitted by law.

4. A tax on advertisements.

5. A tax on amusements.

6. A tax on any specified luxury.

7. A registration fee.

8. A stamp duty other than duties of which the amount is fixed by Indian legislation.

### SCHEDULE II.

*(In this schedule the word "tax" includes a cess, rate, duty or fee.)*

1. A toll.

2. A tax on land or land values.

3. A tax on buildings.

4. A tax on vehicles or boats.

5. A tax on animals.

6. A tax on menials and domestic servants.

7. An octroi.

8. A terminal tax on goods imported into a local area in which an octroi was levied on or before the 6th July, 1917.

9. A tax on trades, professions and callings.

10. A tax on private markets.

11. A tax imposed in return for services rendered, such as—

(a) a water rate,

(b) a lighting rate,

(c) a scavenging, sanitary or sewage rate,

(d) a drainage tax,

(e) fees for the use of markets and other public conveniences.

E.—EXTRACTS FROM THE UNITED PROVINCES  
LEGISLATIVE COUNCIL RULES.

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The Budget.

25. A statement of the estimated annual expenditure and revenue of the province (hereinafter referred to as "the budget") shall be presented to the Council on such day as the Governor may appoint.

Demands for grants.

26.—(1) A separate demand shall ordinarily be made in respect of the grant proposed for each department of the Government, provided that the Finance Member may in his discretion include in one demand grants proposed for two or more departments, or make a demand in respect of expenditure, such as Famine Relief and Insurance and Interest, which cannot readily be classified under particular departments. Demands affecting reserved and transferred subjects shall, so far as may be possible, be kept distinct.

(2) Each demand shall contain, first, a statement of the total grant proposed, and then a statement of the detailed estimate under each grant divided into items.

(3) Subject to these rules, the budget shall be presented in such a form as the Finance Member may consider best fitted for its consideration by the Council.

Stages of the Budget debate.

27. The budget shall be dealt with by the Council in two stages, namely:—

(i) a general discussion, and

(ii) the voting of demands for grants.

General discussion.

28.—(1) On a day to be appointed by the Governor subsequent to the day on which the budget is presented and for such time as the Governor may

allot for this purpose, the Council shall be at liberty to discuss the budget as a whole or any question of principle involved therein, but no motion shall be moved at this stage, nor shall the budget be submitted to the vote of the Council.

(2) The Finance Member shall have a general right of reply at the end of the discussion.

(3) The President may, if he thinks fit, prescribe a time-limit for speeches.

29.—(1) Not more than twelve days shall be allotted by the Governor for the discussion of the demands of the Local Government for grants.

Voting of grants.

(2) Of the days so allotted, not more than two days shall be allotted by the Governor to the discussion of any one demand. As soon as the maximum limit of time for discussion is reached, the President shall forthwith put every question necessary to dispose of the demand under discussion.

(3) On the last day of the allotted days at 5 o'clock, the President shall forthwith put every question necessary to dispose of all the outstanding matters in connection with the demands for grants.

30.—(1) No motion for appropriation can be made except on the recommendation of the Governor communicated to the Council.

Motions at this stage.

(2) Motions may be moved at this stage to omit or reduce any grant or any item in a grant, but not to increase or alter the destination of a grant.

(3) When several motions relating to the same demand are offered, they shall be discussed in the order in which the heads to which they relate appear in the budget.

(4) No motion shall be made for the reduction of a grant as a whole until all motions for the

omission or reduction of definite items within that grant have been discussed.

Excess grants.

31. When money has been spent on any service for which the vote of Council is necessary during any financial year in excess of the amount granted for that service and for that ~~year~~ a demand for the excess shall be presented to the Council by the Finance Member and shall be dealt with in the same way by the Council as if it were a demand for a grant.

Supplementary or additional grants.

32.—(1) An estimate shall be presented to the Council for a supplementary or additional grant when—

(i) the amount voted in the budget of a grant is found to be insufficient for the purposes of the current year, or

(ii) a need arises during the current year for expenditure for which the vote of the Council is necessary upon some new service not contemplated in the budget for that year.

(2) Supplementary or additional estimates shall be dealt with in the same way by the Council as if they were demands for grants.

Constitution of Committee on Public Accounts.

33.—(1) As soon as may be after the commencement of each financial year, a Committee on Public Accounts shall be constituted for the purpose of dealing with the audit and appropriation accounts of the province and such other matters as the Finance department may refer to the Committee.

(2) The Committee on Public Accounts shall consist of such number of members as the Governor may direct, of whom not less than two-thirds shall be elected by the non-official members of the Council.

according to the principle of proportionate representation by means of the single transferable vote. The remaining members shall be nominated by the Governor.

(3) The Finance Member shall be chairman of the Committee, and, in the case of an equality of votes on any matter, shall have a second or casting vote.

34.—(1) In scrutinizing the audit and appropriation accounts of the province, it shall be the duty of the Committee to satisfy itself that the money voted by the Council has been spent within the scope of the demand granted by the Council.

Control of  
Committee on  
Public Accounts.

(2) It shall be the duty of the Committee to bring to the notice of the Council—

(i) every re-appropriation from one grant to another grant ;

(ii) every re-appropriation within a grant which is not made in accordance with the rules regulating the functions of the Finance department, or which has the effect of increasing the expenditure on an item the provision for which has been specifically reduced by a vote of the Council ; and

(iii) all expenditure which the Finance department has requested should be brought to the notice of the Council.

F.—EXTRACTS FROM STANDING ORDERS MADE UNDER SECTION 72-D(7) OF THE GOVERNMENT OF INDIA ACT.

VIII.—FINANCIAL BUSINESS.

Discussion of budget.

77. No discussion of the budget shall take place on the day on which it is presented to the Council.

Notice of a motion to omit or reduce grant.

78. Notice of a motion to omit or reduce any grant shall be given not less than two days before the day appointed for the discussion of such grant.

Restoration of grants by Local Government and emergent expenditure authorized by the Governor.

79. - (1) If the Local Government or the Governor exercises the power conferred by section 11(2)(a) or (b) of the Government of India Act, 1919, the Finance Member shall, as soon as may be thereafter, lay on the table of the Council—

(i) in the case of action taken under section 11(2)(a) a statement showing the action taken together with a copy of the certificate granted by the Governor,

(ii) in the case of action taken under section 11(2)(b) a statement showing the emergency which has arisen and the amount of expenditure which the Governor has authorized.

(2) No motion may be made in regard to any such action that may be taken by the Local Government or by the Governor.

Constitution of Finance Committee.

80.—(1) As soon as may be after the commencement of each financial year a Standing Committee of members shall be constituted for the purpose of advising the Government in such matters as may be referred to them for opinion. This Committee shall be known as the Finance Committee.

(2) The Finance Committee shall consist of 12 members including the chairman, of whom eight shall be elected by the non-official members of the Council according to the principle of proportionate representation by means of the single transferable vote. The remaining members shall be nominated by the Governor.

(3) The Finance Member shall be the chairman of the Committee, and in the case of an equality of votes on any matter shall have a second or casting vote.

81. The proceedings of the Finance Committee shall not be disclosed by any member, nor shall any reference to such proceedings be made in the Council.

82. The President shall make regulations governing the method of election by single transferable vote of the members of the Committee on public accounts and of the Finance Committee.

Proceedings of  
Finance Committee  
not to be disclosed.

President to make  
regulations for  
election of members  
of the Committee  
on Public Accounts  
and the Finance  
Committee.