

COMBINED FINANCE AND REVE ACCOUNTS

OF THE

CENTRAL AND PROVINCIAL
GOVERNMENTS IN INDIA

FOR THE YEAR

1947-48

(Includes the accounts of the Central Government and of the Governments of West Bengal and East Punjab for the Post-Partition period from the 15th August 1947 to the 31st March 1948 and of other Provincial Governments in the Indian Dominion for the whole year 1947-48.)

PUBLISHED BY THE MANAGER OF PUBLICATIONS DELHI
PRINTED IN INDIA BY THE MANAGER GOVT. OF INDIA PRESS SIMLA

1967

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Introductory

Main Divisions of the Indian Accounts.—The main Divisions are.—

(1) Revenue. (2) Capital. (3) Debt. (4) Remittance.

The first division deals with the proceeds of taxation and other receipts classed as revenue and the expenditure therefrom, the net result of which represents the revenue surplus or deficit for the year. The second division deals with expenditure met usually from borrowed funds, such expenditure being incurred with the object either of increasing concrete assets of a material character or of reducing recurring liabilities, such as those for future pensions by payment of the capitalised value, and also final receipts of a capital nature intended to be applied as a set off to capital expenditure, such as contributions received from Indian States or Railway Companies for Railway construction. The third division comprises receipts and payments in respect of which Government becomes liable to repay the moneys received or has claim to recover the amounts paid, together with repayments of the former and recoveries of the latter. The fourth and last division embraces all merely adjusting heads; under which appear all cash remittances from one treasury to another, besides those which are necessary to accommodate items in transit between different branches of the Accounts Department or between England and India. Credits and debits taken to these heads in the first instance are cleared eventually by adjustment under final heads.

It may be explained that the transactions included in these accounts represent mainly the actual cash receipts and disbursements during the financial year April to March, as distinguished from amounts due to or by Government during the same period. The cash basis system is, however, not entirely suitable for recording the transactions and presenting at any time the true state of affairs of Government Commercial undertakings which are run on strictly commercial principles. The detailed accounts of this class of undertakings are maintained outside the regular accounts in proper commercial form and these accounts are subjected to a suitable audit check by the Indian Audit Department.

2. *Sections and Major Heads of Accounts.*—Inside each of the four divisions mentioned above, the transactions are grouped into Sections which are further sub-divided into the Major Heads of Accounts. The Sections are distinguished by letters of the alphabet, a double letter denoting the capital portion of the particular set of transactions. The Major Heads in Revenue and Capital Sections are numbered serially, Roman numerals being employed on the receipt side and international on the disbursement side. A complete list of the Sections classified under the four main divisions is appended to this note. The Major Heads comprised in each Section will be found detailed in the sectional abstract preceding the accounts of the Section.

3. *Treasury Balances—Bullion and other Currency Reserves.*—The accounts work from balance to balance, these balances working up to the general cash balances, a small portion of which is kept in the treasuries all over India and in the Bank of England in England, while the bulk has been deposited with the Reserve Bank of India. Outside these cash balances are the securities held on account of the Silver Redemption Reserve, the Surplus Silver Stock and other special Reserves invested outside the general cash balances of Government. The Gold Standard Reserve and the Paper Currency Reserve were closed on the institution of the Reserve Bank on the 1st April 1935.

4. *Peculiarities of the Indian Accounts.*—The Indian Accounts are complicated by reason of their—

(1) covering transactions not only of the Central Government but also of the Provincial Governments

with their separate resources and separate balances; and (2) combining transactions in two currencies, rupee and sterling, the exchange relation of which varies from time to time.

5. *Financial relations between the Central and Provincial Governments.*—Previous to 1st April 1921 the revenues of India were treated as constituting one undivided fund and applied for the purpose of the Government of India as a whole. The Provincial Governments had no inherent legal right to the revenues which they raised. These were assigned more or less on the basis of the estimated needs of the several Provinces and this involved an apportionment different for different Provinces of the more important sources of revenue which included Land Revenue, Income Tax, Stamps, Excise and Registration. At times the Central Authorities had to levy benevolences and at others to distribute doles according to the exigencies of finance.

6. A new basis of financial settlement was introduced between the Centre and the Provinces in 1921 to suit the wide measures of legislative, administrative and financial devolution made under the Montagu-Chelmsford Reforms. Subjects in Governors' Provinces were classified as Central or Provincial with reference to the functions of the respective Governments and there was a clean cut in the matter of allocation of heads of Revenue and Expenditure. The Provinces also obtained a share in the growth of revenue from Income Tax so far as that growth was attributable to the increase in the amount of income assessed and were also given powers to impose certain new taxes. The distribution of the sources of revenue on these lines resulted in the initial stages of the new constitution in a large deficit in the Central Budget, and this was met by contributions paid by the various Provinces. These contributions were gradually reduced and were completely and finally remitted with effect from the year 1928-29.

7. The constitutional machinery set up by the Government of India Act, 1935, made necessary a readjustment of financial resources and obligations between the Centre and the Provinces. The financial arrangements embodied in the Act provided for assignment to the Provinces of a definite share of the proceeds of Income Tax and its distribution among them in a prescribed manner, and allocation to the Jute growing Provinces of a prescribed share of the net proceeds of the Excise duty on Jute or Jute products. Taxes of a certain category (*e.g.* Duties on succession to property other than Agricultural Land, Stamp Duties on Bills of Exchange, etc.) were to be levied and collected by the Centre, though the net proceeds were to be distributed to the Provinces subject to the right of the Centre to levy a surcharge for its own purposes. In the same way the whole or a share of the yield of Duties on Salt and also of Federal Excise Duties could be assigned to the Provinces by an Act of the Federal Legislature. Provision had also been made for grants-in-aid to certain Provinces which were in need of such assistance from the Centre—*vide* Sections 137 to 142 of the Government of India Act, 1935, and the Government of India (Distribution of Revenues) Order, 1936. Most of the Provinces also received special financial assistance from the Centre at the time the Government of India Act, 1935, came into force as a result of the decentralisation of balances and the cancellation and consolidation of pre-autonomy debt due by them to the Central Government: *vide* paragraph 10 below.

8. As a result of the passing of the Indian Independence Act, 1947, by the British Parliament, two independent Dominions, known respectively as 'India' and 'Pakistan', were set up with effect from the 15th August, 1947, by partitioning India.

The N. W. F. P., Sind and Baluchistan became a part of Pakistan—whereas the provinces of the Punjab.

Bengal and Assam were partitioned, certain portions thereof being transferred to Pakistan and the rest remaining in India. Due to these changes the accounts of the Central Government and of the divided provinces of Bengal and Punjab were closed on 14th August, 1947, as on the annual closing date; and the accounts of the year 1947-48 had to be compiled in two parts—(i) Pre-partition Accounts comprising of the accounts of the Central Government and the Governments of Bengal and Punjab for the period from 1st April, 1947 to 14th August, 1947 and (ii) Post-partition Accounts, comprising of the accounts of the Central, West Bengal and East Punjab Governments for the period from 15th August, 1947 to 31st March, 1948 and of other Provincial Governments within the Indian Dominion for the entire year 1947-48. This publication relates to (i) the accounts of the Centre and of the partitioned Provinces of Bengal and Punjab for the period 15th August, 1947 to 31st March, 1948 and (ii) the accounts of the other Provinces in India for the entire financial year 1947-48.

Subject to such financial settlement as might be arrived at later between the two Governments, the cash balances lying in the treasuries and sub-treasuries on 14th August, 1947 were taken over by the respective Dominions according to the location of the treasury or sub-treasury. Of the balance of the Central Government on 14th August, 1947 with the Reserve Bank of India a sum of Rs. 75 crores less a sum of Rs. 5 crores retained by the Government of India to meet Pakistan's share of expenditure on Joint Defence Council, was made over to Pakistan. The Bengal Government had a minus balance i.e. an overdraft from the Reserve Bank of India on the date of partition. The liability for half of this balance was taken over by the Government of West Bengal on 15th August, 1947. Out of the balance of the undivided Punjab with the Reserve Bank a sum of Rs. 88,80,191 was allocated to the Government of East Punjab on an *ad hoc* basis.

The provisions of the Government of India Act, 1935 referred to in para 7 above were allowed to continue under the India (Provisional Constitution) Order, 1947.

2. *Decentralisation of Balances.*—Prior to 1921-22, the Provincial Governments had no balances under debt heads except for the amount of the Development Loan raised by the Government of Bombay in 1920-21, the balances in the Government books being regarded as the assets and liabilities of the Central Government. With the degree of separation of the finances of the Central Government from those of the Provincial Governments which resulted from the Montagu-Chelmsford Reforms, the Provincial Governments had certain assets and liabilities definitely assigned to them, and from 1921-22 it was found necessary to maintain for each Provincial Government a separate account identical in form with that previously maintained for the Government of India. The debt transactions of the Provincial Governments were however, confined chiefly to loans raised by them in the open market or from the Provincial Loans Fund, special funds built up from Provincial revenues and loans and advances made by them out of their own funds, besides, transactions relating to Provincial suspense accounts. The responsibility for the ways and means operations for the whole of India being vested in the Government of India, the balances of practically all other debt and remittance heads including deposits and advances and provident fund deposits of Provincial Government personnel were treated as Central.

10. It was decided that, as an integral part of the whole plan of the initial financial arrangements between the Provinces and the Centre:

(i) the balances of an intrinsically local nature or balances definitely associated with any function which after 31st March, 1937 became a function of Provincial Governments, held in the Debt, Deposits and Remittance group of the Central Government's Account, should be decentralised;

(ii) a part of these balances should be credited to the Provincial Governments and the remaining amount set off against the outstanding loans and Advances previously made or deemed to have been made to those Governments by the Central Government; and

(iii) the balance of the liabilities in respect of sums due to the Government of India on 31st March, 1937 through the Provincial Loans Fund for Loans and Advances taken previous to 1st April, 1936 should, in the case of certain provinces, be wholly or partly cancelled as a measure of special financial assistance and in the case of others should, with certain exceptions, be treated as a consolidated debt repayable to the Government of India in the form of semi-annual equated payments of interest and principal within a period of 45 years.

These adjustments were effected immediately before the commencement of Provincial Autonomy as from the closing of the accounts for 1936-37 by certain amendments of the Devolution Rules.

The book balances of the Provinces as on 31st March, 1937 which were held in deposit with the Central Government on that date were made over to the provinces on 1st April 1937, partly in the form of physical cash balances in their treasuries and sub-treasuries and partly in the form of cash credits to their accounts with the Reserve Bank of India.

11. *Changes in the Accounts.*—The general structure of the accounts was recast from 1st April, 1937 to correspond with the changes in the financial system entailed in the Government of India Act, 1935, and the changes in the banking and accounting arrangements consequent on the Provinces' taking over and managing their own balances with effect from the date of introduction of Provincial Autonomy. The principal changes introduced were:—

(i) Complete separation of the accounts of Provincial Governments from the accounts of the Central Government and the constitution of the accounts of each autonomous Province as an independent unit with separate cash balance in treasuries and in the Reserve Bank.

(ii) A general recasting of the list of major and minor heads to conform to the new division of functions between the Central and Provincial Governments.

(iii) Abandonment of the system of final accounting of sterling transactions of Indian Governments in the books of the accounting authorities in England and the substitution in its place of a system of adjustment of those transactions in the Indian books except those under certain debt and remittance heads which were essentially of a sterling character.

12. *The Crown Representative's Department.*—The functions of the Crown in its relation to the Indian States were, by virtue of the proviso to Section 2 (1) of the Government of India Act, 1935, transferred on 1st April, 1937, from the Governor General to a separate legal authority, namely, the Crown Representative, who obtained funds for meeting his expenditure through the provisions of Section 145 of the Government of India Act, 1935. The transactions of the Crown Representative were recorded in the Central Accounts under the head "33—Payments to Crown Representative" and "Section Q—Advances to Crown Representative". The authorities under the Crown Representative credited moneys, drew funds, and incurred expenditure according to the rules and practices of departments of (the Federal or) the Central Government with this exception in the accounting procedure that the receipts were brought to account as deductions from expenditure so as to work up to a net figure.

With the lapse of the suzerainty of the British Crown over the Indian States under Section 7 (b) of the Indian Independence Act, 1947, the institution of the Crown Representative, ceased to exist with effect from the 15th August, 1947. The heads of account referred to above have, therefore, been deleted from the 15th August 1947,

and the expenditure of the newly formed State Department is debited to the respective major heads according to the nature of the expenditure involved.

13. *Provincial Loans and Borrowings*—Prior to the Reforms of 1921, Provincial Governments had no power to borrow money in the open market. The Local Governments' Borrowing Rules made under section 30 (1a) of the Government of India Act, 1919, conferred on them the powers to raise loans on the security of the revenues allotted to them subject to certain conditions and with 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 for India in Council, and the latter authority could specify the amount of issue and any or all of the conditions under which the loan should be raised. During the period 1st April, 1921, to 31st March, 1937, only three Provincial Governments, namely, the Governments of Bombay, United Provinces and the Punjab raised loans in the open market in exercise of these powers.

Under Section 163 of the Government of India Act, 1935, the Provincial Governments could borrow upon the security of their revenues within such limits, if any, as might from time to time be fixed by an Act of the Provincial Legislature, and give guarantees within such limits, if any, as might be so fixed. The Provinces had, however, to obtain the consent of the Federation for borrowing outside India and obtain the like consent for raising any loan, if there was outstanding any part of a loan made to them by (the Federation or) the Governor General in Council, or in respect of which a guarantee had been given by (the Federation or) the Governor General in Council. The Provinces, could when necessary, provide themselves with short-term loans pending the issue of a regular loan and this could be done through the Reserve Bank either by ways and

means advances or by a market issue of Treasury Bills. They could also in exceptional circumstances borrow from the Central Government. The treatment of the outstanding debt due to that Government in respect of advances from the Provincial Loans Fund, which had been wound up as from 1st April, 1937, is explained in para. 10 (iii) above.

The provisions of the Government of India Act, referred to above have been continued under the India (Provisional Constitution) Order, 1947.

14. Throughout these accounts, a distinction has been drawn between items relating to Provincial Revenues and those relating to the areas in which receipts and payments take place. Thus a column headed by the name of a Province alone (*cf.* Account Nos. 2, 3, 9, 10, etc.) is to be taken as referring to a geographical area, while in the heading of a column the entries in which are intended to show the revenues or expenditure of a Province the words "Government of" have been inserted. Section 97 of the Government of India Act, 1935, as adapted under the India (Provisional Constitution) Order, 1947, kept alive the provisions of the Coorg Devolution Rules. Coorg could, however, in view of the other provisions of the Act, be included among Provincial Governments. The Provincial transactions of Coorg have, therefore, been shown separately after those of the Central Government and before those of the autonomous Provinces.

15. In this publication, under the heading "India General" are included the receipts and expenditure pertaining to the Railways, the Posts and Telegraphs and the Defence Department, and the transactions brought to account by the Accountant General, Central Revenues, (including the transactions relating to the Centrally Administered areas adjustable in his books) the Accountant General Food Rehabilitation and Supply and the Controller of Coal Accounts.

Appendix—List of Sections.

I.—Revenue—

A.—Principal Heads of Revenue.

AA.—Principal Revenue Heads:—

Capital Outlay on Salt works within the Revenue Account.

B. Railway Revenue Account.

BB.—Railway Capital Account within the Revenue Account.

C.—Irrigation Revenue Account.

CC.—Irrigation Capital Account within the Revenue Account.

D.—Posts and Telegraphs Revenue Account.

DD.—Posts and Telegraphs Capital Account within the Revenue Account.

E.—Debt Services.

F.—Civil Administration.

FF.—Civil Administration—Capital Accounts within the Revenue Account.

G.—Currency and Mint.

H.—Civil Works and Miscellaneous Public Improvements.

HH.—Capital Accounts of Civil Works and Miscellaneous Public Improvements within the Revenue Account.

I.—Electricity Schemes.

II.—Capital Account of Electricity Schemes within the Revenue Account.

J.—Miscellaneous.

JJ.—Miscellaneous Capital Accounts within the Revenue Account.

K.—Defence Services.

L.—Contributions and Miscellaneous Adjustments between Central and Provincial Governments.

M.—Extraordinary Items.

II.—Capital—

AA.—Principal Revenue Heads:—

Forest and other Capital Accounts outside the Revenue Account.

BB.—Railway Capital Account outside the Revenue Account.

CC.—Irrigation Capital Account outside the Revenue Account.

DD.—Posts and Telegraphs Capital Account outside the Revenue Account.

FF.—Civil Administration—Capital Accounts outside the Revenue Account.

GG.—Currency Capital Accounts outside the Revenue Account.

HH.—Capital Accounts of Civil Works and Miscellaneous Public Improvements outside the Revenue Account.

II.—Capital Account of Electricity Schemes outside the Revenue Account.

JJ.—Miscellaneous Capital Accounts outside the Revenue Account.

KK.—Capital Account of Defence Services outside the Revenue Account.

MM.—Capital Account of Extraordinary Items outside the Revenue Account.

III.—Debt—

N.—Public Debt.

O.—Unfunded Debt.

P.—Deposits and Advances.

Q.—Loans and Advances by the Central Government.

R.—Loans and Advances by Provincial Governments

IV.—Remittance—

S.—Remittances—

I.—Remittances within India:—

(a) Between treasuries.

(b) Between Provinces or Departments under different audit circles.

II.—Remittances between England and India—Remittance Account.

T.—Transfer of Cash between England and India—Remittances through the Reserve Bank.

NOTE.—The opening and closing balances are shown under the head "Cash Balances."