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REVISION OF FINANCIAL LIMITS FOR DETERMINING THE CASES RELATING TO 'NEW SERVICE/NEW INSTRUMENT OF SERVICE'

MINISTRY OF FINANCE

DEPARTMENT OF EXPENDITURE

PUBLIC ACCOUNTS COMMITTEE
(2023-24)

ONE HUNDRED AND THIRD REPORT

SEVENTEENTH LOK SABHA

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

PAC NO. 2333

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Presented to Lok Sabha on: *07.02.2024*

Laid in Rajya Sabha on: *07.02.2024*

LOK SABHA SECRETARIAT
NEW DELHI

February, 2024 /Magha, 1945 (Saka)

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* Not appended to the cyclostyled copy of the Report

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2023-24)

Shri Adhir Ranjan Chowdhury - Chairperson

MEMBERS

LOK SABHA

2. Shri Thalikkottai Rajuthevar Baalu
3. Shri Subhash Chandra Baheria
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Vishnu Dayal Ram
7. Shri Pratap Chandra Sarangi
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12. Dr. Satya Pal Singh
13. Shri Jayant Sinha
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RAJYA SABHA

16. Shri Shaktisinh Gohli
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21. Shri Ghanshyam Tiwari
22. Dr. Sudhanshu Trivedi

Secretariat

1. Shri Sanjeev Sharma - Joint Secretary
2. Smt. Bharti Sanjeev Tuteja - Director
3. Ms. Khyati - Assistant Committee Officer

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* Elected w.e.f. 19.08.2023 consequent upon retirement of Shri Sukhendu Sekhar Ray, MP on 18.08.2023.

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24), having been authorised by the Committee, do present this One-Hundred and Third Report (Seventeenth Lok Sabha) on **"Revision of Financial Limits for determining the cases relating to 'New Service/New Instrument of Service"**.

2. The Ministry of Finance (Department of Expenditure) had submitted proposal seekinng approval of the Public Accounts Committee for revision of financial limits for determining the cases relating to 'New Service(NS)/New Instrument of Service(NIS)'.

3. According to the Ministry, these proposals were finalized in consultation with the Office of the Comptroller and Auditor General of India.

4. The Public Accounts Committee (2023-24) took oral evidence of the representatives of the Ministry of Finance (Department of Expenditure) at their sitting held on 17.01.2024. The Public Accounts Committee (2023-24) considered and adopted this Report at their sitting held on 05.02.2024. The Minute of the sittings are appended to the Report.

5. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in **bold** and form Part-II of the Report.

6. The Committee would like to express their thanks to the representatives of the Ministry of Finance (Department of Expenditure) for tendering evidence before them and furnishing the requisite information to the Committee in connection with the proposal submitted.

7. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the office of the Comptroller and Auditor General of India.

NEW DELHI:
06 February, 2024
17 Magha, 1945 (*Saka*)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee

REPORT

PART- I

1. **New Service/ New Instrument of Service (NS/NIS):** The Committee have been given to understand that New Service (NS) refers to expenditure arising out of a new policy decision, not brought to the notice of Parliament earlier, including a new activity or a new form of investment. 'New Instrument of Service' (NIS) refers to relatively large expenditure arising out of important expansion of an existing policy. The financial limits for determining the cases relating to 'New Service(NS)/New Instrument of Service'(NIS) are applied whenever the expenditure provisions are augmented through re-appropriation of funds from the savings available within the same section of the Grant/Appropriation. Whenever these limits are attracted, approval-of/reporting-to Parliament is obtained/made through Supplementary Demand for Grants during the course of financial year.

2. The Ministry of Finance (Department of Expenditure) submitted a note soliciting approval of the Public Accounts Committee for revision of financial limits for determining the cases relating to 'New Service (NS)/New Instrument of Service (NIS)'. The note/proposal is reproduced in **Appendix – I** of this Report. The Comptroller and Auditor General (C&AG) concurred with the proposed amendments, subject to suitable incorporation of the proposed changes in Annexure-I to Appendix-3 of the General Financial Rules (GFR), application of the revisions to the Grants/Appropriations relating to Ministry of Defence, Ministry of Railways and Department of Posts, application of other conditions as stipulated in the GFR 2017 and Delegation of Financial Powers Rules 1978 in regard to NS/NIS mutates mutandis and approval of the Committee before notification of the proposed changes. **(Appendix-II).**

Rationale for Revision

3. Rationale and proposed benefits of the revision of financial limits as submitted by Ministry of Finance (Department of Expenditure) are given as under:

> "(i) The distinction in Government expenditure as Plan or Non-Plan has since been done away from the Budget for the year 2017-2018. With this removal, the focus has been shifted to holistic allocation on any scheme/programme with bifurcation on revenue and capital expenditure.

(ii) The erstwhile alpha-numeric codes were replaced by standard numeric codes vide DoE's OM No. F.1 (47)-E.II(A)/94 dated 12.12.1994 and the same were incorporated in the Detailed Demand for Grants w.e.f. Budget for 1995-96. The transition from alpha-numeric codes to numeric codes in Detailed Demand for Grants commenced from 1996-97 onwards. The existing norms governing financial limits of NS/NIS need clarity on re-appropriations at Object Head level to make it sync with the complete 15-digit classification adopted for incorporation in the Detailed Demand for Grants. These alpha-numeric codes are not applicable to estimates of Ministry of Defence (Defence Services) and Ministry of Railways. However, object head wise expenditure of Defence Services and Ministry of Railways have been mapped with that of standard object head followed for the demands of civil ministries.

(iii) With the introduction of Public Financial Management System (PFMS), the accounts have since been digitized and the payments by the Pay & Accounts Offices have been linked with the Detailed Demand for Grants. While this ensures proper exchequer control, efficient compilation of accounts and generation of critically important fiscal reports at the end of the ministries, non-standardization of re-appropriation proposals often leads to discrepancies and incongruities in the processes.

(iv) Accounts of the non-civil Ministries/Departments [Ministry of Defence, Ministry of Railways, Department of Posts] have been aligned with the accounts of the civil Ministries/Departments through linkages with PFMS through integration protocols warranting broader perspective in decision making in re-appropriations.

(v) While the total expenditure of the Government, on net basis, has since increased by more than 600% from ₹ 5.83 lakh crore in 2006-07 to ₹ 45.03 lakh crore in 2023-24, the total expenditure of the Government, on gross basis, has increased by more than 700% from ₹ 17.28 lakh crore to ₹ 144.27 lakh crore during the same period.

(vi) With the expected growth of GDP being in the range of 6-7% year over year (YoY) basis during the next 10 years and with the Government of India having adopted United Nation's Sustainable Development Goals (SDGs), 2030, the budget size is expected to increase during the next ten years to commensurate with:

a) the growing focus on equitable development and consequent implementation of broad-based inclusive social policies.

b) increased thrust on Capital expenditure

c) enhanced support to the vulnerable class due to growing uncertainties related to epidemics (like Covid etc.), changing geo-political landscape and other unavoidable scenarios.

(vii) It has been more than 16 years since the current norms governing the financial limits of NIS/NIS were implemented vide Ministry of Finance's O.M. No. 1(23)-B(AC)/2005 dated 25.5.2006 .

(viii) Existing NS/NIS limits consist of lots of stipulations and complex inter-dependencies which lead to restrictive interpretations, open ended conclusions and judgemental errors at the end of the Ministries/Departments.

(ix) The PAC and the C&AG have been pointing to the growing instances of:

(i) unnecessary supplementary,

(ii) re-appropriations not adhering to the NS/NIS limits; and

(iii) re-appropriations without reporting to Parliament or without obtaining prior approval of Ministry of Finance.

(x) Substantial growth in the budget size, over the years, has eviscerated the Ministries/Departments of their delegated powers leading to voluminous proposal(s) being forwarded to the Ministry of Finance, for reporting/approval of the Parliament.

(xi) Huge volume of cases impairs scrutiny at the level of Parliament and Ministry of Finance; and that the executive need to wait for ensuing Parliament Session to get necessary approvals through Supplementary Demands for Grants before incurring any expenditure on certain cases.

(xii) Effort is being made to restrict the number of Supplementary Demands for Grants presented to Parliament during a financial year in order that the Ministries give due seriousness to estimating their budgetary requirements. Increase in quantum of supplementary proposals from the Ministries/Departments seeking prior approval from Parliament leads to delay in execution of projects/schemes/programmes despite availability of savings with the line Ministries/Departments.

(xiii) Most of the critical issues arise due to complexities in the structure based on which the current NS/NIS limits have been stipulated. Further, these limits are defined at multiple levels/scenarios despite the standardization of object heads."

Present Proposal

4. All new services [except for the new 'Works' under Capital section] have been proposed to be considered as 'New Service' as defined in Article 115 of the Constitution and will accordingly need prior approval of Parliament.

5. For services falling under the category of new works under Capital, the proposal for revision of financial limits for determining the cases relating to 'New Service' as received from the Ministry of Finance (Department of Expenditure) is as under:

Object Heads	Reporting Limit	Prior Approval of the Parliament
1. Machinery& equipment; 2. ICT Equipment; 3. Building and Structure; 4. Infrastructural Assets ; 5. Arms and Ammunitions; and 6. Land	Above ₹ 50 crore but not exceeding ₹ 100 crore, subject to savings within same section of the Grant	Above ₹ 100 crore, subject to savings within same section of the Grant

6. Keeping in view the aspect of sensitivity on critical activities of the Government, the Object Heads as per following details [in compliance with revised Rule 8 of the DFPR] have been identified and categorised for deciding on 'reporting limits' and for obtaining 'prior approval of the Parliament' in the case of 'New Instrument of Service'.

Object Heads	Reporting Limit	Prior Approval of the Parliament
1. Investment; 2. Loans and advances; 3. Subsidies; 4. Machinery and equipment; 5. ICT Equipment; 6. Building and Structures; 7. Infrastructure assets; 8. Arms and ammunitions 9. Land; 10. GIA Capex; 11. GIA General; 12. GIA Salary	Upto 20% of the original appropriation* **OR** upto ₹ 100 crore whichever is higher [subject to savings within same section of the Grant]	Above 20% of the original appropriation (15-digit line item) **OR** Above ₹ 100 crore, whichever is higher[subject to savings within same section of the Grant]
All other Object Heads	Each case to be decided on merit basis	

7. The proposed limits will be applicable to all Ministries including Ministry of Railways and Ministry of Defence and Posts.

8. Following exceptions to the financial limits of NS/NIS, as per existing norms, are proposed to continue:

i. Expenditure charged on the Consolidated Fund of India

ii. Normal administrative/establishment expenditure including:
- Re-organization of Ministries/Departments,
- Holding of conferences, seminars, exhibitions, surveys, feasibility studies, etc.
- Assistance to foreign Governments,
- Contributions to international bodies and fulfillment of Government guarantee on its invocation.

iii. Transfers to State and Union Territory Governments [under M.H. 3601 and 3602], provided the Scheme is not new.

iv. Delegation of full powers to Chief Accounting Authorities to augment the provisions through re-appropriation of savings under 'Salaries', 'Pensions', 'Wages', 'Medical Expenses' and 'Rent Rates and Taxes'.

9. The Office of Comptroller and Auditor General of India on these new proposals have informed the Committee vide their Brief Note as follows:

- " The existing financial limits to determine new instruments of service / new service are rule-based, requiring different limits for expenditure for different categories of items. The proposal is for adoption of a principle-based approach, which applies uniformly to all new services (except new Works, exempted and exception categories) for seeking prior approval of Parliament and determine the financial limits for considering reporting limit and prior approval limit for services for new Works and new instrument of service; exemption of certain services.
- Taking into note of the requirements, previous revisions in the limit as per requirements, growth in the budget and the expenditure in past about 17 years, including recent trends of gross budget increase from ₹106.74 lakh crore in 2021-22 to ₹ 144.27 crore in 2023-24, about 35 percent in two years and also keeping in view the future requirements for next a decade or so, when the next revisit might be proposed, the proposal was examined and concurrence of the Office of the CAG of India was conveyed.
- Moreover, MoF has carried out an analysis which shows that 88 percent to 99 percent of the proposals for revision shall remain in the active scrutiny of the PAC, implying thereby that the substantive re-appropriations can only be done with the prior approval of Parliament.
- Further, defining NS/NIS limits uniformly and consistently at standardised Object Heads will enable effective monitoring, scrutiny and oversight by the CAG and Parliament of the compliance of the limits by the executive as well as for ensuring their accountability."

10. While explaining the need for the proposed revision, the representative of the Ministry of Finance (Department of Expenditure) while tendering evidence made the following submissions:

> "*...since the last revision in 2006, on a gross basis, the Union Budget has grown in size by more than 1000 per cent.... several of the Ministries tend to take unnecessary supplementary when none was required and requisite authorisation had been given by the Parliament or the PAC to the Government.... As a result of low NIS limits, we have been providing voluminous reports for its scrutiny. In the years 2019-20, 2020-21, 2021-22, and 2022-23, we took 2,500 tokens to the notice of the Parliament for reappropriating Rs. 5.45 lakh crore... if we apply those proposals to these years, the number of tokens that we would have taken to Parliament for its consideration would have dropped to 800 approximately with the amount that is being scrutinised by Parliament only coming down marginally by Rs. 5.25 lakh crore.*"
>
> *So, as a first step, we are not altering any existing guidelines of the PAC about specified items and non-specified items that we have been running along all these years. In fact, the areas which have been identified by PAC as critical or C&AG telling us that these are critical for PAC, we would stick to it, going forward. Second, we are simplifying the process in such a way that it becomes very easy to adopt by the Ministries and it will be very easy for the PAC to find deviations. I must confess that going forward, initially, you would find the volumes increasing but it will stabilise as we go along because all the Ministries have to report as it is so simple.*
>
> *Finally, it would speed up the process of decision making for the Government and also perhaps improve the pace of scheme implementation.*
>
> *One point that we have factored into our minds that it should be replicable and it should be adopted in the existing IT infrastructure that we have within the Government. So, the first point is with regard to the new services. All the new services except in the case of new works where we have specific guidance of the PAC, not contemplated in the budget, will require prior approval of Parliament. So, we are committing to the PAC that any expenditure except for the new works where we have the guidance of the PAC, we would come back to Parliament for approval*".

11. When the Committee sought to know about the basis for proposing" principle-based approach" for New Service and New Instruments of Service, the Ministry submitted as follows:

> *".. we are adopting broad principles as you would see, which affords flexibility to the PAC to delve into greater details, and at the same time, it allows flexibility of the Government to incur the expenditure based on needs."*

12. The proposed revision has been finalized by the Ministry of Finance (Department of Expenditure) after obtaining the concurrence of the office of C&AG of India. The Committee also heard the views of the officers of C&AG on the subject, who have recommended the implementation of proposed revision of the financial limits.

13. The proposal of the Ministry of Finance (Department of Expenditure) was considered by the Committee at their sitting held on 17th January, 2024. The relevant Minutes of the sitting are reproduced in **Appendix III** of this report.

PART -II
OBSERVATIONS AND RECOMMENDATIONS

New Service (NS) refers to expenditure arising out of a new policy decision not brought to the notice of Parliament earlier, including a new activity or a new form of investment. 'New Instrument of Service' (NIS) refers to relatively large expenditure arising out of important expansion of an existing policy. The financial limits for determining the cases relating to 'New Service/New Instrument of Service' are applied whenever the expenditure provisions are augmented through re-appropriation of funds from the savings available within the same section of the Grant/Appropriation. Whenever these limits are attracted, approval-of/reporting-to Parliament is obtained/made through Supplementary Demand for Grants during the course of the financial year. The Committee note that Ministry of Finance has solicited approval of the PAC for adoption of a principle-based approach, over the existing rule-based approach, which applies uniformly to all new services (except new Works, exempted and exception categories) for seeking prior approval of Parliament and determine the financial limits for considering reporting limit and prior approval limit for services for new Works and New Instruments of service and exemption of certain services. The Committee further note that the proposal is for revision of the financial limits upward on the basis of expansion of the budget after the last revision in 2006 and taking into account the future expansion of the GDP/budget and other likely changes. This proposal for amendment is fourth of its kind and is being made after a hiatus of about 17 years.

2. The Committee understand that the Ministry of Finance (Department of Expenditure) has currently proposed to amend various provisions of Delegation of Financial Power Rules (DFPRs), 1978. As part of this process, the Ministry have sought approval of the PAC for revision of financial limits for determining the cases relating to 'New Service (NS)/New Instrument of Service (NIS)'. The proposed amendments *inter-alia* include upward revision of financial limits for services categorised as new works under the Capital section (classified as Land/Building/Machine). The reporting limit is proposed to be set above ₹ 50 crores but not exceeding ₹100 crores and prior approval of Parliament would be required for

amounts exceeding ₹ 100 crores subject to saving within same section of the grant. For certain object heads in the case of 'New Instrument of Service', the reporting limit would be up to 20% of the original appropriation or up to ₹ 100 crores, whichever is higher. Approval from Parliament would be mandatory for amounts exceeding 20% of the original appropriation or above ₹ 100 crores, whichever is higher, subject to savings within same section of the grant.

3. The Committee further note from the submission of the Ministry that the endeavor is to minimise the frequency of Supplementary Demands for Grants presented to Parliament during a financial year. The proposed amendments intend to encourage the Ministries to meticulously estimate their budgetary requirements. The necessity for the upward revision arises due to a surge in supplementary proposals from the Ministries/Departments seeking prior approval from Parliament, causing delays in execution of projects/schemes/programmes despite availability of savings. The Committee understand from the submission made by the Ministry of Finance (Department of Expenditure), the Government's expenditure, on net basis, has risen by over 700 % from 2005-06 to 2023-24. The Ministry of Finance has explained that with the expected growth of GDP in the range of 6-7% YoY basis, the size of the Budget is anticipated to grow substantially in the next decade too. The Ministry of Finance has further clarified that substantial growth in budget size has diminished the delegated powers of the Ministries/Departments leading to voluminous proposal(s) being forwarded, for reporting/approval of the Parliament. Therefore, the Ministry of Finance (Department of Expenditure) felt that existing NS/NIS limits consist of lots of stipulations and complex inter-dependencies which lead to restrictive interpretations, open ended conclusions and judgmental errors for the Ministries/Departments. The Committee note from the view provided by C&AG and the Ministry that following the implementation of the current proposal, 88 to 99 percent of the cases for revision would remain in the active scrutiny of the PAC, implying thereby that the substantive re-appropriations can only be done with the prior approval of Parliament. The Committee observe from the observations of the C&AG that defining NS/NIS limits uniformly and consistently at standardised Object Heads will enable effective monitoring, scrutiny and oversight by the CAG and

Parliament of the compliance of the limits by the executive as also for ensuing their accountability.

4. Considering that the proposal has been finalized after consultation with various Ministries and obtaining the concurrence of the Office of the Comptroller & Auditor General of India, and there is adequate rationale provided by the Ministry of Finance for the need for revision of financial limits for determining the cases relating to 'New Service/New Instrument of Service', the Committee concur with the proposed amendments and recommend the same to be implemented in due course. The Committee have every reason to believe that, as recommended by C&AG, adequate measures for suitable incorporation of proposed changes in Annexure-1 to Appendix-3 of the GFR, application of other conditions as stipulated in the GFR 2017 and Delegation of Financial Powers Rules 1978 in regard to NS/NIS mutatis mutandis have been taken into consideration. The Committee while according their approval for NS/NIS recommend the Ministry of Finance (Department of Expenditure) should devise an effective monitoring mechanism for proper and continuous monitoring of the revised limits in order to ensure strict adherence of the same by each and every Ministry/Department. The Committee also expect the Financial Advisors of all the Ministries/Departments to ensure that no violations occur in implementation of the revised financial limits for 'New Service/New Instrument of Service'. It goes without saying here that any slackness in complying with the same may be strictly dealt with.

In summation, the Committee acquiesce with the new proposal of 'New Service/New Instrument of Service' (NS/NIS) and in sequel accord their sanction for the same, as sought by the Ministry of Finance which have come before the Committee after almost seventeen years with the expectation that it would be implemented by the Ministry within the proposed timelines.

NEW DELHI:
06 February, 2024
17 Magha, 1945 (*Saka*)

ADHIR RANJAN CHOWDHURY
Chairperson
Public Accounts Committee

CHAPTER 1 'NEW SERVICE'/ 'NEW INSTRUMENT OF SERVICE' (NS/NIS)

1.1 Introduction

1.1.1 A Grant or Appropriation for charged expenditure is distributed by standard Object Heads under which it shall be accounted for and each such standard Object Head, against which the provision for expenditure appears, constitutes a primary unit of Appropriation.

1.1.2 Re-appropriation of funds entails re-allocation of funds from one primary unit of appropriation to another primary unit of appropriation within the same section of the Grant or Appropriation viz. Revenue-Voted, Revenue-*Charged*, Capital-Voted and Capital-*Charged*. Re-appropriation of funds is necessary during the course of the year for re-distribution of resources/savings in a fruitful manner from one object of expenditure to another from the savings available within the same section of the Grant.

1.2 Constitutional/ Codal provisions

1.2.1 Constitutional provisions relating to financial matters, Delegation of Financial Powers Rules (DFPRs) 1978, General Financial Rules, 2017 (GFRs) and other standing instructions issued by the Ministry of Finance, are the guiding principles for governing rules related to determining the cases of New Service and New Instrument of Service.

1.2.2 Article 115 (1)(a) of the Constitution of India provides that if the amount authorized by any law made in accordance with the provisions of Article 114 to be expended for a particular purpose of that year or when a need has arisen during the current financial year for the supplementary or additional expenditure upon some new service not contemplated in the annual financial statement for that year, the President shall cause to be laid before both the houses of the Parliament another statement showing the estimated amount of that expenditure.

1.2.3 Rule 65 (1) of the General Financial Rules, 2017 related to Re-appropriation of Funds states that *'Subject to the provisions of Rule 10 of the Delegation of Financial Powers Rules, and also subject to such other general or specific restrictions as may be imposed by the Finance Ministry in this behalf, re-appropriation of funds from one primary unit of appropriation to another such unit within a grant or appropriation, may be sanctioned by a competent authority at* *any time before the close of the financial year to which such grant or appropriation relates. The Primary unit in this regard shall be the final unit of appropriation i.e. the Object head of account'.*

1.2.4 Rule 66 of the General Financial Rules, 2017 provides that *'If savings are not available within the Grant to which the payment is required to be debited, or if the expenditure is on "New Service" or "New Instrument of Service" not provided in the budget, necessary Supplementary Grant or Appropriation in accordance with Article 115 (1) of the Constitution shall be obtained before payment is authorized.'*

1.3 Definitions of 'New Service' and 'New Instrument of Service'

1.3.1 *The term 'new service' has not been defined in the Constitution. After the commencement of the Constitution, the scope and meaning of term 'expenditure on a new service' was left to be decided by the evolution of a body of case law on the basis of decisions taken and views expressed by the Public Accounts Committee and audit from time to time. Broadly, expenditure from the Consolidated Fund arising out of a new policy decision (not brought to the notice of the legislature earlier) including a new activity or a new form of investment is regarded as an item of 'new service' within the contemplation of article 115 (1) (a). Likewise, relatively large expenditure arising out of an important expansion of an existing activity is treated as 'new instrument of service' which, though slightly different from 'New Service' is, in practice, subjected to the same restrictions as applicable to 'new service', although the existing activity might have otherwise been contemplated and provided for in the annual financial statement.* [Source: 41st Report of PAC (1980-81) (7th LS)]

1.3.2 Based on the consensus arrived at between the Public Accounts Committee (PAC), the Ministry of Finance and the Comptroller and Auditor General of India (C&AG), 'New Service' and 'New Instrument of Service' have been defined as under:

> **'New Service' (NS)**: As appearing in Article 115 (1)(a) of the Constitution of India, this has been held as referring to expenditure arising out of a new policy decision, not brought to the notice of Parliament earlier, including a new activity or a new form of investment.
>
> **'New Instrument of Service' (NIS):** Refers to relatively large expenditure arising out of important expansion of an existing policy.

1.4 Eligibility conditions for NS/NIS Limits

1.4.1 The financial limits for determining the cases relating to 'New Service/New Instrument of Service' are applied whenever the expenditure provisions are augmented through re-appropriation of funds from the savings available within the same section of the Grant/Appropriation.

1.4.2 The nature and the volume of transactions determine:

a) whether prior approval of the Parliament needs to be obtained before incurring the expenditure through re-appropriation; or
b) whether Ministry/Department may incur the expenditure using re-appropriation but need reporting to the Parliament.

1.4.3 Whenever these limits are attracted, approval-of/reporting-to Parliament is obtained/made through Supplementary Demand for Grants during the course of the financial year.

1.4.4 If financial limits are not attracted, re-appropriation is carried out within the delegated powers either by Chief Controlling Authority or with the approval of the Ministry of Finance.

1.5 Exceptions to the financial limits of NS/NIS

Following exceptions to the financial limits of NS/NIS are recognized:

a. Expenditure ***charged*** on the Consolidated Fund of India
b. Normal **administrative/establishment expenditure** including:
    i. Re-organization of Ministries/Departments,
    ii. Holding of conferences, seminars, exhibitions, surveys, feasibility studies, etc.
    iii. Assistance to foreign Governments,
    iv. Contributions to international bodies and fulfillment of Government guarantee on its invocation.
c. Transfers to State and Union Territory Governments [under M.H. 3601 and 3602], provided the Scheme is not new.

1.6 PAC's recommendations and applicability of financial limits

1.6.1 In order to provide effective Parliamentary control over Government expenditure certain monetary limits beyond which expenditure on new works would constitute 'New Instrument of Service' requiring prior approval of Parliament were prescribed for the first time by the Central Public Accounts Committee in 1963'.

1.6.2 First elaborate set of financial limits in respect of New Service/New Instrument of Service were delineated vide <u>Department of Economic Affairs' OM</u>

No. F.8(60)-B(69) dated 27th July 1970. **[Annexure 3]**. This was as per recommendations of the Public Accounts Committee contained in its 50th report (4th Lok Sabha).

1.6.3 The financial limits of New Service/New instrument of Service were further revised as per the recommendations of the Public Accounts Committee contained in its 41st Report (7th Lok Sabha) and were issued vide Department of Economic Affairs' **OM No. 7(15)-B(RA)/82 dated 13th April 1982** [**Annexure '5'**]as approved by the PAC in its 70th Report.

1.7 Current norms of the Financial Limits

1.7.1 The current norms of the financial limits applicable on the New service/New Instrument of Service are governed by the **Ministry of Finance's O.M. No. 1(23)-B(AC)/2005 dated 25.5.2006** [**Annexure '1'**] which only revised the financial limits defined vide MoF's OM dated 13th April 1982 *ibid*. The guidelines were revised in accordance with the commitment made in the Fiscal Policy Strategy Statement (Budget 2005-06) under the mandate of FRBM Legislation and in pursuance of approval of the Public Accounts Committee (2005-06) with concurrence of the C&AG.]

1.7.2 Clarifications on the Financial Limits: Ministry of Finance's O.M. No. dated 21.05.2012 provided further 'Clarification on the Financial Limits to be observed in determining cases relating to 'New Service'/New Instrument of Service' with specific reference to 'Grants-in-aid', 'Subsidies' and 'Major Works'.

CHAPTER 2 NEED FOR REVISION OF NS/NIS LIMITS?

2.1 Major events/developments warranting re-visit of existing NS/NIS limits

2.1.1 The distinction in Government expenditure as Plan or Non-Plan has since been done away with from Budget 2017-2018. With this removal, the focus has been shifted to holistic allocation on any scheme/programme with bifurcation on revenue and capital expenditure.

2.1.2 The erstwhile alpha-numeric codes were replaced by standard numeric codes vide DoE's OM No. F.1 (47)-E.II(A)/94 dated 12.12.1994 and the same were incorporated in the Detailed Demand for Grants w.e.f. Budget for 1995-96. The transition from alpha-numeric codes to numeric codes in Detailed Demand for Grants commenced from 1996-97 onwards. The existing norms governing financial limits of NS/NIS need clarity on re-appropriations at Object Head level to make it sync with the complete 15-digit classification adopted for incorporation in the Detailed Demand for Grants. These alpha-numeric codes are not applicable to estimates of Ministry of Defence (Defence Services) and Ministry of Railways. However, object head wise expenditure of Defence Services and Ministry of Railways have been mapped with that of standard object head followed for the demands of civil ministries.

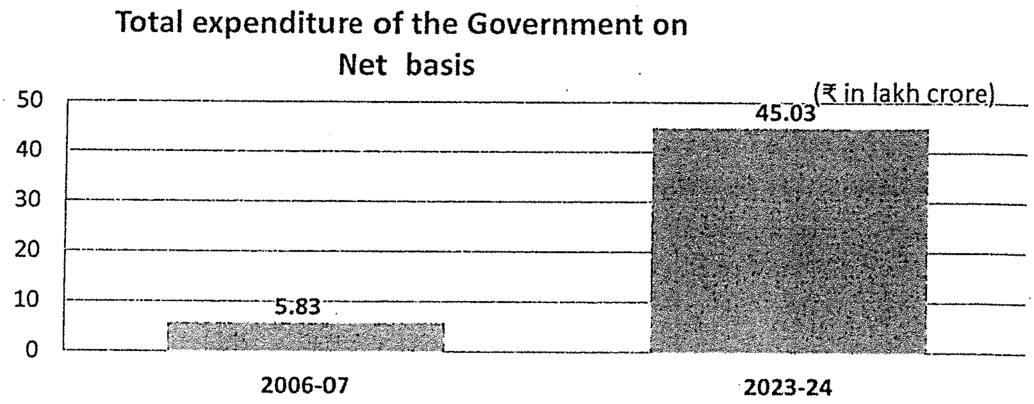
2.1.3 The Standardized Object Heads stand revised vide Ministry of Finance, Department of Expenditure's Gazette Notification dated 16.12.2022 [**Annexure 6**]. The primary units of re-appropriations/Standard Object Heads as per Rule 8 of the Delegation of Financial Powers (DFPR) 1978 have since been rationalized and warrant appropriate review of the delegated powers under Rule 10 of the DFPR.

2.1.4 With the introduction of Public Financial Management System (PFMS), the accounts have since been digitized and the payments by the Pay & Accounts Offices have been linked with the Detailed Demand for Grants. While this ensures proper exchequer control, efficient compilation of accounts and generation of critically important fiscal reports at the end of the ministries, non-standardization of re-appropriation proposals often leads to discrepancies and incongruities in the processes.

2.1.5 Accounts of the non-civil Ministries/Departments [Ministry of Defence, Ministry of Railways, Department of Posts] have been aligned with the accounts of the civil Ministries/Departments through linkages with PFMS through integration protocols warranting broader perspective in decision making in re-appropriations.

2.1.6 The current norms/structure made applicable on NS/NIS limits vide **Ministry of Finance's O.M. No. 1(23)-B(AC)/2005 dated 25.5.2006 [Annexure '1']** are continuum of the financial limits defined in this Ministry's OM (No. 7(15)-B(RA)/82) issued on 13th April 1982 [**Annexure 5**] with no substantial change in the contents. These changes took into account the growing need for greater parliamentary scrutiny and bringing in the flexibility in the hands of the executive in an optimal manner.

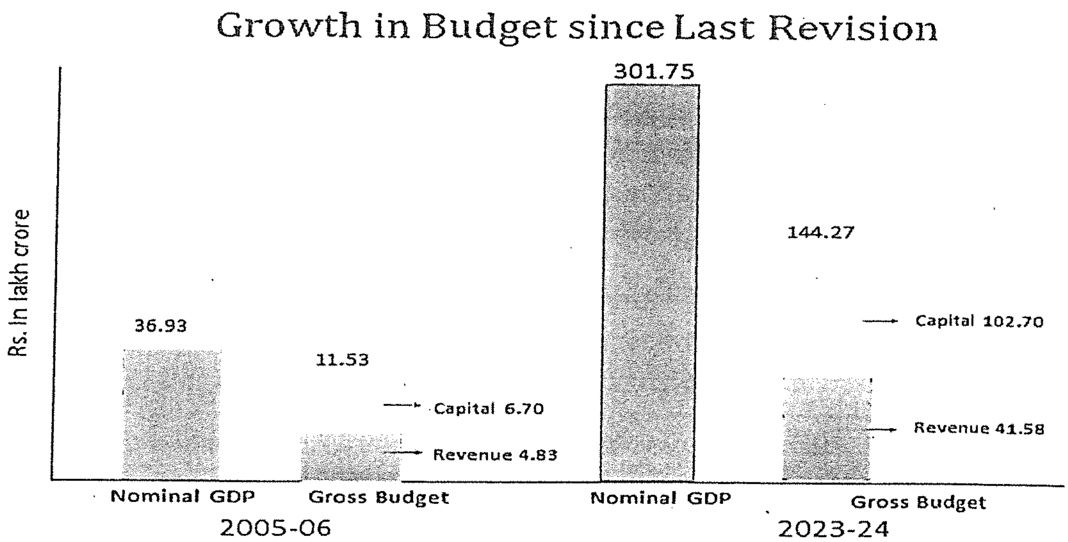
2.1.7 While the total expenditure of the Government, on net basis, has since increased by more than 700 % from ₹ 5.14 lakh crore in 2005-06 to ₹ 45.03 lakh crore in 2023-24, the total expenditure of the Government, on gross basis, has increased by more than 1100 % from ₹ 11.53 lakh crore to ₹ 144.27 lakh crore during the same period. [**Refer Figure 1.1. ,1.2 & Table 1.1**]



[Figure 1.1 Total expenditure of the Government on Net basis]

	Gross Budget	2005-06	2023-24
Capital	Charged	6.03	89.76
	Voted	0.67	12.94
Revenue	Charged	1.65	12.87
	Voted	3.18	28.71

[Table 1.1 Gross Budget 2005-06 & 2023-24]



[Figure 1.2 Growth in Budget since 2005-06]

2.1.8 With the expected growth of GDP being in the range of 6-7% YoY basis during the next 10 years and with the Government of India having adopted United Nation's Sustainable Development Goals (SDGs), 2030, the budget size is expected to increase during the next ten years to commensurate with:

a) the growing focus on equitable development and consequent implementation of broad-based inclusive social policies.
b) increased thrust on Capital expenditure
c) enhanced support to the vulnerable class due to growing uncertainties related to epidemic (Covid etc.), changing geo-political landscape and other unavoidable scenarios.

2.2 Other issues which are required to be addressed post implementation of current norms

2.2.1 It has been more than 16 years since the current norms governing the financial limits of NIS/NIS were implemented vide **Ministry of Finance's O.M. No. 1(23)-B(AC)/2005 dated 25.5.2006 [Annexure '1']** . These norms attempted to merely revise the financial limits stipulated in the previous OM (No. 7(15)-B(RA)/82) issued on 13th April 1982 [**Annexure 5**] with no substantial change in the contents.

2.2.2 Existing NS/NIS limits consist of lots of stipulations and complex inter-dependencies which lead to restrictive interpretations, open ended conclusions and judgemental errors at the end of the Ministries/Departments.

2.2.3 The PAC and the C&AG have been pointing to the growing instances of:

(i) un-necessary supplementary,
(ii) re-appropriations not adhering to the NS/NIS limits; and
(iii) re-appropriations without reporting to Parliament or without obtaining prior approval of Ministry of Finance.

2.2.4 Substantial growth in the budget size, over the years, has eviscerated the Ministries/Departments of their delegated powers leading to voluminous proposal(s) being forwarded to the Ministry of Finance, for reporting/approval of the Parliament.

2.2.5 The volume and the amount of the proposals received from various Ministries/Departments during the last four financial years can be seen from the **Annexure 7**. It is evident from this data that huge volume of cases impairs scrutiny at the level of Parliament and Ministry of Finance; and that the executive need to wait for ensuing Parliament session to get necessary approvals through Supplementary Demands for Grants before incurring any expenditure on certain cases.

2.2.6 In addition, effort is being made to restrict the number of Supplementary Demands for Grants presented to Parliament during a financial year in order that the Ministries give due seriousness to estimating their budgetary requirements. Increase in quantum of supplementary proposals from the Ministries/Departments seeking prior approval from Parliament leads to delay in execution of projects/schemes/programmes despite availability of savings with the line Ministries/Departments.

2.2.7 Most of the critical issues arise due to complexities in the structure based on which the current NS/NIS limits have been stipulated. Further, these limits are defined at multiple levels/scenarios despite the standardisation of object heads.

CHAPTER 3 PROPOSAL

3.1 Principle-based approach

3.1.1 It is proposed to revise the NS/NIS financial limits applicable for the purpose of re-appropriation of savings within the delegated financial powers with executives and seeking approval of Parliament through Supplementary Demands for Grants beyond the delegated financial powers.

3.1.2 Principle-based approach has been considered over Rule-Based approach in revising the financial limits for applicability of 'New Service'/'New Instrument of Service'.

3.1.3 Following broad principles have been kept in mind while proposing the new NS/NIS limits:

i. the critical areas which have been under the existing oversight of the Parliament are not overlooked;
ii. systemic uniformity is maintained to enable consistency and relevance in obtaining prior approvals & reporting;
iii. there remains a balance in the NS/NIS financial limits to ensure proper parliamentary scrutiny;
iv. the scrutiny of the proposals is not impaired due to growing mass of data leading to voluminous reports;
v. administrative efficiency and financial discipline are ensured;
vi. there is no compromise on the accountability of the Government;
vii. there is swift decision making by the respective authorities;
viii. the financial limits are commensurate with the size of original appropriation; and
ix. sufficient auditory controls are maintained in the processes
x. the revised model is replicable in the IT environment for ease of making financial decisions.

3.1.4 The limits are proposed to be fixed keeping in perspective the growth in GDP and the consequent budget size over next 10 years.

3.2 Financial Limits- Proposed under New Service [NS]

3.2.1 All new services [except for the new 'Works' under Capital section] have been proposed to be considered as **'New Service'** as defined in Article 115 of the Constitution and will accordingly need prior approval of the Parliament.

3.2.2 In case of services falling under the category of new works under Capital section (currently classified as Land/Building/Machine), the financial limits for the 'New Service' are proposed to be defined as under:

Object Heads	Reporting Limit	Prior Approval of the Parliament
1. Machinery & Equipment; 2. ICT Equipment; 3. Building and Structure; 4. Infrastructural Assets; 5. Arms and Ammunitions; and 6. Land	Above ₹ 50 crore but not exceeding ₹ 100 crore, subject to savings within same section of the Grant	Above ₹ 100 crore, subject to savings within same section of the Grant

[Table 1.2 Proposed Financial Limit services falling under the category of new works]

3.3 Financial limits under New Instrument of Service [NIS]

3.3.1 Keeping in view the Parliamentary sensitivity on critical activities of the Government, the Object Heads as per following details [in compliance with revised Rule 8 of the DFPR] have been identified and categorised for making decision on 'reporting limits' and for obtaining 'prior approval of the Parliament' in the case of 'New Instrument of Service'.

Object Heads	Reporting Limit	Prior Approval of the Parliament
1. Investment; 2. Loans and advances; 3. Subsidies; 4. Machinery and equipment; 5. ICT Equipment; 6. Building and Structures; 7. Infrastructure assets; 8. Arms and ammunitions 9. Land; 10. GIA Capex; 11. GIA General; 12. GIA Salary	upto 20% of the original appropriation* **OR** upto ₹ 100 crore whichever is higher [subject to savings within same section of the Grant]	Above 20% of the original appropriation (15-digit line item) **OR** Above ₹ 100 crore, whichever is higher [subject to savings within same section of the Grant]
All other Object Heads	Each case to be decided on merit basis	

** refers to 15-digit numeric code in respect of civil Ministries or final unit of appropriation available in the Detailed Demand for Grants in respect of non-Civil Ministries.*

[Table 1.3 Reporting Limits and for obtaining prior approval of the Parliament in the case of 'New Instrument of Service']

3.3.2 The proposed limits are proposed to be applicable to all Ministries including Ministry of Railways and Ministry of Defence.

3.3.3 Following **exceptions** to the financial limits of NS/NIS, as per existing norms, are proposed to continue:

a. Expenditure ***charged*** on the Consolidated Fund of India
b. Normal **administrative/establishment expenditure** including:

- Re-organization of Ministries/Departments,
- Holding of conferences, seminars, exhibitions, surveys, feasibility studies, etc.
- Assistance to foreign Governments,
- Contributions to international bodies and fulfillment of Government guarantee on its invocation.

c. Transfers to State and Union Territory Governments [under M.H. 3601 and 3602], provided the Scheme is not new.
d. Delegation of full powers to Chief Accounting Authorities to augment the provisions through re-appropriation of savings under 'Salaries', 'Pensions', 'Wages', 'Medical Expenses' and 'Rent Rates and Taxes'.

3.3.4 The impact of keeping the financial limit(s) in respect of various heads **at above ₹ 100 crore** can be seen at **Annexure 7**.

3.4 Projected Benefits

3.4.1 The following benefits are expected to accrue in adopting the revised regime:

a. the Parliament will be kept informed of the re-appropriations being done in the critical areas of the governance;
b. there will be systemic uniformity thus ensuring consistency and relevance in obtaining prior approvals & reporting;
c. there would be a balance in NS/NIS financial limits and proper parliamentary scrutiny will be ensured;
d. scrutiny of data is not impaired due to growing mass of data leading to voluminous reports;
e. there will be no compromise in the administrative efficiency and financial discipline in the processes;
f. this will retain the accountability of the Government;
g. it is anticipated that decision making by the respective authorities will be swift;
h. the financial limits will remain commensurate with the size of original appropriation; and

i. there will be no compromise on the auditory controls in the revised processes
j. the proposed regime would be in conformity with and replicable on the IT system for ease of convenience
k. the revised limits would remain dynamic and in consonance with the enhancements of the budgetary provisions in the future. and
l. the proposed revision in the financial limits applicable to NS/NIS will establish a common and easy understanding across the line Ministries/Departments.

3.4.2 Examining the cumulative data from Supplementary Demands for Grants of FY 20, FY 21, FY 22 & FY 23 in terms of supplementary proposals of more than ₹100 crore, it may be observed that, in case the proposal for revision of financial NS/NIS limits is considered, substantial number of the proposals will remain in the active scrutiny of the Parliament:

Head	**Count**	**Amount** *(₹ crore)*	**% Count**	**% Total**	**Remarks**
Loan & Investments	17	117965.8	36.17	99.04	Annexure 9
Major Works	27	36655.39	14.59	92.85	Annexure 10
GIA GENERAL	131	151364.32	14.19	92.47	Annexure 11
GIA CAPEX	69	67785.41	18.9	92.51	Annexure 12
GIA SALARY	24	23626.67	8.79	88.23	Annexure 13
Subsidies	29	29545.39	26.36	93.71	Annexure 14

3.4.3 A matrix containing proposed object Heads-wise [Revised as per Gazette Notification dated 16.12.2022] NIS/NIS financial limits is enclosed as Annexure 15.

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Appendix - II

Office of the Comptroller and Auditor General of India
भारत के नियंत्रक एवं महालेखापरीक्षक का कार्यालय
10, Bahadur Shah Zafar Marg, New Delhi – 110 002
10, बहादुर शाह जफर मार्ग, नई दिल्ली - 110 002
Government Accounts Wing (सरकारी लेखा शाखा)

Subject: Revision of financial limits for determining the cases relating to 'New Service / New Instrument of Service' – regarding.

I am directed to invite a reference to your office letter F. No. 1(21)2023-E-II (A) dated 25 September 2023 and even no. dated 16 October 2023 on the subject cited above.

2. The Office of the CAG of India concurs with the proposal of the Department of Expenditure, MoF, GoI, subject to the following.

(i) The proposed changes would affect the provisions in Annexure – I to Appendix 3 of the GFR and would require suitable incorporation therein. Consequent upon the changes, rules / regulations related thereto may also be examined for suitable adaptation.

(ii) The changes shall also apply to the Grants / Appropriations relating to Ministry of Defence, Ministry of Railways and Department of Posts.

(iii) Other conditions as stipulated in the GFR 2017 and Delegation of Financial Powers Rules 1978 may apply in regard to NS / NIS *mutates mutandis*.

(iv) Ministry of Finance may like to bring the proposal before the Public Accounts Committee (PAC) for their consideration before the changes are notified.

20/11/2023
(S. K. Sharma)
Sr. AO (Govt. Accounts)

Shri C. P. Kushwaha, Under Secretary, Ministry of Finance, Department of Expenditure, Govt. of India, New Delhi.

No. 1294 / GA -205 / NS-NIS / 2023 Dated: 20 November 2023