

Highlights of Government Financial Operations

FY 2003/2004

1. Revenue and Other Incomes

- 1.1 The total revenue collection in FY 2003/04 is Rs.62.33 billion, which represents a 10.85 percent growth over the immediately preceding year. The total revenue collection in FY 2002/2003 was Rs.56.23 billion. In FY 2003/04 revenue collection is 100.16 percent of the targeted collection of Rs.62.23 billion. The revenue collection in the immediately preceding year was 98.39 percent of the target. In FY 2003/04 Tax revenue is Rs.48.17 billion accounting for 77.29 percent of the total revenue. The share of tax revenue in total revenue in the last FY was 75.58 percent. Main revenue heads and their share (percent) in the total revenue are as follows:

Revenue Head	FY 2002/03	FY 2003/04
Import duties	18.79	17.11
Value Added Tax (Imports)	15.34	14.24
Corporate Tax from Government Business Enterprises	2.22	3.30
Indian Excise Duty	4.22	6.23
Excise Duty Cigarettes	3.65	3.84

- 1.2 The government received Rs.493.9 million in FY 2003/04 in the form of refund of advances as well as unutilized release amount given in earlier years or recovery of irregularities identified by audit. This amount is deposited in K.1.6 bank account. The collection in respect of these items was Rs.717.6 million in the preceding fiscal year.

2. Analysis of Expenditure

- 2.1 The **total government expenditure** (excluding local government expenditures) in FY 2003/04 is Rs.89.44 billion, which works out to be 87.35 percent of the initial budget estimate and 97.10 percent of the revised estimate. The expenditure went up by 6.47 percent in comparison to immediately preceding year. The previous fiscal year expenditure was Rs.84 billion.
- 2.2 The **regular budget estimate** for FY 2003/04 was Rs.60.55 billion. The regular expenditure amounted to Rs.58.45 billion, which is 96.53 percent of the budget. The regular expenditure increased by 6.33 percent over the preceding year. In the preceding fiscal year, the regular expenditure was Rs.54.97 billion, which is 95.68 percent of the approved budget.
- 2.3 The share of charged (Non-votable) expenditure in the total regular expenditure is 30.67 percent representing an increase of 6.19 percent over the previous fiscal year. The previous fiscal year expenditure was 30.71 percent of the total regular expenditure.
- 2.4 The total development expenditure in FY 2003/04 is Rs.30.99 billion, which is 74.06 percent of the initial budget estimate of Rs.41.84 billion. The development expenditure increased by 6.74 percent compared to the expenditure of the previous fiscal year. In FY

2002/03, Rs.29.03 billion was spent, which is 75.09 percent of initial budget estimate of Rs.38.68 billion. The development expenditure was funded through the following three broad sources:

Source	Approved Initial Budget				Actual Expenditure			
	2002/03		2003/04		2002/03		2003/04	
	Amount	%	Amount	%	Amount	%	Amount	%
HMG	11705.1	30.26	13512.1	32.29	13147.4	45.28	12078.5	38.97
Foreign Loan	12410.2	32.09	12820.7	30.64	4546.4	15.66	7629.0	24.62
Foreign Grant	14564.4	37.65	15512.2	37.07	11339.2	39.06	11283.4	36.41
Total	38679.7	100.00	41845.0	100.00	29033.0	100.00	30990.9	100.00

- 2.5 Out of the total development expenditure, 72.43 percent was met from the cash released from the central treasury of the government. The remaining 27.57 percent was either paid directly by the foreign development partners (donors) or was provided by them as commodity & direct payment. The cash expenditure increased by 22.38 percent over the previous year while the Commodity/Direct Payment expenditures decreased by 20.08 percent. The cash expenditure (released out of the central treasury) was 63.18 percent of the total development expenditure in FY 2002/03. The budget performance analysis of the cash and non-cash (Commodity/Direct Payment) expenditures shows that the incidence of under-spending is high in non-cash segment.

Type	FY 2002/03			FY 2003/04		
	Initial Budget	Actual Expenditure	Percent	Initial Budget	Actual Expenditure	Percent
Cash	24743.03	18342.04	74.13	27777.41	22446.97	80.81
Non-cash	13936.65	10690.98	76.71	14067.59	8544.00	60.74

- 2.6 Rs.1209.23 million of the total expenditure reported in the financial statements as incurred from out of foreign grant source is money released from central treasury on the condition of reimbursements to be given by the development partners. During FY 2003/04, Rs.2479.11 million was received from development partners against the reimbursement of previous FY expenditure and some portion expenditure of FY 2003/04. The expenditure included Rs.1467.86 million of cash released from the central treasury against the cash grant given by development partners.
- 2.7 Rs.2080.29 million of the total expenditure reported in the financial statements as incurred from out of foreign loan source is money released from central treasury on the condition of reimbursements to be given by the foreign lenders. During FY 2003/04, Rs.4599.81 million was received from foreign lenders against the reimbursement of previous FY expenditure and some portion of expenditure FY 2003/04. The expenditure included Rs.2215.89 million of cash released from the central treasury against the cash loan given by foreign lenders.

2.8 In course of budget implementation, virement between regular budget heads amounted to 10.18 percent where as in the development budget, it was 5.79 percent. The virement in the previous fiscal year were 8.92 percent and 12.47 percent respectively.

2.9 The following ten sectors consumed more than 75 percent of the total government expenditure. The highest share of government expenditure in the past three years went to debt repayments.

Percent of total government expenditure				
S.No	Expenditure Sector	FY 2001/02	FY 2002/03	FY 2003/04
1	Domestic and Foreign Loan Repayment	15.24	19.26	19.38
2	Education	16.41	15.76	16.08
3	Defense	7.35	8.79	9.53
4	Finance Ministry Miscellaneous	8.95	8.23	8.11
5	Home Affairs	9.30	8.04	7.78
6	Investment in Public Enterprises	6.05	8.87	7.43
7	Local Development	5.21	6.31	5.84
8	Electricity	5.50	4.66	5.34
9	Road Transport	8.27	4.71	4.76
10	Health	4.76	4.35	4.44

2.10 The distribution of **regular expenditure** shows that the following five sectors consumed more than 75 percent of the regular expenditure

Percent of total regular expenditure				
S.No	Expenditure Sector	FY 2001/02	FY 2002/03	FY 2003/04
1	Domestic and Foreign Loan Repayment	25.12	29.44	29.66
2	Education	21.11	19.12	18.80
3	Defense	12.06	13.42	14.58
4	Home Affairs	12.44	11.31	10.81
5	Finance Ministry Miscellaneous	9.49	9.33	9.68

2.11 Major share of the **development expenditure** went to investment in Public Enterprises. The following sectors consumed more than 75 percent of the development expenditure.

Percent of total development expenditure				
S.No	Expenditure Sector	FY 2001/02	FY 2002/03	FY 2003/04
1	Investment in Public Enterprises	15.40	19.88	16.85
2	Local Development	11.40	18.15	16.76
3	Road Transport	14.47	12.81	12.95
4	Education	8.75	9.40	10.96
5	Drinking water	5.55	6.93	7.75
6	Irrigation	9.98	7.37	7.32
7	Agriculture	8.20	6.30	6.01
8	Health	5.98	5.58	5.96

2.12 In terms of expenditure line items, Public Works and Capital Improvements occupied the major share of 24.10 and 27.08 percent of development expenditures during both FY 2003/04 and FY 2002/03.

- 2.13 Personnel expenditure constituted 26.75 percent of the total government expenditure in FY 2003/04. This percentage was 27.32 in the last fiscal year. The personnel expenditures do not include the salaries paid to the teachers and the local body office-bearers. The distribution of total expenditure in different categories has been as follows.

Rs in Million

Expenditure Category	FY 2001/02	FY 2002/03	FY 2003/04
Personnel	22233.2	22946.9	23922.0
Other Recurrent	33065.6	38703.1	42424.9
Capital	24773.4	22356.1	23095.6
Total	80072.2	84006.1	89442.5

- 2.14 The total outstanding advance at the end of FY 2003/04 amounted to Rs.1.48 billion, of which Rs.741 million was from regular budget while Rs.742 million was from development budget. The total outstanding advance is about 1.65 percent of the total expenditure of Rs.89.44 billion.
- 2.15 More than 90 percent of the outstanding advance belonged to the following seven ministries:

S.No	Ministry Name	Percent of the total outstanding Advance
1	Ministry of Home Affairs	23.87
2	Ministry of Health	19.15
3	Ministry of Local Development	18.14
4	Ministry of Physical Planning and Works	15.49
5	Ministry of Education and Sports	6.61
6	Ministry of water Resources	6.41
7	Ministry of Foreign Affairs	3.94

- 2.16 Internal audit conducted by District Treasury and Controller Office during FY 2003/04 reported an amount of Rs.1.548 billion as irregular expenditures (either not complying with the provisions of Financial Administration Regulations or the procedures not followed). This amount represents 1.91 percent of the total cash released from DTCO's. Concerned paying offices have been instructed to correct these irregularities before a final audit.
- 2.17 The total accrued expenses at the end of FY 2003/04 amounted to Rs.460.9 million both from development and regular budget. More than 90% of the due payment belonged to the following 5 Ministries.

S. No.	Ministry Name	Percent of the total due payment
1	Ministry of Physical Planning & Works	67.93
2	Ministry of Education & Sports	10.30
3	Ministry of Defence	6.02
4	Ministry of Health	5.45
5	Ministry of Home Affairs	4.65

3. Cash Flow Position

- 3.1 During the fiscal year 2003/04, the cash balance in Nepal Rastra Bank amounted to Rs.0.753 billion, which was an increase of Rs.0.290 billion from the previous year. The cash balance of the previous fiscal year was Rs.0.460 billion.
- 3.2 After the introduction of Reimbursement Release System, the unspent cash balance remaining in accounting office's bank accounts has continuously been declining. In FY 2003/04, however the unspent cash balance has increased. At the end of FY 2003/04, the cash balance was Rs.42.0 million, which is higher than Rs.22.3 million of fiscal year 2002/03.

Accounting Principles and Assumptions

- 1 The revenue and expenditure of the government are recorded and reported using cash accounting principle. This principle assumes all cash receipts into the consolidated fund account as revenue and all cash payments against a budget head as expenditure.
- 2 The reported revenue and expenditure include only those that affect the consolidated fund account of the government and the heads that were approved by the Parliament through the Appropriation Act and the passage of Budget Speech.
- 3 The sum of expenditure also includes amount advanced during the year that remained unsettled until the last day of the fiscal year.
- 4 The reported expenditure also includes payments for accrued expenses of the previous year. Certain category of expenses can be accrued as per the Rule 39(8) of Financial Administration Regulation, 1999.
- 5 The reported revenue is the amount of collection in the government bank accounts (the revenue is deposited into 119 different bank branches namely Nepal Rastra Bank, Rastriya Banijya Bank, Nepal Bank Ltd. and Nepal Bangladesh Bank). The revenue reported by the government offices totaled Rs.61.50 billion. The difference between government office reporting and bank reporting is due to the fact the revenue deposits into the bank during the final week of the fiscal year by the taxpayers are reported to revenue-accounting office in the subsequent year.
- 6 In the case of block grant (non-freezable) given to local bodies and public corporations, the release money is considered as expenditure, although the grant recipients may not have fully spent the money.
- 7 The expenditure figures are obtained from two sources for consolidation, namely District Treasury and Controller Offices (DTCOs) and concerned Ministries, and are reconciled at the FCGO. Wherever the figures did not reconcile, FCGO relies on the DTCO figures because they record the expenditures and also carry out the internal audit. However, in the case of Direct payments and Commodity Grants, FCGO relies on the concerned Ministries or the Project Implementation Units.
- 8 In case of Direct Payments and Commodity grants, wherever the line-item of the expenditure was not clarified by the reporting entities, FCGO used the line-item shown in the Budget Statement (the Red Book).
- 9 The non-cash expenditures (Direct Payments and Commodity Grants by the development partners) are not recorded in government accounts. FCGO does not have any means of verifying whether any item of expenditure was incurred but was not reported.
- 10 In case where ministries have reported different amount for release and expenditure from non-cash sources, the release amount is treated as expenditure.

- 11 Although there is no provision in the rules, offices often lend money from one budget head to other budget head within the office or to other offices. In order to avoid the double accounting of the expenditure, cash balance has been shown in lending budget head and actual expenditure has been reported in the borrowing budget head.
- 12 For the expenditures incurred in foreign currency the conversion is done on the rates prevailing on the value date. Wherever the value date could not be ascertained, rate prevailing at the year-end has been taken as the basis.