

# Highlights of Government Financial Operations

## FY 2004/2005

### 1. Revenue and Other Incomes

- 1.1 The total revenue collection in FY 2004/05 is Rs.70.12 billion, which represents a 12.50 percent growth over the immediately preceding year. The total revenue collection in FY 2003/2004 was Rs.62.33 billion. In FY 2004/05 revenue collection is 94.86 percent of the targeted collection of Rs.73.92 billion. The revenue collection in the immediately preceding year was 100.16 percent of the target. In FY 2004/05 Tax revenue is Rs.54.14 billion accounting for 77.21 percent of the total revenue. The share of tax revenue in total revenue in the last FY was 77.29 percent. Main revenue heads and their share (percent) in the total revenue are as follows:

Revenue Head	FY 2003/04	FY 2004/05
Import duties	17.11	17.54
Value Added Tax (Imports)	14.24	17.50
Dividend from Service oriented Institutions	-	4.71
Excise Duty Cigarettes	3.84	3.53
Income Tax from Public Limited Company	-	3.52

- 1.2 The government received Rs.453.2 million in FY 2004/05 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.493.9 million in the preceding fiscal year.

### 2. Analysis of Expenditure

- 2.1 The **total government expenditure** (excluding local government expenditures) in FY 2004/05 is Rs.102.56 billion, which works out to be 88.96 percent of the initial budget estimate and 101.60 percent of the revised estimate. The expenditure went up by 14.67 percent in comparison to immediately preceding year. The previous fiscal year expenditure was Rs.89.44 billion.
- 2.2 The **Recurrent budget estimate** for FY 2004/05 was Rs.70.10 billion. The recurrent expenditure amounted to Rs.61.69 billion, which is 88 percent of the budget. The share of charged (Non-votable ) expenditure in the total recurrent expenditure is 19.89 percent .
- 2.3 The Capital Expenditure in FY 2004/05 is Rs.27.34 billion, which is 83.64 percent of the initial budget estimate of Rs.32.69 billion.
- 2.4 The Principal Payment expenditure in FY 2004/05 is Rs.13.53 billion, which is 108.24 percent of the initial budget estimate of Rs.12.50 billion.

2.5 The total expenditure was funded through the following three broad sources:

Rs in Million

Source	Approved Initial Budget				Actual Expenditure			
	2003/04		2004/05		2003/04		2004/05	
	Amount	%	Amount	%	Amount	%	Amount	%
HMG	74,062.10	72.33	82,980.00	71.98	70,527.59	78.85	78,903.17	76.93
Foreign Loan	12,820.70	12.52	16,959.20	14.71	7,629.00	8.53	9,266.13	9.04
Foreign Grant	15,512.20	15.15	15,350.70	13.31	11,286.00	12.62	14,391.17	14.03
Total	102,395.00	100.00	115,289.90	100.00	89,442.59	100.00	102,560.47	100.00

2.6 Out of the total expenditure 88.92 percent was met from the cash released from the central treasury of the government. The remaining 11.08 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 12.73. percent over the previous year while the Commodity/Direct Payment expenditures increased by 32.97 percent. 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.

Rs. in Million.

Type	FY 2003/04			FY 2004/05		
	Initial Budget	Actual Expenditure	Percent	Initial Budget	Actual Expenditure	Percent
Cash	88,327.41	80,898.59	91.59	101,650.95	91,199.25	89.72
Non-cash	14,067.59	8,544.01	60.74	13,638.95	11,361.22	83.30

2.7 Rs.489,797,112 of the total expenditure reported in the financial statements as incurred from out of foreign grant released from central treasury in the condition of reimbursements to be given by the development partners. During FY 2004/05, Rs.3,859,466,330 was received from development partners against the reimbursement of previous FY expenditure and some portion of FY 2004/05 expenditure.

2.8 Rs.2,330,862,034 of the total expenditure reported in the financial statements as incurred from out of foreign loan released from central treasury in the condition of reimbursements to be given by the foreign lenders. During FY 2004/05, Rs.5,615,952,393 was received from foreign lenders against the reimbursement of previous FY expenditure and some portion of FY 2004/05 expenditure.

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..

Figure in Percentage

S.No	Expenditure Sector	FY 2002/03	FY 2003/04	FY 2004/05
1	Domestic and Foreign Loan Repayment	19.26	19.38	19.26
2	Education	15.76	16.08	16.79
3	Defense	8.79	9.52	10.69
4	Finance Ministry Miscellaneous	8.23	8.11	5.96
5	Home Affairs	8.04	7.78	7.83
6	Investment in Public Enterprises	8.87	7.43	7.87
7	Local Development	6.31	5.85	5.83
8	Electricity	4.66	5.34	7.04
9	Road Transport	4.71	4.76	4.36
10	Health	4.35	4.44	4.57

2.10 The following five sectors consumed more than 75 percent of the recurrent expenditure.

Figure in Percentage

S.No	Expenditure Sector	FY 2004/05
1	Education	25.87
2	Defense	13.91
3	Home Affairs	10.78
4	Domestic and Foreign Loan Repayment	10.08
5	Finance Ministry Miscellaneous	8.60

2.11 Major share of the **Capital expenditure** went to electricity sector. The following sectors consumed more than 75 percent of the capital expenditure.

Figure in Percentage

S.No	Expenditure Sector	FY 2004/05
1	Electricity	26.40
2	Local Development	16.34
3	Road Transport	15.18
4	Irrigation	7.03
5	Drinking water	5.27
6	Education	4.61
7	Police	2.76
8	Communication	1.96
9	Health	1.50

2.12 From the miscellaneous account head of Ministry of Finance in FY 2002/03, 2003/04 and 2004/05, ministries whose expenditure crosses more than 75% are shown below. From the miscellaneous whose expenditure account head 95-3-905, expenditure for pension includes Rs. 1.84 billion and Rs.1.20 billion falls under Ministry of Finance and Ministry of Defence respectively.

Figure in Percentage

S.No.	Ministry Name	FY 2002/03	FY 2003/04	FY 2004/05
1	Ministry of Finance	32.42	45.78	44.21
2	Ministry of Defence	36.03	20.98	24.90
3	Ministry of Home Affairs	9.26	9.77	9.52
4	Ministry of Local Development	0.29	1.83	3.07
5	Ministry of Health	1.88	1.74	1.34
6	Ministry of Industry	0.25	0.57	5.77
7	Ministry of Foreign Affairs	-	-	2.74

2.13 The total outstanding advance at the end of FY 2004/05 amounted to Rs.2.24 billion. Out of this amount, Rs.1.78 billion is for the FY 2004/05, (of which Rs.980 million was from recurrent budget while Rs.802 million was from capital budget). The total outstanding advance is about 1.74 percent of the total expenditure of Rs.102.56 billion.

2.14 More than 80 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	30.73
2	Ministry of Health	15.47
3	Ministry of Local Development	6.50
4	Ministry of Physical Planning and Works	21.21
5	Ministry of Education and Sports	3.75
6	Ministry of Finance	5.61
7	Ministry of Foreign Affairs	2.60

2.15 Internal audit conducted by District Treasury and Controller Office during FY 2004/05 reported an amount of Rs.1.29 billion as irregular expenditures (either not complying with the provisions of Financial Administration Regulations or the procedures not followed). This amount represents 1.41 percent of the total cash released from DTCO's. Concerned paying offices have been instructed to settle these irregularities before final audit.

- 2.16 The total accrued expenses at the end of FY 2004/05 amounted to Rs.271.6 million both from recurrent and capital budget. More than 78% of the due payment belonged to the following 5 Ministries.

S. No.	Ministry Name	Percent of the total due payment
1	Ministry of Education & Sports	20.02
2	Ministry of Physical Planning & Works	19.10
3	Ministry of Home Affairs	17.62
4	Ministry of Local Development	12.57
5	Ministry of Defence	9.29

### **3. Cash Flow Position**

- 3.1 During the fiscal year 2004/05, the cash balance changed by negative of Rs.3.37 billion. The cash balance of the previous fiscal year was Rs.0.75 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 2004/05, however the unspent cash balance has increased. At the end of FY 2004/05, the cash balance was Rs.186.8 million, which is higher than Rs.144.8 million of fiscal year 2003/04.

## 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 advance amount 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 127 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. 67.43 billion. The different 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 given to local bodies and public corporations, the release money is considered as expenditure, although the grant recipients may not have fully spent the amount.
- 7 The expenditure figures are obtained from two sources for consolidation, namely District Treasury and Controller Offices (DTCOs) and concerned Ministries are reconciled at the FCGO. Wherever the figures did not reconciled, 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 concerned Project.
- 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.
- 13 Revenue collected by those offices whose budget was not directly released by DTCO was shown in their respective budget offices. For example, Revenue collected by Traffic Police Offices shown in their respective Regional or District Police Office.