

Highlights of Government Financial Operations

FY 2002/2003

1. Revenue and Other Incomes

- 1.1 The total revenue collection in FY 2002/03 is NPR 56.23 billion, which represents a 11.45 percent growth over the immediately preceding year. The total revenue collection in FY 2001/2002 was NPR 50.45 billion. FY 2002/03 revenue collection is 98.39 percent of the targeted collection of NPR 57.15 billion. The revenue collection in the immediately preceding year was 83.73 percent of the target. Tax revenue is NPR 42.50 billion accounting for 75.58 percent of the total revenue. The share of tax revenue in total revenue in the preceding year was 77.96. Main revenue heads and their share in the total revenue is as follows:

Revenue Head	Percent in FY 2001/02	Percent in FY 2002/03
Import duties	19.18	18.79
Value Added Tax (Imports)	14.55	15.34
Individual Income Tax 1.1.03.20	7.40	2.20
Corporate Tax from Government Business Enterprises	3.50	2.22
Value-Added Tax (Service)	4.11	13.48

- 1.2 The government received NPR 717.6 million in FY 2002/03 in the form of refund of advances as well as unutilized release amount given in earlier years or recovery of irregularities identified by audit. Such amount is deposited in K.1.6 bank account. The collection in respect of these items was NPR 782.4 million in the preceding fiscal year.

2. Analysis of Expenditure

- 2.1 The **total government expenditure** (excluding local government expenditures) in FY 2002/03 is 84 billion, which works out to 87.39 percent of the initial budget and 99.33 percent of the revised estimate. The expenditure grew up by 4.91 percent in comparison to immediately preceding year. The previous fiscal year expenditure was 80.07 billion.
- 2.2 The **regular budget estimate** for FY 2002/03 was 57.45 billion. The actual regular expenditure amounted to NPR 54.97 billion, which is 95.68 percent of the budget. Regular expenditure increased by 13.13 percent over the preceding year. Apparently the growth in regular expenditure exceeded that of the revenue growth. In the preceding fiscal year, the regular expenditure was NPR 48.59 billion, which is 98.52 percent of the approved budget of NPR 49.32 billion.
- 2.3 The share of charged expenditure in the total regular expenditure is 30.71 percent representing an increase of 34.56 percent over the previous year. The previous fiscal year expenditure was 25.81 percent in the total regular expenditure.

- 2.4 The total development expenditure in FY 2002/03 is NPR 29.03 billion, which is 75.05 percent of the initial budget estimate and 102.60 percent of the revised estimate. The initial budget estimate is NPR 38.68 billion. Development expenditure decreased by 7.79 percent compared to the expenditure of the previous fiscal year. In FY 2001/02, NPR 31.48 billion was spent against the initial budget estimate of NPR 50.47 billion, which is 62.37 percent. The development expenditure was funded through the following three broad sources:

NPR in millions

Source	Approved Initial Budget				Actual Expenditure			
	2001/02		2002/03		2001/02		2002/03	
	Amount	%	Amount	%	Amount	%	Amount	%
HMG	19929.4	39.49	11705.1	30.26	17097.4	54.31	13147.4	45.28
Foreign Loan	16420.1	32.53	12410.2	32.09	7698.7	24.45	4546.4	15.66
Foreign Grant	14120.7	27.98	14564.4	37.65	6686.1	21.24	11339.2	39.06
Total	50470.2	100.00	38679.7	100.00	31482.2	100.00	29033.0	100.00

- 2.5 Out of the total development expenditure, 63.18 percent was met from the cash released from the central treasury of the government. The remaining 36.82 percent of the development expenditure was either paid directly by the foreign development partners (donors) or was provided by them in kind. The cash expenditure decreased by 19.47 percent over the previous year while the Commodity/Direct Payment expenditures increased by 22.79 percent. The cash expenditure (released out of the central treasury) was 72.35 percent of the total development expenditure in FY 2001/02. The budget performance analysis of the cash and non-cash (commodity plus direct payment) expenditure shows that incidence of under-spending is high in non-cash segment.

NPR in millions

Type	FY 2001/02			FY 2002/03		
	Initial Budget	Actual Expenditure	Percent	Initial Budget	Actual Expenditure	Percent
Cash	35700.43	22775.90	63.80	24743.03	18342.04	74.13
Non-cash	14769.84	8706.34	58.96	13936.65	10690.98	76.71

- 2.6 In course of budget implementation, virement between regular budget heads amounted to 8.92 percent where as in the development budget was 12.47 percent. The volume of virement in development budget apparently increased in comparison to the previous fiscal year due to the source transfer. The virement in the previous fiscal year were 11.91 percent and 9.86 percent respectively.
- 2.7 The highest share of government expenditure in the past three years went to debt repayments. Following ten sectors consumed more than 75 percent of the total government expenditure

Percent of total government expenditure

S.No	Expenditure Sector	FY 2000/01	FY 2001/02	FY 2002/03
1	Domestic and Foreign Loan Repayment	12.96	15.24	19.26
2	Education	13.79	16.41	15.76
3	Investment in Public Enterprises	9.71	6.05	8.87
4	Finance Ministry Miscellaneous	12.57	8.95	8.23
5	Local Development	5.82	5.21	6.31
6	Road Transport	6.32	8.27	4.71
7	Home Affairs	7.55	9.30	8.04
8	Defense	4.78	7.35	8.79
9	Health	4.41	4.76	4.35
10	Irrigation	5.12	3.96	2.81

Block grant to local governments, other public bodies amounted to 22.42 percent of the total expenditure.

- 2.8 The distribution of **regular expenditure** was, however, different from the total expenditure. Following five sectors alone consumed more than 75 percent of the regular expenditure

Percent of total regular expenditure

S.No	Expenditure Sector	FY 2000/01	FY 2001/02	FY 2002/03
1	Domestic and Foreign Loan Repayment	24.20	25.12	29.44
2	Education	19.23	21.11	19.12
3	Finance Ministry Miscellaneous	17.20	9.49	9.33
4	Home Affairs	13.93	12.44	11.31
5	Defense	8.92	12.06	13.42

- 2.9 Major share of the **development expenditure** went to investment in Public Enterprises. Following sectors consumed more than 80 percent of the development expenditure.

Percent of total development expenditure

S.No	Expenditure Sector	FY 2000/01	FY 2001/02	FY 2002/03
1	Investment in Public Enterprises	20.91	15.40	19.88
2	Local Development	12.48	11.40	18.15
3	Road Transport	13.07	14.47	12.81
4	Irrigation	10.67	9.98	7.37
5	Education	7.51	8.75	9.40
6	Housing and Physical Planning	0.94	1.05	6.92
7	Agriculture	6.28	8.20	6.30
8	Health	5.32	5.98	5.58

- 2.10 In terms of expenditure line items, Public Works and Capital Improvements occupied the major share of development expenditures during both FY 2002/03 and FY 2001/02. The percentage was 27.08 and 27.77 respectively.

- 2.11 Personnel expenditure constituted 27.32 percent of the total government expenditure in FY 2002/03. This percentage was 27.77 in the immediately preceding fiscal year. The personnel expenditures do not include the salaries paid to teachers and local government office-bearers. The distribution of total expenditure has been as follows.

Expenditure Category	NPR in Millions		
	FY 2000/01	FY 2001/02	FY 2002/03
Personnel	21,022.4	22233.2	22946.9
Other Recurrent	30,505.5	33065.6	38703.1
Capital	28,307.2	24773.4	22356.1
Total	79,835.1	80072.2	84006.1

Until FY 1999/00, the recurrent expenditures were within the total cash revenue. However, in FY 2000/01, 2001/02 and 2002/03, the recurrent expenditures exceeded the amount of cash revenue by NPR 2.73 billion, NPR 4.85 billion and NPR 4.83 billion respectively.

- 2.12 The total outstanding advance at the end of FY 2002/03 amounted to NPR 1.99 billion, of which NPR 739 million was from regular budget while NPR 687 million was from development budget.
- 2.13 More than eighty-five percent of the outstanding advance belonged to following five ministries:

S.No	Ministry Name	Percent of the total outstanding Advance
1	Ministry of Home Affairs	34.31
2	Ministry of Education and Sports	17.71
3	Ministry of Local Development	13.66
4	Ministry of Physical Planning and Works	9.89
5	Ministry of water Resources	4.39

- 2.14 Internal audit conducted by District Treasury and Controller Office during FY 2002/03 reported an amount of NPR 2.56 billion as irregular expenditures (either not complying with the provisions of Financial Administration Regulations or procedures not followed). This amount represents 3.58 percent of the total cash released from DTCOs. Accounting offices have been instructed to correct the irregularities before final audit is done.
- 2.15 The total accrued expenses at the end of FY 2002/03 amounted NPR 33.0 million both from development and regular budget. More than 85% of the due payment belonged to the following five ministries.

S. No.	Ministry Name	Percent of the total due payment
1	Ministry of Physical Planning & Works	45.87
2	Ministry of Education & Sports	12.81
3	Ministry of Home Affairs	10.72
4	Ministry of Water Resources	9.42
5	Ministry of Health	9.06

3. Cash Flow Position

- 3.1 During the fiscal year 2002/03, the cash balance changed by a negative of NPR 3.01 billion but the cash balance amount in Nepal Rastra Bank amounted to NPR 0.46 billion. The overdraft in FY 2001/02 was NPR 5.9 billion.
- 3.2 After the introduction of Reimbursement Release System, the unspent cash balance remaining in accounting office's bank account has continuously been declining. At the end of FY 2002/03, such cash balance was NPR 22.3 million, which is much less compared to NPR 69.2 million of fiscal year 2001/02.

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 revenue and expenditure reported include only those affecting consolidated fund account of the government and in those 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. The outstanding advance amounted to NPR 1.42 billion, which is about 1.70 percent of the total expenditure of NPR 84.00 billion.
4. The expenditure reported for the fiscal year 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 Act, 2000. Cash accounting system does not track the payment of accrued expenses as those are paid as though the event of expenditure occurred during the reporting year.
5. The revenue reported is the amount of collection in the government bank accounts (the revenue is deposited into 129 different bank branches of four major banks, namely Rastriya Banijya Bank, Nepal Bank Ltd., Nepal Rastra Bank and Nepal Bangladesh Bank). The revenue reported by the government offices totaled NPR 55.55 billion. The difference occurs because many 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 governments and public corporations, the release money is considered as expenditure for the government, although the grant recipient 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 has used the DTCO figures because they record the expenditures and also conduct the internal audit. Therefore, reliability of DTCO reports is higher. However, in the case of Direct payments and Commodity Grants, FCGO relies on 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 representing Direct Payments and Commodity Grants by the foreign development partners (donors) are not recorded in government accounts, i.e., those do not pass through the accounting system of the government. FCGO does not have any

means of verifying whether any item of expenditure was incurred but was not reported. FCGO cannot ascertain whether no amount was spent or no reporting was done.

10. In case where ministries have reported different release and expenditure from non-cash sources, FCGO has spent amount as both release and expenditure as there is no means of verifying where and how the difference is retained.
11. Although not provided for 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. The translation of expenditures incurred in foreign currency for accounts consolidation has been 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. NPR 1137.27 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 foreign development partners. During FY 2002/03, NPR 758.95 million was received from foreign development partners against the reimbursement of previous year expenditure and some portion of current year expenditure. The expenditure included NPR 1026.81 million of cash released from the central treasury against the cash grant given by foreign development partners.
14. NPR 2176.65 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 2002/03, NPR 2909.43 million was received from foreign lenders against the reimbursement of previous year expenditure and some portion of current year expenditure. The expenditure included NPR 689.23 million of cash released from the central treasury against the cash loan given by foreign lenders.