

What Is the Health and Education Cess Being Spent On?

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After a long wait to see the CAG's audit report on the Union government's Finance Account for the fiscal year which ended on 31st March 2022, it was tabled in Parliament on August 10. Once again, it has indicted the Finance Minister for promising to create a special purpose fund and then swiftly forgetting to create an accounting procedure, and letting the funds be merged with Gross Budgetary Support, killing the very idea of special purpose funds.

One more, a fiscal year has passed when the government failed to make sure that the long-awaited Pradhan Mantri Swasthya Suraksha Nidhi gets the funds from the 4% Health and Education Cess that was announced in the budget speech of 2018. The CAG has once again voiced its criticism in the strongest possible words:

“Non-transfer of funds to Reserve Funds (during fiscal 2021-22) amounted to INR 23,874.85 crore. This includes reasons like non-transfer of entire provision for transfer to Pradhan Mantri Swasthya Suraksha Nidhi (PMSSN); Madhyamik and Uchchar Shiksha Kosh (MUSK) and due to non-finalisation of accounting procedure. It is recommended that the accounting procedure may be finalised prior to levy of cess/duty to ensure compliance with Article 114(3). When specified Reserve Funds are not created, the receipts earned for such funds are utilised as Gross Budgetary Support (GBS) in violation of [principles of] Parliamentary Authorisation”.

Since FY2018-19, citizens have dutifully paid the Health and Education Cess, but the government has conveniently let the money remain within the Consolidated Fund of India, in the absence of a special purpose fund (Reserve Fund).

The cabinet had cleared the creation of the Madhyamik and Ucchatar Shiksha Kosh in July 2017, and cabinet approval for creating the Pradhan Mantri Swasthya Suraksha Nidhi came through in March 2021. However, neither was operational as of March 2022, “due to non-finalization of their accounting procedures”.

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So, what’s the implication?

During FY2021-22, Rs 52,732 crore was collected towards Health and Education Cess, out of which Rs 31,788 crore or 60% was transferred to the Prarambhik Shiksha Kosh. The CAG found that as per revised estimates for FY2021-22, Rs 25,000 crore and Rs 21,499 crore were approved for transfer to MUSK and PMSSN respectively.

The natural fallout of not transferring the cess receipts into designated funds maintained under Public Accounts is that the cess receipts get merged into the general purpose fiscal pool. They can be spent on purposes other than the stated purpose.

This is not the first time that the CAG has voiced such criticism. The national auditor has consistently stressed upon the basic principle of fiscal accountability and transparency by indicting the Finance Ministry for delays in opening a separate accounting head in Public Accounts, for not transferring cess collection in initial years, citing the non-availability of designated reserve fund in Public Accounts, as well as for continued short transfers into the designated reserve fund in Public Accounts.

Despite audit observations, such non-transfers and short transfers of cess receipts have gone on for so long that now, this practice of the Finance Ministry looks like what Shakespeare called ‘method in madness’ in *Hamlet*.

In May 2023, when the CAG brought this methodical madness to the Finance Ministry’s attention, it stated, “The funds (MUSK and PMSSN) are expected to be operationalised during FY2022-23”.

So let’s park our worries about what happens to the Health and Education Cess, at least until 2024, when yet another CAG report shall be tabled in Parliament.

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