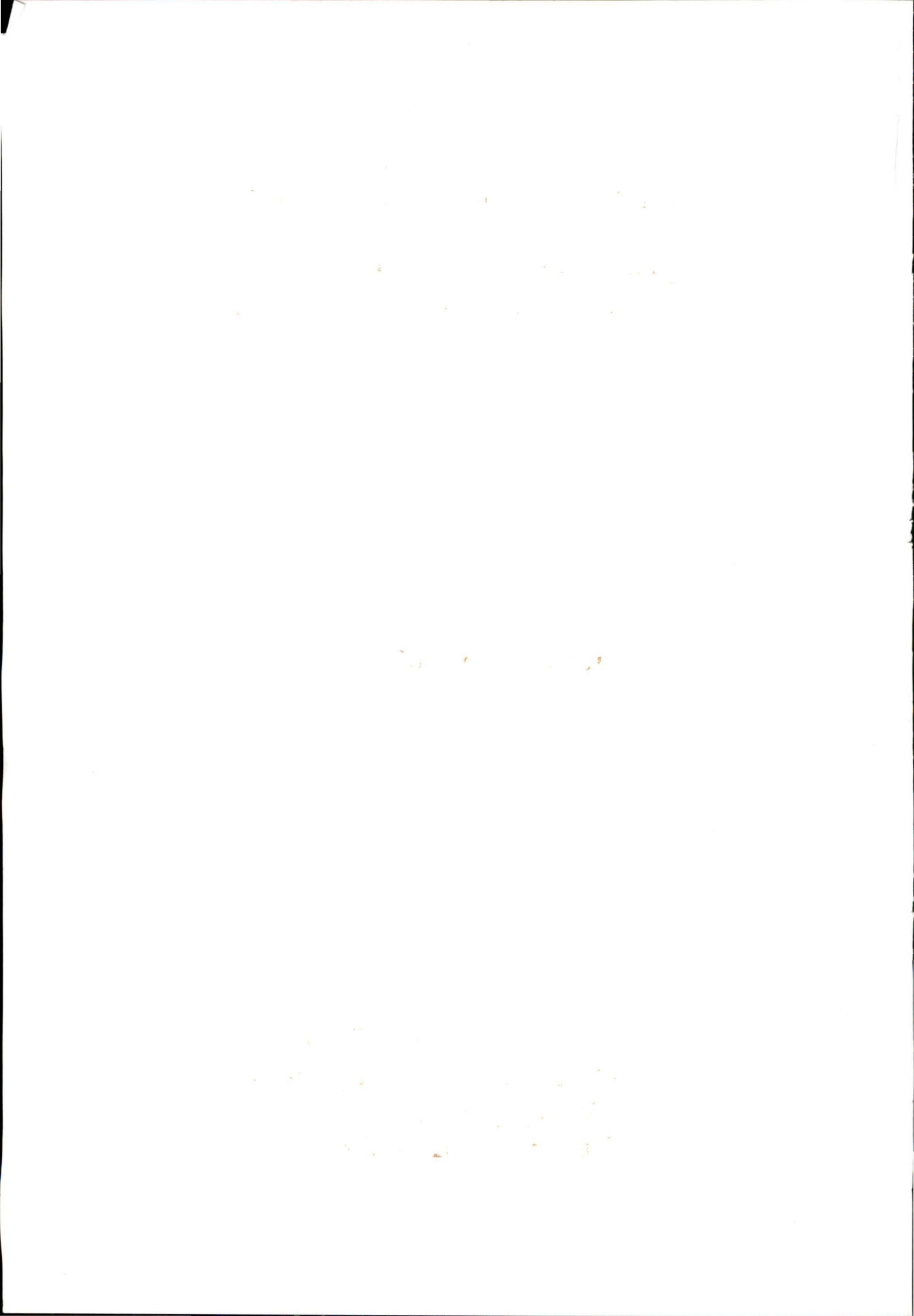


**Report of the  
Comptroller and Auditor General of India  
on  
Compliance of the Fiscal Responsibility  
and Budget Management Act, 2003**

**for the year 2015-16**

**Union Government (Civil)  
Department of Economic Affairs  
(Ministry of Finance)  
Report No. 32 of 2017**



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## **Preface**

Section 7A of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, as amended in May 2012, provides that the Central Government may entrust the Comptroller and Auditor General of India to review periodically as required, the compliance of the provisions of this Act and such reviews shall be laid before both Houses of Parliament. An amendment to the FRBM Rules 2004 was notified on 31 October 2015. Rule 8 of the FRBM (Amendment) Rules provides that the Comptroller and Auditor General of India shall carry out an annual review of the compliance of the provisions of the FRBM Act and the Rules made thereunder by the Central Government, beginning with the financial year 2014-15, and the Report shall be submitted to the President, who shall cause them to be laid on the table of both Houses of Parliament.

This is the second report of the Comptroller and Auditor General of India on the compliance of the provisions of the FRBM Act and the Rules made thereunder by the Central Government for the year ended March 2016.

The report contains significant results arising from the review of compliance of the provisions of the Act. The instances mentioned in this report are those, which came to notice in the course of test audit for the period 2015-16. Matters relating to the period prior to and subsequent to 2015-16 have also been included, wherever necessary.

The audit has been conducted in conformity with the auditing standards issued by the Comptroller and Auditor General of India.





# Executive Summary

## Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted by the Parliament in August 2003. The objective of introducing FRBM Act, 2003 was to institutionalize fiscal discipline, reduce fiscal deficit, improve macro-economic management and the overall management of the public funds by moving towards a balanced budget. Due to global economic crisis and adverse circumstances, the implementation of FRBM Act was put on hold in February 2009. An amendment to the FRBM Act was made by the Parliament in May 2012. An important aspect of the amendment was introduction of Section 7A and Rule 8, which provide for the Comptroller and Auditor General of India to carry out an annual review of compliance of the provisions of the Act by the Union Government.

## What the Report covers

The present report discusses the compliance by the Union Government of the provisions of FRBM Act, 2003 and the Rules made thereunder for the financial year 2015-16. We have examined amendments made in the FRBM Act and Rules and analysed the trends and targets of various fiscal indicators as set out in the Act/Rules from time to time.

## Major observations

Important audit observations relating to compliance of the provisions of the Act and Rules made thereunder, and also on other related topics, are detailed below:

## Deviation in performance from the Act and Rules

- For financial year 2015-16, in respect of effective revenue deficit, revenue deficit and fiscal deficit the annual reduction targets set out by the Government in the Budget were not in accordance with the provisions of the Act/Rule applicable.

*(Para 2.1)*



- Effective revenue deficit and fiscal deficit targets were deferred by the Government in Budget 2016-17 and 2017-18 without corresponding amendment in the Act.

(Para 2.2)

### **Progress in achievement of FRBM targets**

- For financial year 2015-16, Government was able to achieve the targets as set in Medium Term Fiscal Policy Statements in respect of effective revenue deficit, revenue deficit and fiscal deficits.

(Paras 3.1.3, 3.2.3 and 3.4.3)

- The budgeted figure of grants for creation of capital assets (₹ 1,10,551 crore) for the financial year 2015-16 was modified in subsequent year's Budget as ₹ 1,32,472 crore (increased by ₹ 21,921 crore). Similarly the budgeted figure of effective revenue deficit was also revised from ₹ 2,83,921 crore to ₹ 2,68,000 crore (reduced by ₹ 15,921 crore).

(Para 3.4.2.1)

- During the period 2011-12 to 2015-16, the outstanding liability in terms of GDP outstripped the targeted level as contained in the Medium Term Fiscal Policy Statement. Further, due to understatement of liabilities of ₹ 7,18,404 crore in the Public Account, the total liabilities of the Union Government were contained at 47.3 per cent of GDP, which otherwise would have stood at 52.6 per cent of GDP in financial year 2015-16.

(Paras 3.5.2 and 3.5.3)

### **Analysis of components of receipts and expenditure**

- Certain transactions and financial eventualities, viz. misclassification of expenditure; short/non-transfer of levy/cess to earmarked funds; non-recognition of losses under NSSF in CFI; unpaid expenditure on subsidies; and short devolution out of net proceeds to States, were noticed which had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder.

(Para 4.3)



- As a result of existence of varying practices, certain expenditure of the Government was incorrectly classified as grants for creation of capital assets.

*(Paras 4.4 and 4.5)*

#### **Analysis of projections in fiscal policy statements**

- Projection for financial year 2015-16 included in Medium Term Fiscal Policy Statement placed with the Budget for 2013-14 in respect of gross tax revenue, outstanding liabilities, and disinvestment varied significantly from the actuals for the year 2015-16.

*(Para 5.1)*

- Projection under various heads of expenditure for financial year 2015-16 included in Medium Term Expenditure Framework Statements placed in December 2014 varied significantly with Revised Estimates of 2015-16.

*(Para 5.2, Annexure-5.1)*

#### **Disclosure and Transparency in fiscal operations**

- Variations were noticed in deficit figures depicted in Budget at a Glance and Annual Financial Statements/Union Government Finance Accounts.

*(Para 6.1.1)*

- Variation was noticed in disclosure of actual expenditure on grants for creation of capital assets between Expenditure Budget/Budget at a Glance and Union Government Finance Accounts.

*(Para 6.1.2)*

- Variation was noticed in disclosure of liability position shown through Receipt Budget and Union Government Finance Accounts.

*(Para 6.1.3)*

- Refunds of ₹ 1,29,482 crore (including interest on refunds of taxes) were made from gross direct tax collection in financial year 2015-16 but no corresponding disclosure was available in the Government accounts.

*(Para 6.2)*



- Disclosure statements mandated under the FRBM Act and the Rules made thereunder placed before the Parliament reflected inconsistencies relating to disclosure of non-tax revenue and assets.

*(Para 6.3)*

### ***Recommendations***

Based on audit observations contained in the Report, following recommendations are made:

- i. Deferment of fiscal targets needs to be carried out through appropriate amendment in the Act.*
- ii. The disclosure relating to liability on annuity projects may be modified suitably to reflect the amount of unpaid annuity liability at the end of a particular financial year.*
- iii. An appropriate mechanism needs to be put in place by the Government to avoid instances of inconsistencies in estimation and correct reporting of components of expenditure having bearing on deficit indicators.*
- iv. The Government may transfer specific purpose levies/cess collected to the designated funds.*
- v. A mechanism for recognising the result of annual operation of NSSF and its impact on the Government finances may be put in place.*
- vi. Criteria for classification of expenditure as grants for creation of capital assets may be prescribed for appropriate compliance by the Ministry/Department. Assets created out of such grants but not owned by the grantee organization may be excluded from categorizing as grants for creation of capital assets.*
- vii. The Government may strengthen the process of making underlying assumptions for projections of receipt and expenditure in various fiscal policy statements to insulate them from frequent changes and to seamlessly integrate the projections in the Budget.*
- viii. The Government should ensure adequate transparency and consistency in its fiscal operations so that fiscal indicators are computed accurately and disclosure forms as mandated under the Act contain correct information.*



## Chapter 1: Introduction

### 1.1 Background

The Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in Parliament by the Government of India (Government) in December 2000 which became an Act in August 2003. The objective of FRBM Act, 2003 was to institutionalize fiscal discipline, reduce fiscal deficit, improve macro-economic management and the overall management of public funds by moving towards a balanced budget. FRBM Rules 2004 framed under Section 8 of the Act came into force in July 2004.

The FRBM Act, 2003 and Rules made thereunder specified targets for eliminating revenue deficit and containing fiscal deficit to not more than three *per cent* of GDP<sup>1</sup> by March 2008. Other stipulations and conditions regarding guarantees to be given, assumption of liabilities and borrowings from Reserve Bank of India by the Government were also included in the Act. Besides, the Act and Rules require the Government to lay in both Houses of the Parliament three policy statements<sup>2</sup>, viz. Medium Term Fiscal Policy (MTFP) Statement, Fiscal Policy Strategy (FPS) Statement and Macro-economic Framework (MF) Statement along with the Annual Financial Statement and the Demands for Grants.

Through the Finance Act 2004 (September 2004), amendment was made in FRBM Act, whereby the date for achievement of revenue and fiscal deficit targets was shifted to 31 March 2009. However, in February 2009, the Government put on hold temporarily the fiscal consolidation process citing global economic crisis and adverse circumstances.

### 1.2 Amendments in FRBM Act

The 13<sup>th</sup> Finance Commission (FC) in its report (December 2009) for the award period 2010-15 had outlined a renewed fiscal consolidation path for the Centre. 13<sup>th</sup> FC recommended zero and three *per cent* targets of revenue and fiscal deficit respectively to be achieved by the end of March 2014, to be followed by revenue surplus of 0.5 *per cent* of GDP by 2014-15. Accordingly, the FRBM Act was amended through the Finance Act 2012 (May 2012). The Rules made thereunder, which were notified in May 2013, contained revised target of two *per cent* of GDP by 31 March 2015 for revenue deficit and for fiscal deficit of not more than three *per cent* of GDP by 31 March 2017.

<sup>1</sup> As per FRBM Rules, GDP means Gross Domestic Product at current price.

<sup>2</sup> Refer Annexure 1.1.

The amended FRBM Act introduced a new fiscal indicator namely 'effective revenue deficit', to be worked out by excluding revenue expenditure incurred on 'grants for creation of capital assets' from the revenue deficit. In addition, it envisaged elimination of effective revenue deficit by 31 March 2015 and thereafter build up adequate effective revenue surplus.

Further, the amended FRBM Act and Rules required the Government to lay down another Statement, viz. Medium Term Expenditure Framework (MTEF) Statement before both Houses of the Parliament, immediately following the session of Parliament in which the other three policy statements (as mentioned in Para 1.1) were laid. The FRBM Act and Rules (as amended from time to time) also require laying of quarterly review reports, besides six disclosures in the prescribed forms. A brief on different fiscal policy statements and disclosure forms to be laid before the Parliament under the provisions of FRBM Act is given at **Annexure-1.1**.

In May/June 2015, the FRBM Act/Rules were further amended thereby shifting the target year of the three deficit indicators to 31 March 2018.

In Budget 2016-17 presented in February 2016, the target year of effective revenue deficit was deferred to 31 March 2019 through MTFP Statement on the ground that imbalance within the revenue component of expenditure require deeper correction and concerted efforts of all Ministries/Departments as well as State Governments to enhance the expenditure on the capital component from the revenue grants flowing from the Centre.

Again, in Budget 2017-18 presented in February 2017, through MTFP Statement, the target year of effective revenue deficit was deferred to a period beyond 2019-20 citing structural issues in the revenue expenditure component of the Centre as a reason. The target year of fiscal deficit was deferred to 31 March 2019 citing the macro-economic need of higher public expenditure by the Government in a scenario when private investment was not picking up.

The target dates applicable for various fiscal indicators during the financial year 2015-16 and for subsequent years and other stipulations in respect of guarantees, liabilities and borrowings from RBI are indicated in **Box-1** below:

**Box-1: Targets for various fiscal indicators**

Indicators	Targets
Effective Revenue Deficit (ERD)	ERD was to be eliminated by 31 March 2018 with annual reduction by an amount equivalent to 0.5 <i>per cent</i> or more of GDP at the end of each financial year beginning with financial year 2015-16.



	<p>In February 2016, the target for elimination of ERD was deferred to 31 March 2019 through MTFP Statement placed alongwith Budget 2016-17.</p> <p>Further, in MTFP Statement placed alongwith Budget 2017-18 in February 2017, the target of elimination of ERD was pushed beyond 2019-20 as a target of 0.2 <i>per cent</i> of GDP was fixed in respect of ERD to be achieved by 31 March 2020<sup>3</sup>.</p>
<b>Revenue Deficit (RD)</b>	RD of not more than two <i>per cent</i> of GDP by 31 March 2018 with annual reduction by an amount equivalent to 0.4 <i>per cent</i> or more of GDP at the end of each financial year beginning with financial year 2015-16.
<b>Fiscal Deficit (FD)</b>	<p>FD of not more than three <i>per cent</i> of GDP at the end of 31 March 2018 with annual reduction by an amount equivalent to 0.4 <i>per cent</i> or more of GDP at the end of each financial year beginning with financial year 2015-16.</p> <p>In February 2017, the target for FD was deferred to 31 March 2019 through MTFP Statement placed alongwith Budget 2017-18.</p>
<b>Guarantees</b>	The Government shall not give guarantee, aggregating to an amount exceeding 0.5 <i>per cent</i> of GDP in any financial year beginning with 2004-05.
<b>Liabilities</b>	The Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 <i>per cent</i> of GDP for financial year 2004-05 and in each subsequent financial year, the limit of 9 <i>per cent</i> of GDP shall be progressively reduced by at least one percentage point of GDP.
<b>Borrowings from Reserve Bank of India</b>	The Act imposes restrictions on the borrowings by the Central Government from Reserve Bank of India.

### 1.3 FRBM Review Committee

The Government had constituted a committee in May 2016 to comprehensively review the working of the FRBM Act over last 12 years and to suggest the way forward, keeping in view the broad objective of fiscal consolidation and prudence and the changes required in the context of the uncertainty and volatility in the

<sup>3</sup> The target for elimination of ERD was to be achieved by March 2019. However, in MTFP Statement submitted along with Budget 2017-18 (February 2017), the projected ERD targets as a percentage of GDP were 0.7 in 2017-18, 0.4 in 2018-19 and 0.2 in 2019-20 i.e. target for elimination of ERD was shifted beyond 2019-20.

global economy. The terms of reference of the Committee also included looking into various aspects, factors, considerations going into determining the FRBM targets; to examine the need and feasibility of having a 'fiscal deficit range' as the target in place of the existing fixed numbers (percentage of GDP) as fiscal deficit target and to examine the need and feasibility of aligning the fiscal expansion or contraction with credit contraction or expansion respectively in the economy.

The Committee had submitted its report on 23 January 2017. Some of the major recommendations made by the Committee are as follows:

- Repeal the existing FRBM Act, 2003 and the FRBM Rules, 2004.
- Enact a new Debt and Fiscal Responsibility Act, in pursuance of the new Act, enact, and adopt the Debt and Fiscal Responsibility Rules, as per drafts suggested by the Committee.
- Adopt a prudent medium-term ceiling for general government debt<sup>4</sup> of 60 *per cent* of GDP to be achieved by no later than financial year 2022-23. Within the overall ceiling of 60 *per cent*, adopt a ceiling of 40 *per cent* for the Centre, and the balance 20 *per cent* for the State.
- Adopt fiscal deficit as the key operational target consistent with achieving the medium term debt ceiling.
- The path of fiscal deficit to GDP ratio of 3.0 *per cent* in financial year 2017-18 to financial year 2019-20, 2.8 *per cent* in financial year 2020-21, 2.6 *per cent* in financial year 2021-22 and 2.5 *per cent* in financial year 2022-23 be adopted.
- Revenue deficit to GDP ratio to decline steadily by 0.25 percentage points each year with the path specified as follows: 2.3 *per cent* in financial year 2016-17, 2.05 *per cent* in financial year 2017-18, 1.8 *per cent* in financial year 2018-19, 1.55 *per cent* in financial year 2019-20, 1.30 *per cent* in financial year 2020-21, 1.05 *per cent* in financial year 2021-22 and 0.8 *per cent* in financial year 2022-23.
- The deviation from the stipulated fiscal deficit target shall not exceed 0.5 percentage points in a year in case of invocation of Escape Clauses.
- Constitute a Fiscal Council with the Terms and Conditions as mentioned in the Report of the Committee.

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<sup>4</sup> As per the report of the Committee, 'general government debt' means total liabilities of the Central Government and the State Government excluding inter-governmental liabilities.



#### 1.4 Review of compliance of provisions of FRBM Act by the Comptroller and Auditor General of India (CAG)

Section 7A inserted through FRBM Amendment Act (May 2012) provides CAG to review periodically as required, the compliance of the provisions of this Act and such reviews shall be laid before both Houses of Parliament. Rule 8 was framed and notified in October 2015 to carry out the effect of Section 7A of the Act. The notified Rule provide that the CAG shall carry out an annual review of the compliance of the provisions of the Act and the Rules made thereunder by the Central Government beginning with the Financial Year 2014-15. The review shall include:

- (i) analysis of achievement and compliance of targets and priorities set out in the Act and the Rules made thereunder, Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement, Macro-economic Framework Statement and Medium Term Expenditure Framework Statement;
- (ii) analysis of trends in receipts, expenditure and macro-economic parameters in relation to the Act and the Rules made thereunder;
- (iii) comments related to classification of revenue, expenditure, assets or liabilities having a bearing on the achievement of targets set out in the Act and the Rules made thereunder; and
- (iv) analysis of disclosures made by the Central Government to ensure greater transparency in its fiscal operations.

The first Report of CAG on compliance of the provisions of FRBM Act in respect of financial year 2014-15 was presented in Parliament in August 2016<sup>5</sup>.

#### 1.5 Structure of the Report

The present report is the review by the CAG as per Rule 8 of FRBM (Amendment) Rules 2015 on compliance to the provisions of the Act by the Government for financial year 2015-16. The findings of Audit are discussed in **Chapters 2 to 6**.

- **Chapter-2** of this Report deals with the issues where deviations from the Act and Rules were noticed.
- **Chapter-3** analyses the extent of achievement of various fiscal indicators during financial year 2015-16 as compared to the targets set under the Act

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<sup>5</sup> Report of the CAG on Compliance of FRBM Act, 2003 for financial year 2014-15 (Report No. 27 of 2016).

and Rules including trend analysis of fiscal indicators since financial year 2011-12.

- **Chapter-4** provides an analysis of components of receipts and expenditure and macro-economic parameters including comments on classification of revenue and expenditure having a bearing on deficit indicators.
- **Chapter-5** examines the receipts and expenditure of the Union Government for financial year 2015-16 *vis-à-vis* projections contained in various fiscal policy statements, Budget at a Glance, Annual Financial Statement and Union Government Finance Accounts.
- **Chapter-6** contains observations relating to adequacy and accuracy of disclosures mandated under the Act and Rules and also issues of transparency in fiscal operations.

## Chapter 2: Deviation in performance from the Act and Rules

In the FRBM Act, 2003 and FRBM Rules 2004, (as amended from time to time) targets for various fiscal and deficit indicators are prescribed. In this chapter, we have discussed the issues involving deviations noticed during 2015-16 from provisions of the Act and the Rules and shifting of target dates in subsequent years.

### 2.1 Non-adherence to annual reduction targets

Rule 3 of amended FRBM Rules (notified in May 2013) required that in order to achieve the deficit targets as set out in Section 4 of the Act, the Central Government shall reduce the effective revenue deficit, revenue deficit and fiscal deficit by an amount equivalent to 0.8 *per cent*, 0.6 *per cent* and 0.5 *per cent* or more of GDP respectively at the end of each financial year beginning with financial year 2013-14. These stipulations were further relaxed in June 2015 through amendment in the Rules.

Taking into account the annual reduction target of three deficit indicators as set out in FRBM Rules amended in May 2013 and also in June 2015, **Table-2.1** below analyses their compliance as set by the Government in MTFP Statement for 2015-16 *vis-à-vis* Revised Estimates for financial year 2014-15.

**Table-2.1: Annual Reduction Targets: 2015-16**

(As percentage of GDP)

Fiscal Indicators	Annual reduction target to be achieved as per FRBM Rules amended in		BE 2014-15	Estimates/targets as per MTFP Statement placed alongwith Budget 2015-16		Annual reduction in 2015-16 over 2014-15 (RE)
	May 2013	June 2015		RE 2014-15	BE 2015-16#	
	1	2	3	4	5	6 = 4 - 5
Effective Revenue Deficit	0.8	0.5	1.6	1.8	2.0	(+) 0.2
Revenue Deficit	0.6	0.4	2.9	2.9	2.8	0.1
Fiscal Deficit	0.5	0.4	4.1	4.1	3.9	0.2

Source: MTFP Statements for 2014-15 and 2015-16

Note: BE-Budget Estimates, RE-Revised Estimates

# In RE 2015-16, ERD, RD and FD were estimated at 1.5, 2.5 and 3.9 per cent of GDP respectively.

As may be seen from **Table-2.1**, the annual reduction target set in financial year 2015-16 with reference to the revised estimates for financial year 2014-15 in respect of revenue deficit and fiscal deficit were only 0.1 and 0.2 *per cent* of GDP respectively, as against 0.4 *per cent* for each.

Further, in respect of effective revenue deficit, instead of annual reduction, there was an increase of 0.2 *per cent* of GDP as estimated by the Government in MTFP Statement. Thus, the targeted annual reduction in respect of all the three deficit



indicators were not consistent with the provisions of the Rules applicable for financial year 2015-16.

*The Ministry stated (June 2017) that as per FRBM (Amendment) Rules, 2015, notified in June 2015, Government shall annually reduce FD, RD and ERD at least by 0.4 per cent, 0.4 per cent and 0.5 per cent of GDP respectively at the end of each financial year beginning with the financial year 2015-16. Ministry added that comparison of targets set in Budget Estimates 2015-16 and 2016-17 reflects that annual reduction targets as contained in the amended Act have been achieved in 2016-17.*

While appreciating the reply of the Ministry it is added that review of compliance by the CAG pertains to the financial year 2015-16 and accordingly annual reduction targets for the year was appropriately compared with financial year 2014-15. Even taking into account the Revised Estimates 2015-16 placed in Parliament in February 2016, the reduction target of deficits was not comparable to the provisions in the Act. In 2015-16 Revised Estimates, the effective revenue deficit was projected as 1.5 per cent of GDP; revenue deficit was 2.5 per cent of GDP; and fiscal deficit was 3.9 per cent of GDP. Thus the reduction in Revised Estimates 2015-16 vis-à-vis Revised Estimates 2014-15 was only 0.3 per cent, 0.4 per cent and 0.2 per cent of GDP. Hence, Ministry's reply does not address the audit concern relating to achievement of annual reduction targets in financial year 2015-16.

## **2.2 Deferment of target without corresponding amendment in the Act**

Section 4 of FRBM Act and Rule 3 of FRBM Rules specify the targets for the three fiscal indicators alongwith target date for their achievement. Further, first proviso to Section 4(2) of FRBM Act stipulates that the revenue and fiscal deficits may exceed the prescribed targets on grounds of national security or national calamity or such other exceptional grounds as the Central Government may specify. The second proviso states that the ground or grounds specified in the first proviso shall be placed before both Houses of Parliament, as soon as may be, after such deficit amount exceeds the aforesaid targets.

Since the enactment of FRBM Act in 2003, fiscal targets prescribed under the Act have been deferred a number of times by the Government citing varying reasons<sup>6</sup>, followed by amendment in the respective provisions of the Act/Rules. Taking into account the latest amendments in the Act (May 2015) and the Rules (June 2015),

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<sup>6</sup> In 2009 global meltdown necessitating adjustment of fiscal policy was the reason given for putting on hold the fiscal consolidation process. In Budget 2014-15 presented in July 2014, through MTFP Statement revenue deficit target of March 2015 was shifted to March 2017 citing below five per cent growth in GDP in the last two years. Emerging government priorities and compositional shift in the fiscal relations between the Centre and States was the reason given in February 2015 for deferring the target dates to March 2018.



the targets set for elimination of effective revenue deficit was 31 March 2018. For revenue and fiscal deficits, the target was not more than two *per cent* and not more than three *per cent* of GDP respectively by 31 March 2018.

However, in Budget 2016-17 the target date for elimination of effective revenue deficit was deferred from March 2018 to March 2019. In the MTFP Statement placed alongwith Budget 2016-17, no exceptional ground for deferment as required under the Act was furnished by the Government. The MTFP Statement rather mentioned the imbalance within the revenue component of expenditure as reason for deferment. The Statement further envisaged that with some renewed measures and concerted efforts of all Ministries/Departments as well as State Governments to enhance the expenditure on the capital component from the revenue grants flowing from Centre, the deeper correction in the imbalance was expected. Thus the MTFP statement emphasised– “on the current basis the elimination of effective revenue deficit is likely to be deferred by one year to 2018-19”.

Further, in MTFP statement of 2017-18, the effective revenue deficit target date was pushed beyond the financial year 2019-20 with the assertion– “the slippage is justified as the Government has consciously decided in view of the large reform undertaken for presenting budget in the form of Revenue/Capital to ensure that important developmental and maintenance expenditure of revenue nature do not get compromised”.

Even the achievement of fiscal deficit target date was also shifted in Budget of 2017-18 by the Government to financial year 2018-19 quoting– “reassessment of macroeconomic requires higher public expenditure when private investment is not picking up”.

The continuous shift in the target dates in respect of effective revenue deficit and fiscal deficit were carried out without any corresponding amendment in the FRBM Act, as made earlier through Finance Act of 2004, 2012 and 2015.

*The Ministry stated (June 2017) that deferment of ERD elimination target to 2018-19 in MTFP Statement was in respect of rolling target/ projections for next two years (medium-term) set on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure etc. It also stated that continuous efforts are being made for improved assessment in order to make more realistic projections.*

*Ministry further added that the Finance Minister in his budget speech 2017-18 had mentioned that the FRBM Review Committee had submitted its Report to the Government and the same was being examined for appropriate decision. Further, the issue has also been clarified in the fiscal policy statement laid before Parliament along with the Budget 2017-18.*

The reply of the Ministry does not address the Audit concern as shifting of target dates through MTFP Statement of 2016-17 was not effected through corresponding amendment in the FRBM Act. Even in 2017-18 the same practice to shift the target dates through MTFP Statement was followed.

**Recommendation :** *Deferment of fiscal targets needs to be carried out through appropriate amendment in the Act.*

### 2.3 Inconsistent format for disclosing liability on annuity projects

In terms of Section 6 of the Act, the Central Government is required to take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimise as far as practicable, secrecy in the preparation of annual financial statement and demands for grants. At the time of presentation of annual financial statement and demands for grants, the Central Government is required to make such disclosures and in such form as may be prescribed. Under clause (d) of Rule 6(1) the Central Government is required to make disclosure of explicit contingent liabilities<sup>7</sup>, which are in the form of stipulated annuity payments over a multi-year time frame in prescribed **Form D-5**. The disclosure relating to Liability on Annuity Projects is to be made available in the following format:

Ministry/ Department	Name of the project	Value of the project (₹ in crore)	Total Annuity committed (₹ in crore)	Term (years)	Annuity payment (per year) (₹ in crore)
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A comparison of data on annuity projects contained in the Annexure of Receipt Budget 2015-16 and 2016-17 revealed that in both the years the nature of information was similar. Further, the information contained in the Annexure does not reflect the amount of unpaid annuity liability of the Government on a given project at the end of particular financial year. Thus, the balance unpaid liability on account of annuity projects are not reflected through this Annexure, although the information furnished in the Annexure of Receipt Budget is in conformity with the prescribed **Form D-5**.

*Ministry stated (June 2017) that audit observation was noted as the same was suggestive in nature.*

**Recommendation :** *The disclosure relating to liability on annuity projects may be modified suitably to reflect the amount of unpaid annuity liability at the end of a particular financial year.*

<sup>7</sup> While the FRBM Rules do not define the term 'explicit contingent liability', however, literature on public finance refer to those claims which are recognized by law as explicit contingent liability viz. credit guarantees, insurance claims, exchange rate guarantees, etc.



## **Conclusion**

During 2015-16, in respect of all the three deficit indicators, *viz.* effective revenue deficit, revenue deficit and fiscal deficit, the annual reduction targets were not in accordance with the provisions of the FRBM Act/Rules. Further, the target dates for elimination of effective revenue deficit and to achieve the fiscal deficit to the level of three *per cent* of GDP were deferred in February 2016 and February 2017 without making any amendment in the Act.

## Chapter 3: Progress in achievement of FRBM targets

This chapter analyses the extent of achievement of various fiscal indicators during financial year 2015-16 in relation to the targets set in the FRBM Act/Rules, as amended from time to time. Besides, the trend analysis from financial year 2011-12 in respect of various fiscal indicators/parameters have also been made in this chapter. For analysis, GDP (new series with 2011-12 as base year) released by Central Statistics Office, Ministry of Statistics and Programme Implementation on 8 February 2016 and 31 May 2016<sup>8</sup> have been adopted. The same GDP data series was adopted in CAG's Report No. 34 of 2016 on the Union Government Accounts for the financial year 2015-16, and also adopted in this Report for consistency purpose.

### 3.1 Revenue Deficit

Section 2(e) of FRBM Act, defines revenue deficit as the difference between revenue expenditure and revenue receipts, which indicates increase in the liabilities of the Central Government without corresponding increase in the assets of the Government.

#### 3.1.1 Revenue Deficit target

The FRBM Act as notified in August 2003 had stipulated elimination of revenue deficit by 31 March 2008. Taking into account the latest amendment in the FRBM Act made through Finance Act 2015 (May 2015), the target was revised to restrict the revenue deficit to not more than two *per cent* of GDP by 31 March 2018, with annual reduction by an amount equivalent to 0.4 *per cent* or more of GDP at the end of each financial year beginning with financial year 2015-16.

#### 3.1.2 Revenue Deficit in financial year 2015-16

For financial year 2015-16, revenue deficit target of 2.8 *per cent* of GDP was set in the MTFP Statement. The computation of the revenue deficit is as under:

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<sup>8</sup> GDP figures from 2011-12 to 2015-16 have further been revised as per Press Note dated 31 May 2017 released by the Central Statistics Office, Ministry of Statistics and Programme Implementation using new series of Index of Industrial Production (IIP) and Wholesale Price Index (WPI) with base year 2011-12. The new series of IIP and WPI with base 2011-12 was released on 12 May 2017 by CSO and office of Economic Advisor, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry. These GDP figures have been reflected in Table 4.1.



**Table-3.1: Revenue Deficit - Estimates and Actuals in 2015-16**

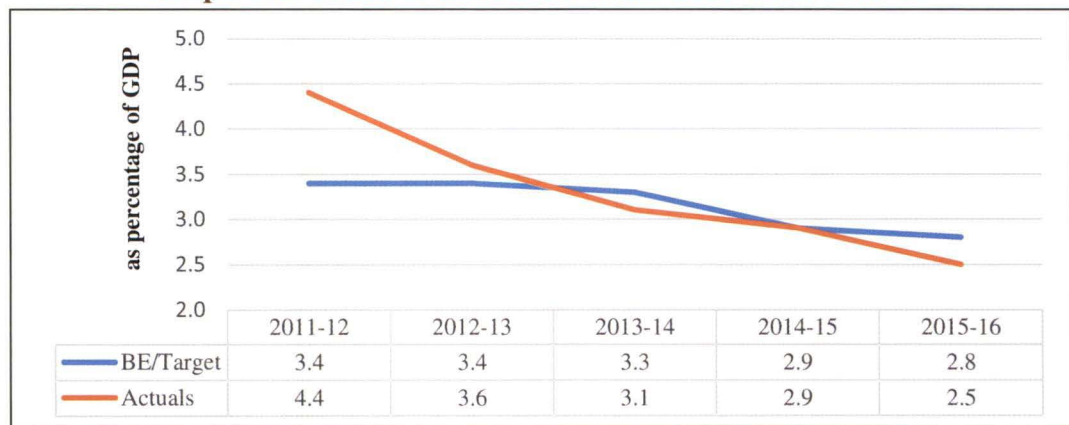
Component	Revenue Expenditure	Revenue Receipts	Revenue Deficit (RD)	RD as % of GDP
	(1)	(2)	(3=1-2)	
(₹ in crore)				
Budget Estimates	15,36,047	11,41,575	3,94,472	2.8
Actuals	15,37,761	11,95,025	3,42,736	2.5
Variation with reference to Budget Estimates	1,714 (0.11%)	53,450 (4.68%)	-51,736 (-13.12%)	0.3

Source: Budget at a Glance

During financial year 2015-16, the variation between Budget Estimates and actuals in respect of revenue expenditure was marginal. However, due to increased realisation of revenue receipts than estimated, the actual revenue deficit was contained below the budgeted level. During financial year 2015-16, the revenue deficit was 2.5 per cent of GDP which was below the budgeted target of 2.8 per cent of GDP.

### 3.1.3 Trend of Revenue Deficit

**Graph-3.1** below shows the trend of revenue deficit as a percentage of GDP over the period from 2011-12 to 2015-16:

**Graph-3.1: Trend of Revenue Deficit: 2011-12 to 2015-16**

Source: For BE/Target - MTFP Statement; For Actuals - Budget at a Glance.

Note: Data in absolute terms for deficits is at Annexure-3.1.

**Graph 3.1** indicates downward trend in revenue deficit though it remained above the budgeted levels up to 2012-13, subsequently revenue deficit was below its budgeted level during 2013-14, except 2014-15. During financial year 2015-16, revenue deficit was within the budgeted level. The annual reduction in revenue deficit in 2015-16 was 0.4 per cent, as mandated under the FRBM Act.

### 3.2 Fiscal Deficit

Section 2(a) of FRBM Act, defines fiscal deficit as the excess of total disbursements from the Consolidated Fund of India (CFI) over total receipts into the Fund during a financial year (excluding debt receipts and repayment of debt).

#### 3.2.1 Fiscal Deficit target

The FRBM Act as notified in August 2003 envisaged achieving fiscal deficit of not more than three *per cent* of GDP by 31 March 2008. Taking into account the latest amendment in the FRBM Act made through Finance Act 2015 (May 2015), the target for achieving the fiscal deficit of not more than three *per cent* of GDP was deferred to 31 March 2018, with annual reduction by an amount equivalent to 0.4 *per cent* or more of GDP at the end of each financial year beginning with financial year 2015-16. However in Budget 2017-18, the target date for achieving the fiscal deficit was further deferred to 2018-19 through MTFP Statement.

#### 3.2.2 Fiscal Deficit in financial year 2015-16

For financial year 2015-16, fiscal deficit target of 3.9 *per cent* of GDP was set in the MTFP Statement. The computation of fiscal deficit is as under:

**Table-3.2: Fiscal Deficit - Budget Estimate and Actuals in 2015-16**

Component	Total Expenditure	Non-debt Receipts	Fiscal Deficit (FD)	FD as % of GDP
	(1)	(2)	(3=1-2)	
(₹ in crore)				
Budget Estimates	17,77,477	12,21,828	5,55,649	3.9
Actuals	17,90,783	12,57,992	5,32,791	3.9
Variation with reference to Budget Estimates	13,306 (0.75%)	36,164 (2.96%)	-22,858 (-4.11%)	--

Source: Budget at a Glance

Note: Non-debt receipts (revenue receipt + recovery of loans and advances + miscellaneous capital receipt).

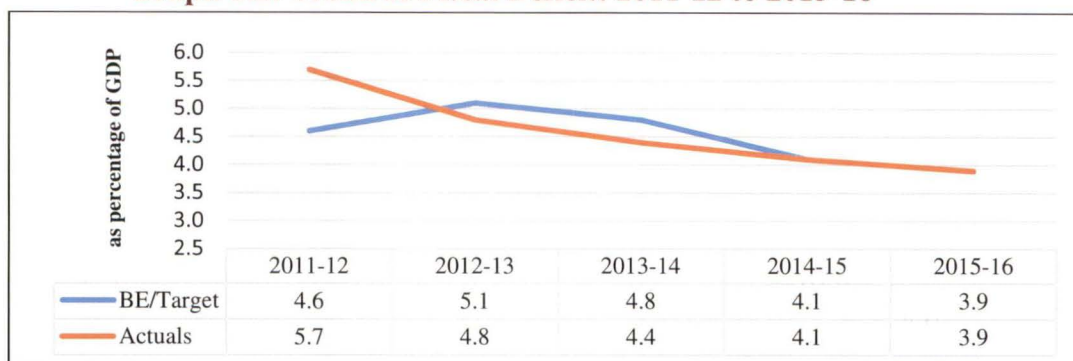
In 2015-16, variation between Budget Estimates and actuals in respect of total expenditure was only 0.75 *per cent*. However, due to increased realisation of non-debt receipts than the estimation, the actual fiscal deficit was contained below the budgeted level. In terms of *per cent* of GDP, the fiscal deficit was contained at the level of 3.9 *per cent*.



### 3.2.3 Trend of Fiscal Deficit

**Graph-3.2** below presents the trend of fiscal deficit as a percentage of GDP over the period from 2011-12 to 2015-16:

**Graph-3.2: Trend of Fiscal Deficit: 2011-12 to 2015-16**



Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG).

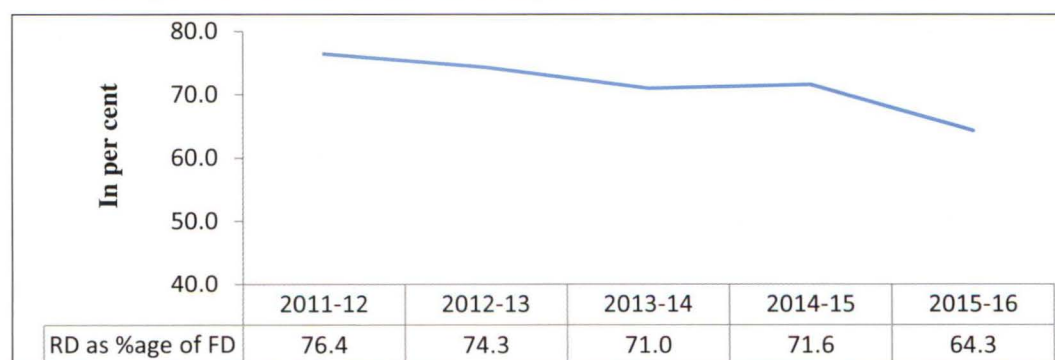
Note: Data in absolute terms for deficits is at **Annexure-3.1**.

The fiscal deficit had shown a declining trend which converges to its budgeted level during the last two financial years 2014-16. However, the annual reduction in fiscal deficit in 2015-16 was only 0.2 per cent, as against 0.4 per cent mandated under the FRBM Act.

### 3.3 Revenue Deficit as a component of Fiscal Deficit

The amended FRBM Act/Rules envisage fiscal deficit of not more than 3 per cent of GDP and revenue deficit of not more than 2 per cent of GDP, implying that the revenue deficit accounts for two-thirds of fiscal deficit. **Graph-3.3** below presents the trend of revenue deficit as a component of fiscal deficit over the period from 2011-12 to 2015-16:

**Graph-3.3: Trend of RD as component of FD: 2011-12 to 2015-16**



Source: Budget at a Glance

**Graph-3.3** depicts that during 2011-12 to 2014-15, major portion of fiscal deficit was on account of revenue expenditure, resulting in revenue deficit averaging more than 73.0 *per cent* of fiscal deficit. However, during financial year 2015-16 the position had improved as revenue deficit was 64.3 *per cent* of fiscal deficit which was within the limit of 66.6 *per cent*.

### **3.4 Effective Revenue Deficit**

The concept of effective revenue deficit was introduced in Union Budget of 2011-12 to segregate the grants-in-aid which were used to finance current expenditure and those used to create capital assets. Section 2(aa) of amended FRBM Act (May 2012) defines 'effective revenue deficit' as the difference between the revenue deficit and grants for creation of capital assets.

#### **3.4.1 Effective Revenue Deficit target**

The FRBM (Amendment) Rules notified in May 2013, stipulated elimination of effective revenue deficit by 31 March 2015. Taking into account the latest amendment in the FRBM Act made through Finance Act 2015 (May 2015), the target was deferred to 31 March 2018. In February 2016, the target for elimination of effective revenue deficit was deferred to 31 March 2019 through MTFP Statement placed alongwith Budget 2016-17. Further, in MTFP Statement placed alongwith Budget 2017-18, in February 2017, the target of elimination of effective revenue deficit was pushed beyond financial year 2019-20 with a target of 0.2 *per cent* of GDP to be achieved by 31 March 2020.

#### **3.4.2 Effective Revenue Deficit in financial year 2015-16**

For the year 2015-16 (BE), the effective revenue deficit target was set at 2.0 *per cent* of GDP, an increase of 0.2 *per cent* (as against annual reduction of 0.5 *per cent*) over the Revised Estimate target of 1.8 *per cent* for financial year 2014-15. As already discussed in Para 2.1, the target fixed for financial year 2015-16 in MTFP Statement was at variance with the annual reduction mandated under the Act. At the Revised Estimates stage for 2015-16 (in February 2016), the target was reduced to 1.5 *per cent* of GDP. The computation of effective revenue deficit is as under:



**Table-3.3: Effective Revenue Deficit - Budget Estimate and Actuals: 2015-16**

Component	Revenue Deficit	Grant for creation of capital assets	Effective Revenue Deficit (ERD)	ERD as % of GDP
	(1)	(2)	(3=1-2)	
(₹ in crore)				
Budget Estimates	3,94,472	1,10,551	2,83,921	2.0
Actuals	3,42,736	1,31,754	2,10,982	1.6
Variation with reference to BE	-51,736 (-13.12%)	21,203 (19.18%)	-72,939 (-25.69%)	0.4

Source: Budget at a Glance

**Table-3.3** above reflects that there was increase of more than 19 per cent in expenditure on grants for creation of capital assets, leading to around 26 per cent reduction in effective revenue deficit over the Budget Estimates. As a result of improvement in effective revenue deficit in absolute terms during financial year 2015-16, the Government was able to sustain the budgeted level of 2.0 per cent of GDP or below.

#### 3.4.2.1 Alteration in previous year's Budget provision

In the Budget at a Glance for the financial year 2015-16, the provision relating to grants for creation of capital assets was estimated at ₹ 1,10,551 crore. In subsequent year, during the budget exercise of financial year 2016-17, the BE figure of grants for creation of capital assets for financial year 2015-16 was modified to ₹ 1,32,472 crore, thereby increasing the provision for financial year 2015-16 by ₹ 21,921 crore. Similarly, during the budget exercise of financial year 2016-17, the budgeted figure of effective revenue deficit for financial year 2015-16 was also modified from ₹ 2,83,921 crore to ₹ 2,68,000 crore. The modification made in subsequent year had the effect of increasing the provision on grants for creation of capital assets by ₹ 21,921 crore, while the estimates of effective revenue deficit went down only by ₹ 15,921 crore, instead of going down by like amount.

Provision under any head of expenditure in any financial year is approved by the Parliament and modifying the approved figures in subsequent years indicates that transparent and correct estimates of expenditure for previous year were not prepared. As the estimates of expenditure on grants for creation of capital assets has bearing on the deficit indicators, changing them frequently defeats the very concept of having any fiscal target in respect of deficit indicators.

*In respect of estimates of expenditure on grants in aid for creation of capital assets appearing in Paras 3.4.2 and 3.4.2.1, Ministry stated (June 2017) that*

information provided in the budget statement was based on the inputs/information provided by various Ministries/Departments. Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Ministry added that based on information provided by Ministries/Departments, in RE 2015-16 expenditure provision on grants for creation of capital assets were modified at ₹1,32,004 crore which was closer to actuals at the end of the year, resulting in modification in the ERD figure also.

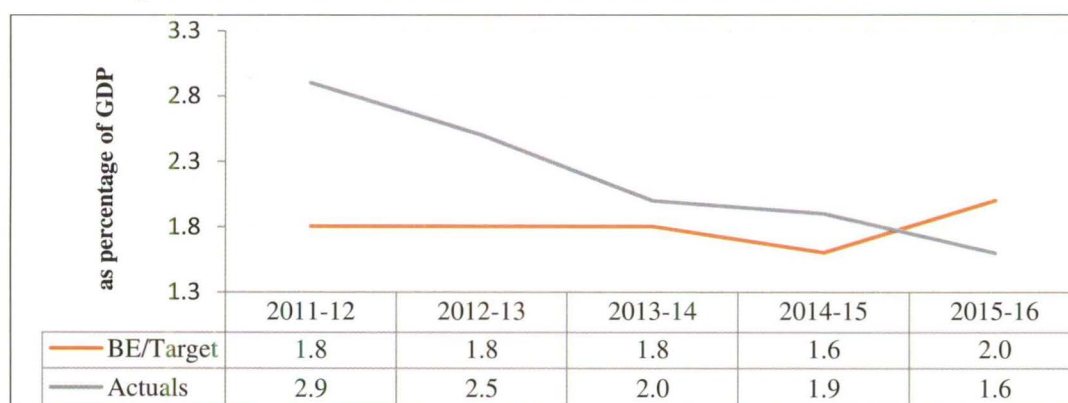
Ministry further added that in pursuance of audit observation efforts were being made to rectify errors/inconsistency in reporting of information by various Ministries/Departments.

Being the nodal Ministry for the administration of the FRBM Act and preparation of Central Budget, Ministry of Finance should ensure that information obtained from the line Ministries and included in the Budget documents laid before the Parliament is complete, accurate and consistent.

### 3.4.3 Trend of Effective Revenue Deficit

The trend of effective revenue deficit as a percentage of GDP over the period from 2011-12 to 2015-16 is given in **Graph-3.4** below:

**Graph-3.4: Trend of Effective Revenue Deficit: 2011-12 to 2015-16**



Source: For BE/Target – MTFP Statement; For Actuals – Budget at a Glance

Note: Data in absolute terms for deficits is at **Annexure 3.1**

As seen from the **Graph-3.4**, despite the downward trend in effective revenue deficit, the Government was not able to achieve its budgeted targets during 2011-12 to 2014-15. However, the ratio of effective revenue deficit to GDP, showed improvement in the financial year 2015-16 and was 1.6 per cent as against the Budgeted level of 2.0 per cent.

### 3.4.4 Inconsistency in estimation of effective revenue deficit

In order to correctly estimate the effective revenue deficit, every Ministry prepares information containing revised provision for current year and budget



provision for ensuing year under the object head 'grants for creation of capital assets' under various schemes/programmes as contained in the Detailed Demands for Grants (DDG) of the respective Ministries, alongwith the actuals of previous year, and furnish the same to the Ministry of Finance. On the basis of these information, Ministry-wise statement is appended in the Expenditure Budget Volume-I showing the provision of expenditure on grants for creation of capital assets. A consolidated provision for expenditure on grants for creation of capital assets is given in Budget at a Glance (BAG).

Analysis of data contained in Expenditure Budget Volume-I, DDG of the respective Ministries and their cross verification with the records of the respective Ministries revealed discrepancies/inconsistency in furnishing and collating the data relating to provision/expenditure on grants for creation of capital assets, which impacts on the computation of effective revenue deficit. The cases where discrepancies were noticed are discussed below:

#### **3.4.4.1 Computation error in expenditure provision of grants for creation of capital assets**

In the BAG for financial year 2015-16, effective revenue deficit of ₹ 2,83,921 crore was estimated after reducing the provision of ₹ 1,10,551 crore on grants for creation of capital assets from the revenue deficit of ₹ 3,94,472 crore. Computation of information contained in Expenditure Budget 2015-16, Volume-I, Annex-6 revealed that the total of figures in respect of 65 Ministries/Departments on grants for creation of capital assets works out at ₹ 1,10,964 crore. Due to computation error, in the Budget 2015-16, the provision on grants for creation of capital assets was understated by ₹ 413 crore, resulting in overestimation of effective revenue deficit by an equivalent amount.

*The Ministry accepted (June 2017) the audit observation and stated that concerned Section in Budget Division has been advised to take due care to avoid such errors.*

#### **3.4.4.2 Deficiency in estimation of grants for creation of capital assets**

Scrutiny of information contained in Annex-6 of Expenditure Budget Volume-1 showing Ministry-wise details of provision on grants for creation of capital assets in financial year 2015-16 and their cross-verification with respective DDG revealed variation in two sets of documents in some test-checked Ministries/Departments. Analysis revealed that in some cases Ministries/Departments furnished the information to the Ministry of Finance but these were not included by the Ministry of Finance in the Annex-6. The cases scrutinised in audit are detailed in **Annexure-3.2**.

As a result of deficiency in estimating the expenditure on grants for creation of capital assets, the provision included in the Budget at a Glance for grants for creation of capital assets was underestimated by ₹ 18,827 crore, which has also impacted the correct estimation of effective revenue deficit.

#### **3.4.4.3 Incorrect expenditure on grants for creation of capital assets**

Annex-6 for financial year 2017-18 contains information on actual expenditure incurred on grants for creation of capital assets for the financial year 2015-16. Scrutiny of Annex-6 revealed that in respect of Ministry of Development of North Eastern Region (DoNER), an amount of ₹ 1,223.96 crore was shown as actual expenditure in 2015-16. However, examination of records in Ministry of DoNER revealed that the actual expenditure on grants for creation of capital assets in financial year 2015-16 was ₹ 1,384.53 crore. Ministry of DoNER in March 2017 replied that due to non-maintenance of proper records, incorrect figure of ₹ 1,223.96 crore was reported to the Ministry of Finance which was included in Annex-6. As a result of this discrepancy actual expenditure on grants for creation of capital assets in financial year 2015-16 was understated by ₹ 160.57 crore in Annex-6 as well as in BAG. Understatement of expenditure on grants for creation of capital assets had the impact of overstatement of effective revenue deficit to that extent.

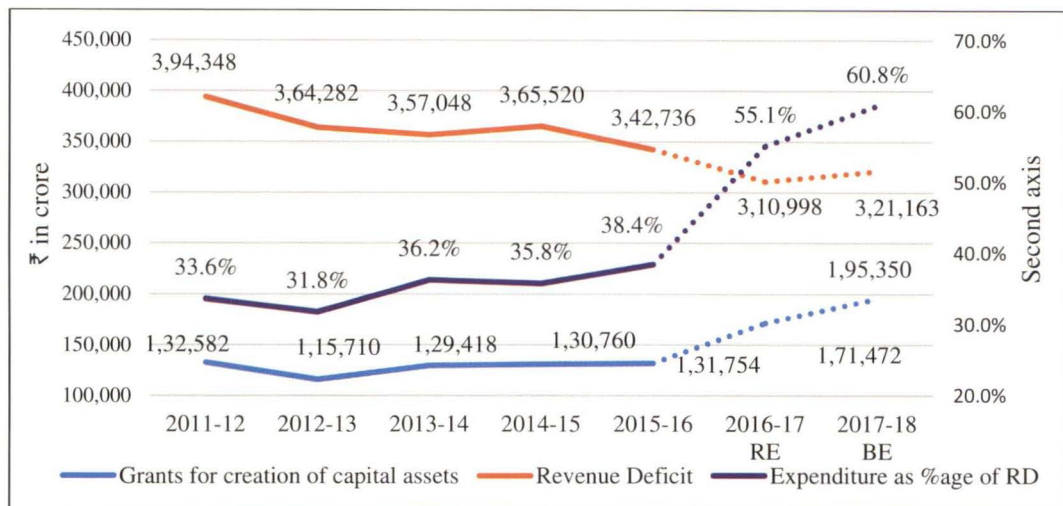
*In respect of data of estimates/expenditure on grants in aid for creation of capital assets appearing in Paras 3.4.4.2 and 3.4.4.3, Ministry stated (June 2017) that information provided in the Budget Statement was based on the inputs/information provided by various Ministries/Departments. Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Ministry further added that in pursuance of audit observation, efforts were being made to rectify errors/inconsistency in reporting of information by various Ministries/Departments.*

**Recommendation** : *An appropriate mechanism needs to be put in place by the Government to avoid instances of inconsistencies in estimation and correct reporting of components of expenditure having bearing on deficit indicators.*

#### **3.4.5 Expenditure on grants for creation of capital assets**

Elimination of effective revenue deficit implies that expenditure on grants for creation of capital assets must equal the revenue deficit. In other words, the Government's revenue expenditure in excess of revenue receipts must be used for creation of capital assets. The trend of expenditure on grants for creation of capital assets as a percentage of revenue deficit over the period from 2011-12 to 2015-16 and projections for next two years are given in **Graph-3.5** below:



**Graph-3.5: Trend of expenditure on grants for creation of capital assets**

Source: Budget at a Glance

Note: Second axis represents expenditure on grants for creation of capital assets as percentage of revenue deficit.

From **Graph-3.5** it would be seen that during the period 2011-16, expenditure on grants for creation of capital assets as compared to revenue deficit had remained between the ranges of 32 per cent to 38 per cent. To achieve the target of elimination of effective revenue deficit, a concerted efforts needs to be made to step up the provisioning on expenditure on grants for creation of capital assets by more than 60 per cent. The projection of expenditure on grants for creation of capital assets for next two financial years i.e. 2016-18, though very ambitious, endeavours to push this ratio to the level of 61 per cent. However, to bring the expenditure on grants for creation of capital assets to the level of revenue deficit, there still exists a gap of ₹1.25 lakh crore in financial year 2017-18.

In MTFP Statement of 2017-18, Government had stated that the target of elimination of effective revenue deficit is being missed on account of structural issues in the revenue expenditure component of the Centre. In its effort to further increase the expenditure on grants for creation of capital assets, some expenditure which may not qualify to be classified in this category may also be brought within its ambit. This may be due to absence of defined criteria for classification of expenditure as 'grants for creation of capital assets' and in view of varying practices in treatment of such expenditure across the Ministries/Departments. Some instances of expenditure which are not qualified to be classified in the category of grants for creation of capital assets have been noticed and discussed in Chapter 4 of this Report.

### 3.5 Liability of the Government

The Government resorts to borrowing from internal and external sources, collectively known as Public Debt, to finance its deficit. The internal borrowings

mainly comprise of market loans and special securities issued to financial institutions. In addition to this, the resources available in the Public Account, in respect of which the Government functions as a trustee, are also liabilities which in turn are used to finance the deficit. According to Section 2(f) of FRBM Act, total liabilities mean the liabilities under the CFI and the Public Account of India.

### 3.5.1 Liability target

Rule 3(4) of the FRBM Rules requires that the Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 per cent of GDP for financial year 2004-05 and in each subsequent financial years, the limit of 9 per cent shall be progressively reduced by at least one percentage point of GDP.

In the first report of CAG on compliance of FRBM Act, 2003 for financial year 2014-15 (Report No. 27 of 2016), inconsistency in Rule 3(4) was pointed out. In this Report, it was mentioned that according to the existing Rules, no additional borrowings, would have to be resorted to by the Government after financial year 2013-14 whereas Rule 3(2) stipulates bringing down the fiscal deficit at the level of not more than 3 per cent of GDP.

In response to audit observation, Ministry in its Action Taken Note (December 2016) assured that Rule 3(4) of the FRBM Rules will be examined after taking into account the recommendations of the FRBM Review Committee constituted by the Government (May 2016) for appropriate changes/alignments between the Act and the Rules.

Following **Table 3.4** shows the liability position of the Government since 2011-12:

**Table-3.4: Liability of the Government: 2011-12 to 2015-16**

Financial year	Liability at the beginning of the year (1)	Liability at the end of the year (2)	Additional liability during the year (3=2-1)	GDP	(₹ in crore)	
					Liability as %age of GDP (2/4)	Additional liability as %age of GDP (3/4)
2011-12	35,32,450	41,51,284	6,18,834	87,36,039	47.5	7.1
2012-13	41,51,284	47,06,586	5,55,302	99,51,344	47.3	5.6
2013-14	47,06,586	52,59,310	5,52,724	1,12,72,764	46.7	4.9
2014-15	52,59,310	57,75,685	5,16,375	1,24,88,205	46.2	4.1
2015-16	57,75,685	64,23,032	6,47,347	1,35,76,086	47.3	4.8

Source: Union Government Finance Accounts

Note: liability includes external debt at current rates of exchange



It may be seen from **Table 3.4** that total liability of the Government for 2015-16 was 47.3 *per cent* of GDP, which was 46.2 *per cent* in 2014-15. However, additional liabilities declined from 7.1 *per cent* in 2011-12 to 4.1 *per cent* in 2014-15 and again increased to 4.8 *per cent* in 2015-16.

As per the recommendation of FRBM Review Committee, the debt-GDP ratio of 40 *per cent* is to be achieved by 2023 in respect of Union Government. However, action taken note by the Government on the recommendation of the Committee was awaited (June 2017).

*The Ministry intimated (June 2017) that the Report of the FRBM Review Committee was being examined by the Government and the action taken note on the recommendation of the Committee will be provided in due course.*

### **3.5.2 Understatement of liability**

In Para 1.5 of CAG's Report No. 34 of 2016 on the accounts for financial year 2015-16 of the Union Government, a comment relating to understatement of Public Account liability was included. The understatement of liability by ₹ 7,18,404 crore was on account of non-inclusion of investments out of NSSF collections in Special State Government Securities (₹ 5,71,048 crore); investment of Post Office Insurance Fund through Private Fund Managers (₹ 43,139 crore); and accumulated deficit (loss) in the operation of NSSF (₹ 1,04,217 crore).

Taking into account the actual liability in the Public Account, total liability of the Union Government at the end of the financial year 2015-16 would be ₹ 71,41,436 crore<sup>9</sup> which is 52.6 *per cent* of GDP as against 47.3 *per cent* as shown in **Table 3.4**.

*The Ministry stated (June 2017) that in the Union Government Finance Accounts, liability of the Government was shown net of investments made out of NSSF, accumulated deficit in NSSF, investment of post Office Insurance Fund through Private Fund Managers and explained through a footnote. Ministry further added that depiction of liability in the present form is approved on the advice of CAG and audit had picked up conveniently both the figures i.e. net and gross from the Finance Accounts itself for its observations.*

The reply of the Ministry is not in order as the actual liability of the Government of India was ₹ 71,41,436 crore at the end of financial year 2015-16. Investments made out of this amount needs to be shown separately in the accounts. Office of the CAG was consulted only on the accounting procedure relating to creation of NSSF when it was being finalised in April 2000. Netting of NSSF liabilities from

<sup>9</sup> ₹ 71,41,436 crore = ₹ 64,23,032 crore + ₹ 7,18,404 crore.

the Public Account liabilities is the decision of the Ministry which was introduced in Union Government Finance Accounts from the financial year 2004-05.

Section 2(f) of FRBM Act defines total liabilities as liabilities under the CFI and the Public Account of India. However, the MTFP Statement does not include part of NSSF and total Market Stabilisation Scheme liabilities. Thus, the level of liabilities reflected even in MTFP Statement is not in accordance with the definition provided in the Act.

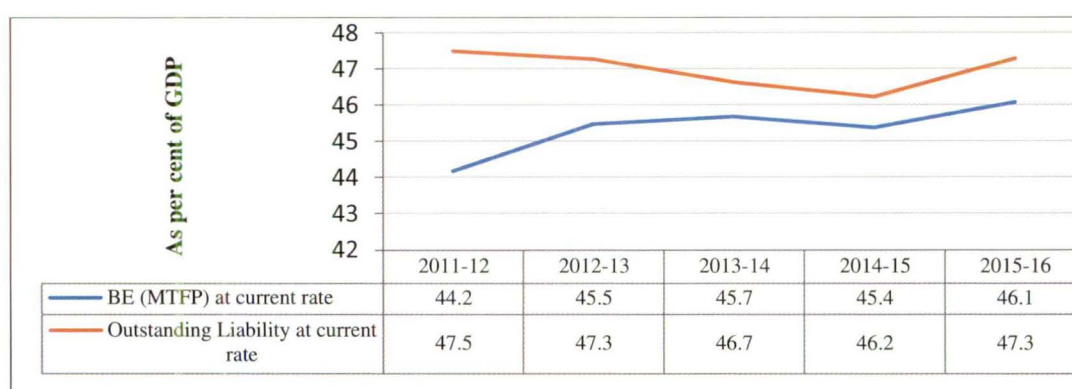
### 3.5.3 Debt Sustainability

Prudential debt management consistent with fiscal sustainability through limits on the Central Government borrowings is one of the objectives of FRBM Act. Debt sustainability refer to the ability of Government to service its debt in future. Debt sustainability is generally measured in terms of level of debt, primary deficit and interest cost in relation to nominal GDP growth rate. A falling Debt/GDP ratio can be considered as an indication leading towards stability. The ratio of interest payments to revenue receipts is also used to measure debt sustainability. In succeeding paragraphs, assessment of the debt sustainability of the Union Government has been made using trends observed in critical variables.

#### (a) Outstanding liability to GDP

Following **Graph-3.6** shows the trend of outstanding liability of the Government as a percentage of GDP as compared to estimates included in MTFP Statement over the period from 2011-12 to 2015-16:

**Graph-3.6: Trend of Outstanding Liability: 2011-12 to 2015-16**



Source: MTFP Statements and Union Government Finance Accounts.

As seen from **Graph-3.6**, the outstanding liability in terms of GDP had outstripped the budgeted level shown in the MTFP Statement. This analysis has not taken into account the understatement of liabilities in the Public Account as mentioned in Para 3.5.2, but for which during financial year 2015-16, the ratio of outstanding liability to GDP would have been 52.6 per cent.



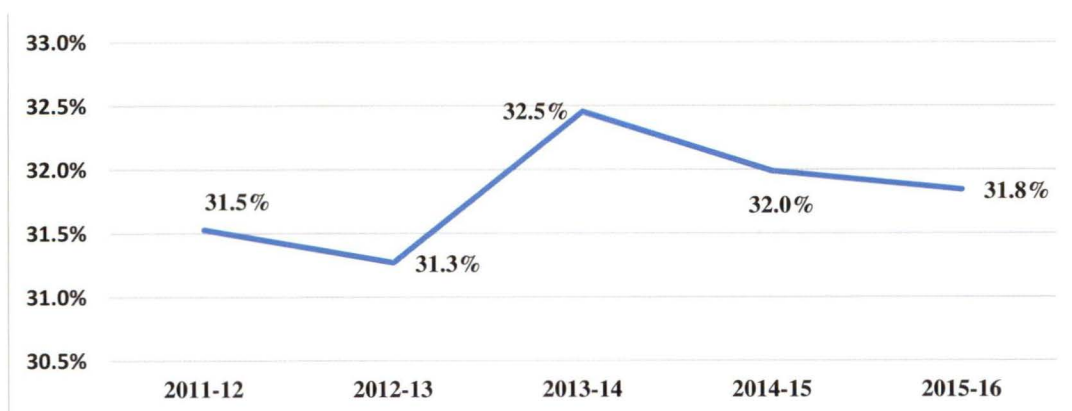
Ministry intimated (June 2017) that variation in outstanding liabilities as a percentage of GDP was mainly due to variation in GDP estimates as assumed at the time of BE of respective years and the actual numbers for the year.

Reply of the Ministry indicates that the basis for assumption of GDP for the relevant year depicted in the Budget are not sound, as variation between the projections and actuals is wide.

### (b) Ratio of interest payments to Revenue Receipts

Interest cost of debt is another indicator of measuring sustainability of debt. The ratio of interest payment to revenue receipts (IP/RR) showed a declining trend during previous two years 2014-15 and 2015-16, from a peak of 32.5 per cent in 2013-14 as shown in **Graph 3.7**.

**Graph-3.7: Ratio of Interest Payment to Revenue Receipt**



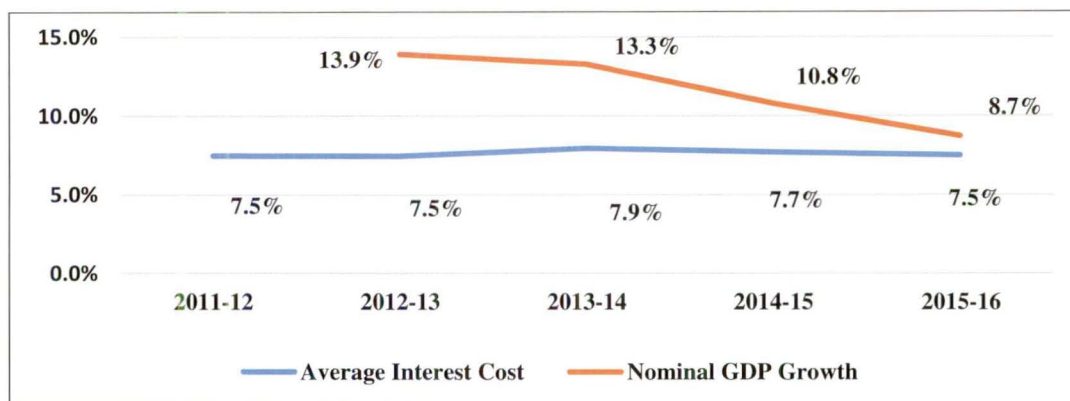
Source: Union Government Finance Accounts

### (c) Average Interest Cost

Average Interest Cost (AIC) is arrived at by dividing interest payments during the year with average outstanding liability<sup>10</sup>. A declining average interest cost augurs well for the sustainability of the debt. However, as depicted in **Graph 3.8**, over the period 2011-16 the average interest cost plateaued and ranged between 7.5 to 7.9 per cent.

<sup>10</sup> Average outstanding liability is a simple average of outstanding debt at the beginning and at the end of the year.

**Graph-3.8: Average Interest Cost and Nominal GDP growth**

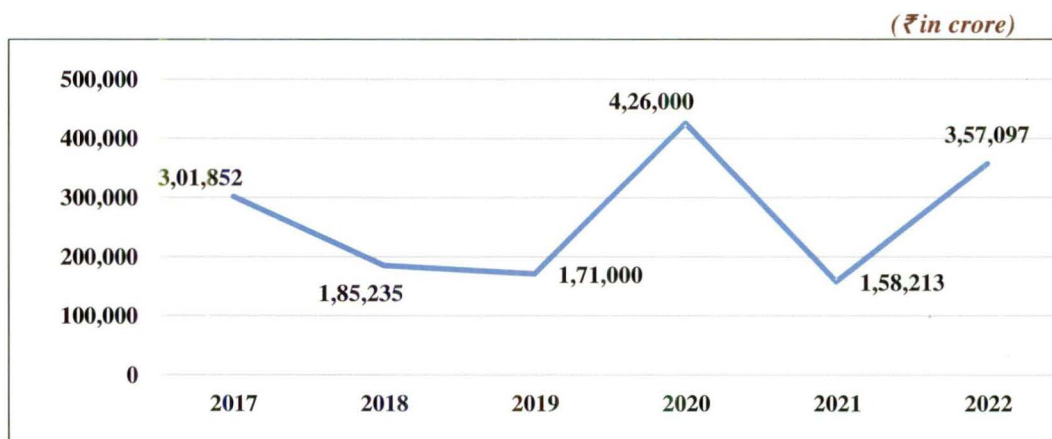


Source: Union Government Finance Accounts and GDP data published by CSO

**(d) Maturity Profile of Market Loans**

Out of total outstanding liabilities of ₹ 64,23,032 crore in 2015-16, the internal debt accounted for ₹ 53,04,835 crore. Major component of internal debt is market loans, which are dated securities with fixed maturity tenure, amounting to ₹ 43,00,102 crore (constituting 81.06 per cent of internal debt). Analysis in **Graph 3.9** reveals that market loans due for redemption in a medium time frame of next six financial years beginning from 2016-17 is ₹ 15,99,397 crore (around 37 per cent of outstanding market loan).

**Graph 3.9: Maturity profile of Market Loans: 2017-2022**



Source: Accounts at a Glance 2015-16 published by office of the CGA.

Ministry intimated (June 2017) that maturity profile of dated securities as depicted in the Graph was not comparable with maturity profile of G-securities as reported in Annual Status paper and Union Budget. Ministry further added that there were limits in place for total debt maturing in a financial year which were being adhered to by the Government.

The source of information in respect of profile of market loans due for redemption is Accounts at a Glance, prepared by the office of the CGA which is under the



Ministry of Finance. If there is any inconsistency in data contained in separate publications brought out by the Ministry, it would be appropriate for the Ministry to reconcile the same.

### 3.6 Guarantees

Central Government extends guarantees primarily for the purpose of improving viability of projects or activities undertaken by the Government entities with significant social and economic benefits, to lower the cost of borrowings as well as to fulfil the requirement in cases where sovereign guarantee is a precondition for bilateral/multilateral assistance. While guarantees do not form part of debt as conventionally measured, in the eventuality of default, they have the potential of aggravating the debt position of the Government.

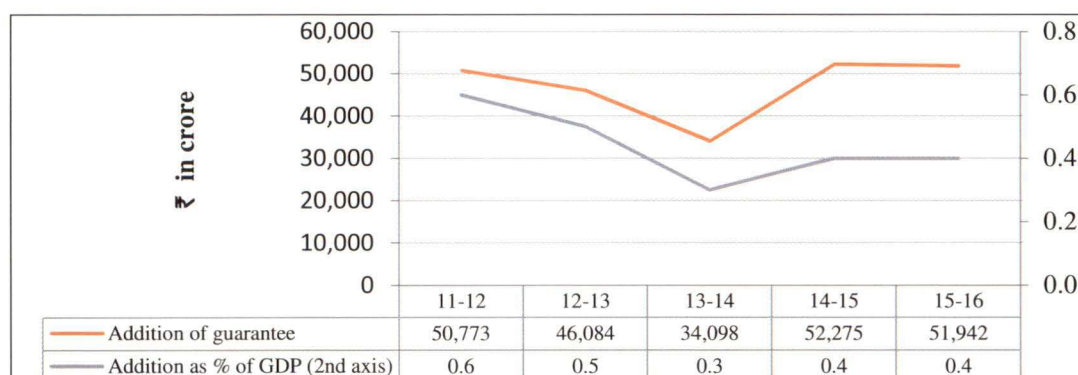
#### 3.6.1 Guarantees target

FRBM Act and the Rules made thereunder stipulate that the Central Government shall not give guarantees aggregating to an amount exceeding 0.5 per cent of GDP in any financial year beginning with 2004-05.

#### 3.6.2 Trend of additions in Guarantees

Following **Graph-3.10** shows the trend of additions in guarantees given by the Government in a financial year as a percentage of GDP over the period from 2011-12 to 2015-16:

**Graph 3.10: Trends of addition in guarantees: 2011-12 to 2015-16**



Source: Union Government Finance Accounts.

Note: Second axis represents addition in guarantees as percentage of GDP.

Above graph shows that except for financial year 2011-12, the addition of guarantee in a financial year remained within the prescribed target of 0.5 per cent of GDP.

Ministry stated (June 2017) that Government had ensured that guarantees given during the year 2011-12 (in BE/RE) were well within the limit of 0.5 per cent of GDP. Ministry added that subsequent revision of GDP for this year was not anticipated at the time of finalization of said guarantees.

The reply of the Ministry is not in order. During 2011-12, addition in guarantees was ₹ 50,773 crore and even after adopting the old series of GDP i.e. ₹ 90,09,722 crore for the year, the addition in guarantees would have been 0.6 *per cent* of GDP.

### **Conclusion**

During the year 2015-16, the Government was able to achieve its budgeted revenue and fiscal deficit targets of 2.8 and 3.9 *per cent* of GDP respectively.

The budgeted figure of grants for creation of capital assets for the year 2015-16 was modified in subsequent year's budget. This defeated the very concept of having any fiscal targets in respect of deficit indicators. Inconsistency in estimation of effective revenue deficit *viz.* computation error in provisioning of effective revenue deficit, deficiency in estimation of grants for creation of capital assets and incorrect reporting of expenditure had impacted the figures of effective revenue deficit for the year.

During 2015-16, liability of the Government was 47.3 *per cent* of GDP. However, this liability was understated on account of non-inclusion of investment out of NSSF collections in Special State Government Securities, investment of Post Office Insurance Fund through Private Fund Managers and accumulated deficit in the operation of NSSF. Taking into account the understatement, actual liability of the Government was 52.6 *per cent* of GDP.



## Chapter 4: Analysis of components of receipts and expenditure

Tax and non-tax revenue, receipts from disinvestments, recovery of loans, expenditure in the nature of revenue, capital and loans & advances are critical component of receipts and expenditure affecting the achievement of fiscal targets. This chapter presents the macro-economic position of some selected parameters, besides analysing components of receipts and expenditure having a bearing on the computation of prescribed deficit indicators of the Government.

### 4.1 Macro-economic indicators

Macro-economic indicators are statistics that indicate the current status of the economy. Position of some of the macro-economic indicators during the period 2011-12 to 2015-16 is presented in **Table-4.1** below:

**Table 4.1: Macro-economic indicators: 2011-12 to 2015-16**

Indicators	2011-12	2012-13	2013-14	2014-15	2015-16
GDP - at constant prices (₹ in crore)	87,36,329	92,13,017	98,01,370	1,05,36,984	1,13,81,002
	--	(5.5)	(6.4)	(7.5)	(8.0)
GDP - at current prices (₹ in crore)	87,36,329	99,44,013	1,12,33,522	1,24,45,128	1,36,82,035
	--	(13.8)	(13.0)	(10.8)	(9.9)
Gross Financial Savings (percentage of GDP)	10.7	10.7	10.6	10.3	11.1
Index of Industrial Production (Base year 2011-12=100)	100.0	103.3	106.8	111.1	114.9
Wholesale Price Index (Base year 2011-12=100)	100.0	106.9	112.5	113.9	109.7
Consumer Price Index (Base year 2012=100)	93.3	102.7	112.3	118.9	124.7
Money Supply (M3) (In billion ₹)	69,688	79,089	89,822	1,00,518	1,11,296
Export (in US \$ billion)	305.96	300.40	314.41	310.35	262.00
Import (in US \$ billion)	489.32	490.74	450.21	448.03	380.36
Trade Balance (in US \$ billion)	-183.36	-190.34	-135.80	-137.68	-118.36
Foreign Exchange Reserve at the end of March (in US \$ billion)	294.4	292.0	304.2	341.6	360.2
Current Account Balance (in US \$ billion)	-78.2	-88.2	-32.4	-26.9	-22.2

GDP figures are as per Press Note dated 31 May 2017 released by the Central Statistics Office, Ministry of Statistics and Programme Implementation. The new series (2011-12) GDP figures have been revised by using new series of Index of Industrial Production (IIP) and Wholesale Price Index (WPI) with base year 2011-12. The new series of IIP and WPI with base 2011-12 was released on 12 May 2017 by CSO and office of Economic Advisor, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.

Source: Reserve Bank of India in respect of Money Supply, Trade Balance, Foreign Exchange Reserve and Current Account Balance; Ministry of Commerce and Industry in respect of Gross Financial Savings.

Note: Figures in parenthesis represents percentage change of GDP over previous year.

As seen from the **Table 4.1**, against the growth rate of 7.5 per cent in 2014-15, growth of GDP at constant price was 8.0 per cent during 2015-16. However, GDP



at current prices declined from 10.8 to 9.9 per cent over the same period. The Wholesale Price Index also declined during the same period. Trade deficit improved to US \$ 118.36 billion in 2015-16 over the previous year of US \$ 137.68 billion. Further, during 2015-16, growth rate of gross financial savings had also shown improvement.

#### 4.2 Analysis of receipts and expenditure and their components

An analysis of some major components of receipts and expenditure during the period 2011-12 to 2015-16 is given in **Table 4.2** below:

**Table 4.2: Analysis of receipts and expenditure**

(₹ in crore)

Component	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Revenue Receipts (A)</b>	<b>9,10,277</b>	<b>10,55,891</b>	<b>12,17,794</b>	<b>13,28,909</b>	<b>14,36,160</b>
Tax Revenue	6,33,704 (69.6)	7,44,914 (70.6)	8,20,766 (67.4)	9,07,327 (68.3)	9,49,698 (66.1)
Non-Tax Revenue (including grants in aid)	2,76,573 (30.4)	3,10,977 (29.4)	3,97,028 (32.6)	4,21,582 (31.7)	4,86,462 (33.9)
<i>of which</i>					
Interest Receipt	40,054 (4.4)	38,860 (3.7)	44,027 (3.6)	48,007 (3.6)	46,325 (3.2)
Dividends & Profits	50,609 (5.6)	53,762 (5.1)	90,442 (7.4)	89,861 (6.8)	1,12,136 (7.8)
<b>Capital Account Receipts</b>					
Misc. Capital Receipts	18,088	25,889	29,368	37,740	42,132
Loans and Advances (Recovery)	36,818	26,624	24,549	26,547	41,878
<b>Revenue Expenditure (B)</b>	<b>13,05,195</b>	<b>14,20,473</b>	<b>15,75,097</b>	<b>16,95,137</b>	<b>17,79,529</b>
<i>of which</i>					
Interest Payment	2,86,982 (22.0)	3,30,171 (23.2)	3,95,200 (25.1)	4,25,098 (25.1)	4,57,270 (25.7)
Pensions	64,665 (5.0)	73,447 (5.2)	79,339 (5.0)	98,645 (5.8)	1,02,179 (5.7)
Subsidy	2,17,902 (16.7)	2,57,179 (18.1)	2,54,745 (16.2)	2,58,299 (15.2)	2,58,471 (14.5)
<b>Capital Account Expenditure</b>					
Capital Expenditure	1,39,465	1,50,382	1,68,844	1,72,085	2,78,866
Loans and Advances (Payment)	38,404	32,063	31,000	41,922	47,272
<b>Revenue Deficit (B-A)</b>	<b>3,94,918</b>	<b>3,64,582</b>	<b>3,57,303</b>	<b>3,66,228</b>	<b>3,43,369</b>

Source: Union Government Finance Accounts.

Note: 1. Figure in parenthesis in respect of components are as percentage of revenue receipts/expenditure.

2. Expenditure on Pensions includes Civil, Defence and Posts.

**Table 4.2** indicates declining share of tax revenue in revenue receipts and increasing share of non-tax revenue. One of the reason for increase in non-tax revenue was jump in receipts from dividends and profits, share of which in revenue receipts increased from 5.6 per cent in 2011-12 to 7.8 per cent in 2015-16. On revenue expenditure side, the interest payment component has dominance, as its share has increased from 22.0 per cent in 2011-12 to 25.7 per cent in 2015-16. During 2015-16, expenditure on account of three components, viz. interest payments, subsidies and pension alone constituted 45.9 per cent of



revenue expenditure. Thus any assessment of sustainability relating to balance between revenue receipt and revenue expenditure has to take into account a large part of expenditure, which is of the nature of committed expenditure, only with some scope available for management of expenditure on subsidy.

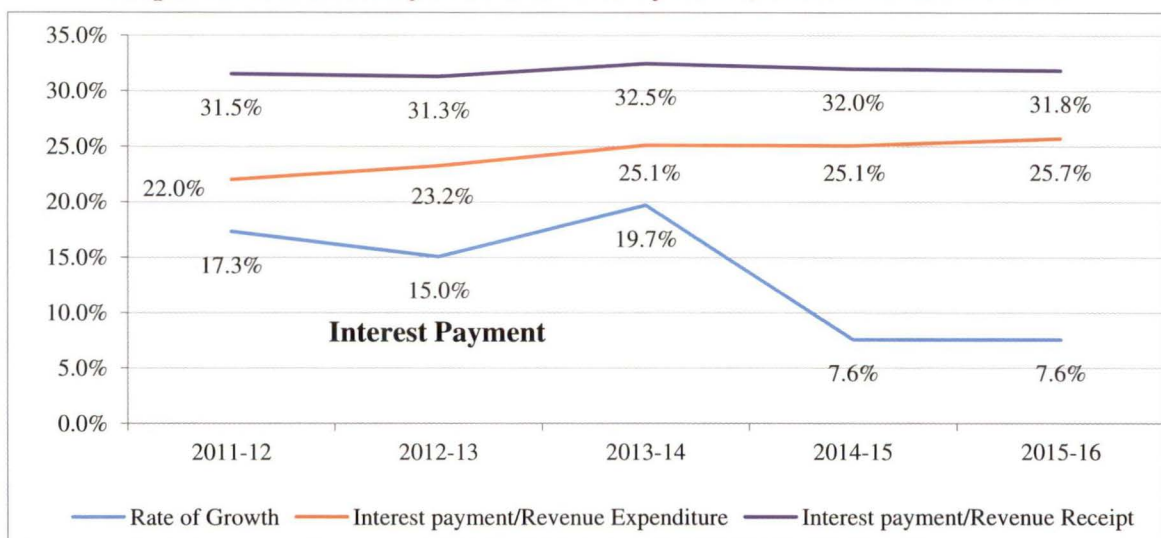
Ministry stated (June 2017) that audit observation is informative and factual in nature. It however added that information in respect of tax, non-tax, expenditure, interest payments etc. does not match with the information in the account at a glance of the CGA for respective years.

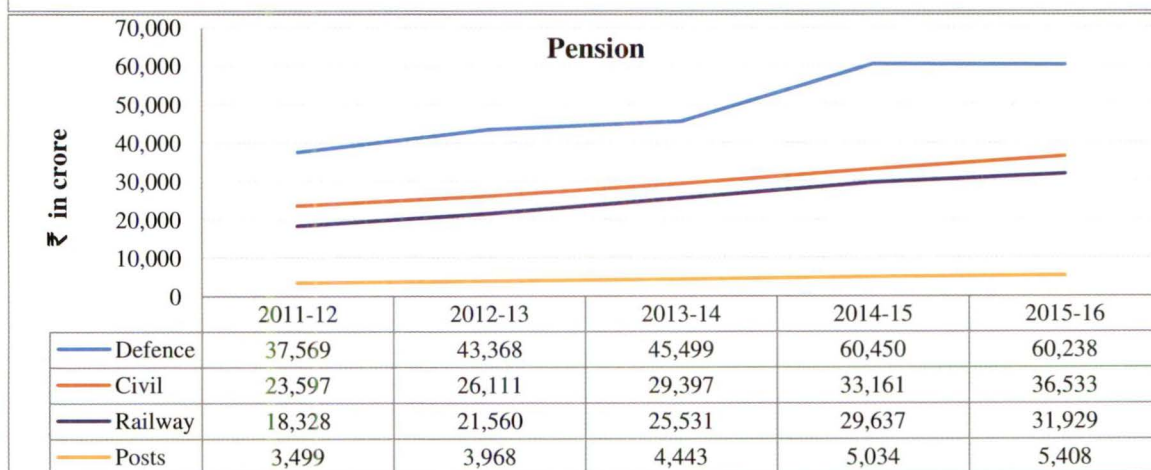
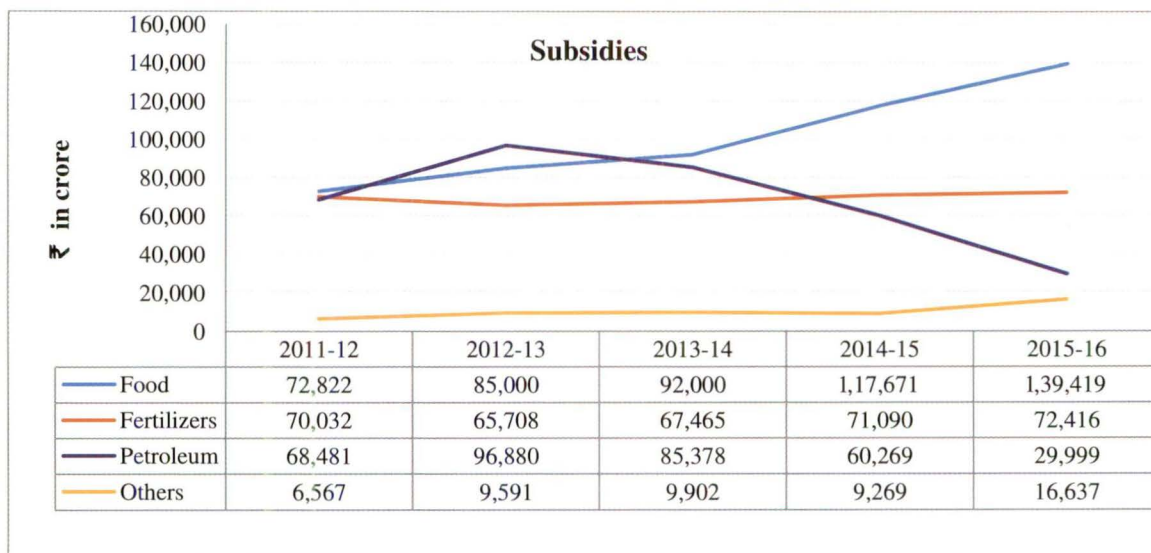
The data of various components included in **Table 4.2** by Audit have been taken from Union Government Finance Accounts of the respective years.

#### 4.2.1 Trends of Major Revenue Expenditure

**Graph 4.1** presents analysis of trends of interest payments, subsidies and pension expenditure of the Union Government. Graphical presentation of expenditure on pensions include pension expenditure incurred by Civil, Defence, Railways and Posts. The pension expenditure of Railways are financed through Pensions Funds created in Public Account, and not charged to Consolidated Fund of India. The Railway Pensions Funds in Public Account is credited with revenues generated by Railways.

**Graph 4.1: Trend analysis of Interest Payments, Subsidies and Pension**





Source: Union Government Finance Accounts and CAG's Report No. 34 of 2016.

In respect of pension payments, the Defence pension witnessed an increase by 32 per cent in 2015-16 over 2013-14, while pension payment on account of Civil, Posts and Railways had moderate growth in the five years period.

#### 4.2.2 Transfer of surplus from Reserve Bank of India

**Table 4.2** above reveals that in 2015-16 a receipt of ₹ 1,12,136 crore came from Dividends and Profits, which was 7.8 per cent of the revenue receipts. Out of total dividends and profits, about 59 per cent amounting to ₹ 65,896 crore came in the form of share of surplus profits from the Reserve Bank of India (RBI). **Table 4.3** below presents an analysis of income and expenditure of RBI and amount of surplus transferred during the period 2011-16 to the Government.



**Table-4.3: Surplus transferred by Reserve Bank of India***(₹ in crore)*

Description		Year ended on 30 June of				
		2012	2013	2014	2015	2016
(A)	Gross Income	53,176	74,358	64,617	79,256	80,870
(B)	Transfer to Contingency Fund and Asset Development Fund	27,025	28,794	-	-	-
(C)	Net Income	26,151	45,564	64,617	79,256	80,870
(D)	Expenditure	10,137	12,549	11,934	13,356	14,990
(E)	Surplus transferred to Government	16,010	33,010	52,679	65,896	65,876
	Financial Year in which receipt of surplus from RBI recorded in Union Government Finance Accounts	2012-13	2013-14	2014-15	2015-16	2016-17
	Surplus transferred to Government as percentage of Gross Income (E/A)	30.1	44.4	81.5	83.1	81.5
(F)	RBI surplus as percentage of actual revenue receipt of Union Government	1.5	2.7	4.0	4.6	---

Source: Annual Reports of RBI.

Note: The Government Accounts recognise receipts of the RBI's surplus transfer only in the next financial year of the Government, which is different from the financial year of the RBI. Thus, RBI surplus of ₹ 65,876 crore declared for the year ended 30 June 2016 will be reflected in government accounts of financial year 2016-17.

**Table-4.3** shows that the net income of RBI increased by 209 per cent in 2016 over 2012, however, the transfer of surplus profit to Government increased by 311 per cent over the same period.

During financial year 2012-13, surplus from RBI constituted 1.5 per cent of revenue receipt of the Union Government, which increased to 4.6 per cent in financial year 2015-16.

Ministry stated (June 2017) that observation was referred to RBI for its comments/reply. Ministry, however, stated that para had no direct linkage with the FRBM and hence may be removed.

The audit observation needs to be seen in the context that the increased transfer of surplus from RBI had helped to improve the finances of the Government.

### 4.3 Transactions affecting the computation of deficit indicators

During the course of audit of accounts for financial year 2015-16 of the Union Government, it was noticed that certain transactions and financial eventualities, such as misclassification of expenditure, short transfer of levies/cess to the designated funds, non-recognition of losses in the operation of National Small Savings Fund (NSSF) and unpaid expenditure on subsidies, had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder. These transactions are discussed in succeeding paras.

### 4.3.1 Understatement of Revenue Deficit due to misclassification of expenditure

During the audit of Union Government Accounts for financial year 2015-16, a number of instances of misclassification of expenditure of revenue nature as capital expenditure and vice versa were noticed. These instances were reported in Para 4.4 of CAG's Report No. 34 of 2016 on the accounts for 2015-16 of the Union Government. Obtaining budget provisions under incorrect head of accounts, and subsequent booking of expenditure there against resulted in instances of misclassifications in the accounts. The capital expenditure of the Union Government in financial year 2015-16 was overstated by ₹ 1,928.24 crore and understated by ₹ 345.46 crore due to misclassification, leading to net overstatement of capital expenditure by ₹ 1,582.78 crore, as detailed in **Annexure-4.1**. Due to overstatement of capital expenditure by ₹ 1,582.78 crore, revenue deficit in financial year 2015-16 was understated by an equivalent amount.

*Ministry stated (June 2017) that the matter was taken up with the office of CGA which commented that, the booking by the Ministries is based on the provisioning made under the relevant heads in Detailed Demands for Grants. Ministry further added that the issues pointed out are basically about classification errors which is minimal keeping in view the overall budget size. The observations are, however, noted and instructions in this regard have already been issued.*

### 4.3.2 Short/non transfer of levies/cess to earmarked funds

Cesses are statutory levies whose proceeds are earmarked for utilisation towards specific purposes. A number of cess/levy initially collected in the Consolidated Fund of India are transferred to designated Funds specifically created for the purpose in the Public Account. In Para No. 2.3 of CAG's Report No. 34 of 2016 on the accounts for financial year 2015-16 of the Union Government, non-transfer of ₹ 20,910.61 crore, collected under different categories of levies and cess forming part of tax/non-tax revenue, to the funds earmarked for the purpose had been reported. Details of such cess/levy collected and not transferred to designated funds in the Public Account by the Government is at **Annexure- 4.2**. However, the Government did not transfer the entire levy/cess collected to the designated funds. Further, there is no disclosure in the annual accounts or in the Budget documents with regard to the actual utilisation of cess collected for the intended purpose and unutilised balances. Short transfer of levies/cess of ₹ 20,910.61 crore during financial year 2015-16 led to understatement of revenue/fiscal deficit by equivalent amount.



Ministry accepted (June 2017) that in certain cases there were short transfers of amounts realized through levy of cess to dedicated funds kept in the Public Account. It, however, stated that while rationally applying scarce resources, the capacity of the Ministry/Department or the progress of the Scheme/Programme is also required to be taken into account.

Ministry further added that larger transfers to Public Account (with no corresponding expenditure) would restrict the room for the expenditure on desirable schemes/programmes. Audit's view on short transfers of cess collections to dedicated reserve funds as being an attempt by the Government to achieve its fiscal discipline enumerated under FRBM Act, is incorrect. However, Government is making efforts to provide maximum funds from the tax related cesses for earmarked activities, and the gap is expected to be closed in the coming budget.

Reply of the Ministry does not address the underlying theme for levying the cess. The levy/cess collected by the Government were for specific purpose and to provide the intended service in return of the cess/levy charged. Hence, the Government has a specific responsibility and liability as well for providing the service. Till the cess/levy is not spent on the objectives for which they were levied, the unspent collections of cess/levy need to be transparently reflected in the accounts of the Union Government.

**Recommendation :** *The Government may transfer specific purpose levies/cess collected to the designated funds.*

#### **4.3.3 Non recognition of losses under NSSF in CFI**

NSSF was created in Public Account in April 1999 with the Central Government taking on the responsibility of servicing the small savings deposits. The fund receives money from subscribers of various small saving schemes, and invests the balance available with it in Central and State Government Securities. Before the NSSF was constituted, the small savings receipts mobilised by the Union Government and on-lent to the States were treated as capital expenditure of the Union Government and, accordingly, calculated in its gross fiscal deficit. Shortfall in returns from loans given out of small savings proceeds and the interest paid on small savings were accounted for under CFI and hence calculated under its revenue deficit. After the constitution of the NSSF, however, the income/deficit of NSSF is not being reflected as part of the Union Government's revenue deficit. In this context, the 14<sup>th</sup> FC had observed that the off-budget nature of NSSF operations renders them outside the regulatory framework of the FRBM Act, raising concerns of fiscal transparency and comprehensiveness.

At the end of financial year 2015-16, total accumulated deficit in the operation of NSSF was ₹ 1,04,217 crore. During the year 2015-16, the operational loss in NSSF was ₹ 13,509 crore. These deficits are in the nature of loss to the Government which will have to be borne on revenue account, whenever the liabilities under NSSF are fully and finally repaid. By keeping the annual loss in the operation of NSSF under Public Account, the deficit figure for the relevant year are not reflected fairly.

*Ministry stated (June 2017) that the entire operation of NSSF is operated in Public Account. Revenue and Fiscal Deficit is calculated with reference to CFI. The deficit or loss in NSSF cannot be added to revenue or fiscal deficit of the Government and the observation was selective and in isolation. Ministry also added that the accumulated deficit of NSSF was recognized and shown as part of total liability of Central Government. Ministry further added that following the 'pay as you go' principle, there was no immediate need to provide budgetary allocations to fund the losses under NSSF. NSSF being the Government operations, any shortfall in discharging the liabilities will need to be made by Government.*

The reply of the Ministry needs to be seen in view of its reply furnished previously on similar issues reported in previous FRBM Report (27 of 2016). Previously the Ministry accepted (June 2016) that administrative intervention is required for making good the accumulated losses which had occurred in NSSF. At that time Ministry had also admitted that if administrative decision was taken to make good the progressive deficit in operation of NSSF that required to be provided in CFI which would have an adverse impact on revenue and fiscal deficits.

The reply of the Ministry also does not take into account the Cabinet decision of 18 January 2017 wherein States/UTs (with legislature) except Arunachal Pradesh, Kerala, Madhya Pradesh and Delhi have been excluded from investments out of NSSF collections.

**Recommendation :** *A mechanism for recognising the result of annual operation of NSSF and its impact on the Government finances may be put in place.*

#### **4.3.4 Unpaid expenditure on Subsidies**

In Para 1.3.2.2 of CAG's Report No. 34 of 2016 on the accounts for financial year 2015-16 of the Union Government, a mention was made with regard to unpaid subsidy claims with the Government amounting to ₹ 1,62,530 crore (claims including past years unpaid bills, but excluding last quarter bills for financial year 2015-16 remaining unpaid) pertaining to fertilizer, food and



petroleum subsidies<sup>11</sup>. Of the unpaid subsidy claims amounting to ₹ 1,62,530 crore, claims related only to Food Corporation of India amounts to ₹ 1,45,637 crore.

*Ministry stated (June 2017) that Government as a going concern makes payment for the arrears of the past and defers payment to next financial year on account of various reasons such as non-finalization of accounts by PSUs etc. Ministry further stated that arrears of food subsidy is made only after audit of accounts is completed or Oil Marketing Companies being paid for last quarter of a financial year after audit of financial results, in the first quarter of next financial year. Ministry also added that accounts of the Governments are prepared on cash basis and under this system, expenditure and deficit get impacted at the time/year of discharge of liabilities. Ministry further added that in the present system, there is no mechanism of adding to expenditure/deficit (in the year liabilities is taken) and reducing the same in the year of discharge.*

Though the accounts of the Government are prepared on cash basis, yet the deferment of liabilities to subsequent year cyclically has a bearing on computation of fiscal indicators. The practice of deferring committed liability on the ground that accounts are prepared on cash basis, while serving as an instrument to contain the current level of deficit, may not ensure inter-generational equity in fiscal management as envisaged in the Act.

#### **4.3.5 Short devolution out of net proceeds to States**

In terms of Article 279 of the Constitution, the Comptroller and Auditor General of India (CAG) is required to ascertain and certify the 'net proceeds' (any tax or duty the proceeds thereof reduced by the cost of collection), whose certificate shall be final.

In financial year 2015-16, the gross collection of taxes and duties divisible between Union and States ascertained by the CAG was ₹ 14,52,113.43 crore. Out of gross collection, the 'net proceeds' to be divisible between Union and States was ₹ 12,64,607.75 crore. In terms of the accepted recommendation of the 14<sup>th</sup> Finance Commission, 42 per cent of the divisible pool works out at ₹ 5,31,135.26 crore. However, an amount of ₹ 5,06,192.96 crore was shown as devolution to the States in financial year 2015-16 out of divisible pool. Thus, there was short devolution of net proceeds of ₹ 24,942.30 crore, which had the bearing on computation of deficits during the year.

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<sup>11</sup> Fertilizers and Chemicals Travancore Ltd. (₹ 197.88 crore); National Fertilizers Ltd. (₹ 4,031.85 crore); Rashtriya Chemical & Fertilizers Ltd. (₹ 2,945.78 crore); Food Corporation of India (₹ 1,45,636.75 crore) and Petroleum Subsidies (₹ 9,717.24 crore).

*Ministry stated (June 2017) that office of CAG is required to certify the 'net proceeds' for each year and the figures of 'net proceeds' calculated by the CAG are at variance with that of the Budget Division. Ministry further added that accuracy of the figures intimated by the CAG are required to be ascertained/reconciled with that of Budget Division, Department of Economic Affairs as the calculations for State share of Central Taxes and Duties are based on set practices and norms which have been meticulously followed year after year.*

The draft calculation of computation of net proceeds of taxes and duties for the year 2015-16 was made available well in advance to the Department of Economic Affairs, Ministry of Finance in December 2016. Subsequently, the certificate of CAG, which is final in terms of Article 279 of the Constitution was issued to the Ministry in March 2017. Ministry may institute appropriate mechanism in-house to reconcile the figure of net proceeds for a year when the draft computation is made available to them and communicate their acceptance or otherwise timely to the office of the CAG.

#### **4.4 Expenditure on procurement/maintenance treated as expenditure on grants for creation of capital assets**

Section 2(bb) of FRBM Act as amended in 2012 stipulates that 'grants for creation of capital assets' means the grants in aid given by the Central Government to the State Governments, constitutional authorities or bodies, autonomous bodies, local bodies and other scheme implementing agencies for creation of capital assets which are owned by the said entities.

In 2015-16, an expenditure of ₹ 1,31,754 crore was incurred on grants for creation of capital assets by Ministries/Departments on various schemes/programmes, as reflected in Annex-6 of Expenditure Budget, Volume-I. The Government has not laid down any criteria/guidelines to decide which expenditure to be incurred by the grantee organisation will fall under the category 'capital creation'. In absence of any guidelines, expenditure incurred on procurement and maintenance under some schemes are also been classified as grants for creation of capital assets. Even in the case of expenditure resulting into creation of assets under some schemes, the ownership of the assets so created rests with the beneficiaries of the scheme and not with the grantee organisation, as required in Section 2(bb) of the FRBM Act.

In succeeding paras, audit observations relating to some expenditure, which do not qualify to be classified as grants for creation of capital assets have been discussed.

- a) In two schemes, viz. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and Members of Parliament Local Area Development (MPLAD), some part of expenditure incurred were



either in the nature of maintenance of existing assets or procurement not resulting in creation of capital assets but they were classified as expenditure on grants for creation of capital assets. Details of such components of work are mentioned in **Box-4.1** below:

**Box-4.1: Works not resulting in creation of capital assets**

Schemes	Components of work not resulting in creation of capital assets
MGNREGS	<ul style="list-style-type: none"> <li>• Drought proofing, including afforestation and tree plantation</li> <li>• Plantation, horticulture, land development</li> <li>• Renovation of traditional water bodies, including de-silting of tanks</li> <li>• Maintenance of assets created under the Scheme</li> </ul>
MPLAD	<ul style="list-style-type: none"> <li>• Purchase of books for school, college and public library</li> <li>• Purchase of tricycles and wheelchair (manual/battery operated)</li> <li>• Purchase of artificial limbs for differently-abled persons</li> <li>• Expenditure on purchase of software and imparting of training for the purpose</li> <li>• Purchase of mobile library and furniture</li> </ul>

Since expenditure on above categories relates to maintenance of existing assets or procurement not resulting in creation of capital assets, their classification as grants for creation of capital assets was not in order. In the absence of itemised expenditure incurred on above mentioned components of work in the schemes, Audit could not quantify the amount of overstatement of expenditure on grants for creation of capital assets<sup>12</sup>.

- b) Indira Awas Yojana<sup>13</sup> (IAY), is a scheme implemented by Ministry of Rural Development, providing assistance to Below Poverty Line families for constructing a safe and durable shelter, who are either houseless or having inadequate housing facilities. During financial year 2015-16, expenditure of ₹ 10,110.23 crore was incurred by the Ministry on the IAY scheme and categorised as grants for creation of capital assets. Under this scheme, the grants are released by the Ministry to State Governments, which in turn release grants/assistance to the beneficiaries under the scheme.

As the funds under the scheme were utilised for providing housing facilities which are owned by the beneficiaries and not owned by the grantee entities/organisations, categorising expenditure on IAY as grant for creation of capital assets was incorrect.

<sup>12</sup> Total expenditure incurred as grants for creation of capital assets under MGNREGS and MPLAD was ₹ 36,644.81 crore and ₹ 3,502 crore respectively.

<sup>13</sup> IAY was subsumed in the Scheme Pradhan Mantri Awas Yojana from financial year 2016-17.

#### **4.5 Grants for creation of capital assets to Special Purpose Vehicle**

Goods and Services Tax Network (GSTN), a Special Purpose Vehicle (SPV), was created by the Government in April 2012 to create enabling environment for smooth introduction of Goods and Services Tax and to provide IT infrastructure and services to various stakeholders including the Centre and the States. GSTN was registered as a non-government, not-for-profit, private limited company under Companies Act having Central and State Government combined holding on 49 per cent of equity and 51 per cent of equity with private institutions<sup>14</sup>. During financial year 2015-16, Union Government provided grants amounting to ₹ 110.93 crore to GSTN and classified the same as grants for creation of capital assets.

Section 2(bb) of FRBM Act as amended from time to time provides that the capital assets so created from the grants for creation of capital assets should be owned by the entities. Since Union Government's ownership in the GSTN is only 24.5 per cent, assets created from the grants were not wholly owned by the Government. As such, grants amounting to ₹ 110.93 crore given during financial year 2015-16 was inconsistent with the definition of ownership of assets provided under the Act.

*In respect of Paras 4.4 and 4.5, Ministry stated (June 2017) that definition of grants for capital assets is provided under Section 2(bb) of FRBM Act as amended in 2012. Ministry further added that information provided in the Budget Statement on grants-in-aid for creation of capital assets was based on the inputs/information provided by various Ministries/Departments and Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Ministry intimated that efforts were being made to rectify the errors/ inconsistency.*

The Ministry's reply does not address the audit concern on the ownership of assets and nature of expenditure to be classified as grants for creation of capital assets. Due to absence of defined criteria for classification of expenditure in respect of 'grants for creation of capital assets' there exists inconsistent and varying practices in the treatment of such expenditure.

**Recommendation :** *Criteria for classification of expenditure as grants for creation of capital assets may be prescribed for appropriate compliance by the Ministry/Department. Assets created out of such grants but not owned by the grantee organization may be excluded from categorizing as grants for creation of capital assets.*

<sup>14</sup> 51 per cent of the equity holding of GSTN was with HDFC (10 per cent), HDFC Bank (10 per cent), ICICI Bank (10 per cent), NSE Strategic Investment Co. (10 per cent) and LIC Housing Finance Ltd. (11 per cent).



**Conclusion**

In financial year 2015-16, certain illustrative transactions relating to misclassification of expenditure, short transfer of levies/cess to the designated funds, non-recognition of losses in the operation of NSSF, short assignment of net proceeds of taxes to States and unpaid expenditure on subsidies were noticed. These transactions had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder. Certain expenditure of the Government was incorrectly classified as grants for creation of capital assets.

## Chapter 5: Analysis of projections in fiscal policy statements

Section 3 of the FRBM Act envisages laying of three fiscal policy statements *viz.* Mid-term Fiscal Policy (MTFP); Fiscal Policy Strategy (FPS); and Macroeconomic Framework (MF) in both Houses of Parliament along with the Annual Financial Statement and the Demands for Grants. Amendment made in the FRBM Act in 2012 prescribed another statement (Medium Term Expenditure Framework (MTEF) Statement) containing a three year rolling target for prescribed expenditure indicators, with specification of underlying assumptions and risks involved. The MTEF is mandated to be laid before both Houses of Parliament immediately following the Session of Parliament in which the MTFP, FPS and MF Statements are laid.

This chapter analyses the receipts and expenditure of the Union Government for financial year 2015-16 *vis-à-vis* projections contained in the fiscal policy statements, Budget at a Glance and Annual Financial Statement.

### 5.1 Projections in Mid Term Fiscal Policy Statement

MTFP Statement contains three year rolling targets for fiscal indicators *viz.* revenue deficit, effective revenue deficit, fiscal deficit, tax revenue and total outstanding liabilities as a percentage of GDP with specification of underlying assumptions, including assessment of sustainability relating to balance between revenue receipt and revenue expenditure; use of capital receipts including market borrowings for generating productive assets. Analysis of projections of some of the components of fiscal indicators for financial year 2015-16 in MTFP Statement are made below:

#### 5.1.1 Gross Tax Revenue projection

In the MTFP Statement placed along with Budget 2013-14, the Government had set gross tax revenue target of 11.5 *per cent* of GDP for financial year 2015-16. This target was revised downward to 10.9 and 10.3 *per cent* of GDP in subsequent MTFP Statements placed with Budget 2014-15 and 2015-16 respectively. The target was however revised upward to 10.8 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2016-17. Against these estimates, actual gross collection of tax revenue was 10.7 *per cent* of GDP for financial year 2015-16.



### 5.1.2 Total Outstanding Liability projection

Rule 5 of FRBM Rules 2004 requires that the Central Government shall set forth a three-year rolling target through MTFP Statement in respect of total outstanding liabilities as a percentage of GDP.

In Budget 2013-14, the Government had set the target as 42.3 *per cent* of GDP for financial year 2015-16. This projection was revised upward for to 43.6 *per cent* and 46.1 *per cent* of GDP in next two MTFP Statements placed along with Budgets for the financial years 2014-15 and 2015-16 respectively. The target was further reviewed and revised on higher side to 47.6 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2016-17. Against this, the actual ratio of total liability to GDP for 2015-16 stood at 47.3 *per cent*.

### 5.1.3 Disinvestment projection

In the MTFP Statement placed with Budget 2013-14, an amount of ₹ 15,000 crore was projected as disinvestment proceeds for financial year 2015-16. Further, in MTFP Statement placed along with the Budget of 2014-15, the estimates from disinvestment was revised upwardly to ₹ 55,000 crore for the years 2015-16 and 2016-17. In the Budget 2015-16, Government however estimated to raise ₹ 69,500 crore from miscellaneous capital receipts, but in RE 2015-16, this projection was scaled down to ₹ 25,313 crore. Against this reduced projection, the actual realization from disinvestment of Public Sector Undertakings in financial year 2015-16 was ₹ 42,132 crore.

The continued deviation in projections of components of receipts as discussed in paragraphs 5.1.1, 5.1.2 and 5.1.3 above indicates deficiencies in the process of making underlying assumptions while framing fiscal policy statements for a particular year. Frequent changes in the projections of components of receipts and expenditure has also bearing with the projections of fiscal indicators presented through MTFP Statement with rolling targets in a medium time frame.

*In respect of Paras 5.1.1, 5.1.2 and 5.1.3, Ministry stated (June 2017) that target in the MTFP Statement are set in view of FRBM roadmap and on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure and other macro-economic factors etc. and in budget year, they are fixed with re-assessment of the macro-economic situation. In respect of disinvestment policy of the Government, Ministry stated that prevalent market conditions are an important factor in the Government's decision to adopt cautious approach on disinvestment. Ministry further added that continuous efforts were being made for improved assessment in order to make more realistic projections so as to keep the variation between projections and actual Budget Estimates to the minimum.*

Reply of the Ministry reinforces the audit contention that the projections for various components of fiscal indicators contained in the fiscal policy statement should be on sound basis, which may form the basis for preparing the Budget for the relevant year. In respect of subdued receipts from disinvestment *vis-à-vis* projections, it may be mentioned that despite prioritising this important stream of resources, the Government was not able to achieve the budgeted receipts from disinvestment in last five years.

## **5.2 Projections in Medium Term Expenditure Framework Statement**

Consequent to amendments made in FRBM Act in 2012, one of the key requirements relate to laying of a Medium Term Expenditure Framework (MTEF) Statement in the Parliament, in the Session immediately following the Budget Session. In terms of sub-section 6A of Section 3 of the Act, the MTEF Statement shall set forth a three year rolling target for prescribed expenditure indicators (in prescribed format notified on 5 September 2012) with specification of underlying assumptions and risks involved.

Comparison of projection of expenditure for financial year 2015-16 contained in MTEF Statement of 2014-15 (December 2014) with Budget estimates for financial year 2015-16 contained in MTEF Statement of 2015-16 (August 2015) and revised estimates for financial year 2015-16 as contained in MTEF Statement of 2016-17 (August 2016) is given in **Annexure-5.1**.

From the annexure, it would be seen that underlying assumptions based on which the expenditure projections made for financial year 2015-16 in MTEF Statement of 2014-15 were changed in subsequent years MTEF Statements. As a result of persistent changes in projections, following points were observed.

- In respect of revenue expenditure, the projection made in December 2014 was overestimated by 7.57 per cent as compared to Revised Estimates 2015-16 (August 2016).
- Projections of revenue expenditure on Tax Administration, Transport and IT & Telecom were augmented substantially in Revised Estimates 2015-16. While in respect of Education, Agriculture and Allied, Urban Development, Rural Development and Development of North East Region the downward revision in each case was more than 20 per cent at Revised Estimates stage.
- The projection made in respect of expenditure on grants for creation of capital assets was drastically reduced from ₹ 3,01,598 crore (December 2014) to ₹ 1,32,004 crore (August 2016). The ultimate contraction under



this head of expenditure was ₹ 1,69,594 crore, amounting to 56.23 per cent of the projected figure.

- With respect to overall Capital Expenditure the reduction at Revised Estimates stage of 2015-16 was 15.02 per cent. The segments of capital expenditure which witnessed reduction of more than 20 per cent in the Revised Estimates 2015-16 stage are Home Affairs, Health, Commerce and Industry, Planning and Statistics, IT & Telecom, Defence, Energy and Scientific Departments.
- Some of the heads of expenditure have also been compared *vis-à-vis* actuals as detailed in **Table 5.1** below:

**Table 5.1: Expenditure projection and actuals for financial year (FY) 2015-16**

(₹ in crore)

Heads of expenditure	Projections for FY 15-16 in MTEF Statement for FY 2014-15 (December 2014)	BE in MTEF Statement for 2015-16 (August 2015)	RE for 2015-16 in MTEF Statement of 2016-17 (August 2016)	Actuals (as per Budget at a Glance) (February 2017)	% age variation (Col.5 w.r.t. Col.2)
1	2	3	4	5	6
Revenue Expenditure	16,74,359	15,36,047	15,47,673	15,37,761	-8.2
Interest	4,68,431	4,56,145	4,42,620	4,41,659	-5.7
Pension	90,154	88,521	95,731	96,771	7.3
Fertiliser subsidy	76,000	72,969	72,438	72,415	-4.7
Food subsidy	1,20,000	1,24,419	1,39,419	1,39,419	16.2
Petroleum subsidy	50,000	30,000	30,000	29,999	-40.0
Grants for creation of capital assets	3,01,598	1,10,551	1,32,004	1,31,754	-56.3
Capital Expenditure	2,79,738	2,41,430	2,37,718	2,53,022	-9.6

Source: MTEF Statements and Budget at a Glance

As seen from **Table 5.1**, the actual expenditure under the heads Pension and Food Subsidy in financial year 2015-16 outstripped the projection for that year as contained in MTEF Statement of 2014-15 by 7.3 and 16.2 per cent respectively. At the same time, actual expenditure on Petroleum subsidy was less than the projection made in December 2014. In respect of expenditure on Grants for creation of capital assets, the actual expenditure fell short by 56.3 per cent due to its over projection in December 2014. Government in MTEF Statement of 2014-15 had cited that provision were made during the projection period to eliminate revenue deficit by 31 March 2016.

*Ministry stated (June 2017) that expenditure estimates/projections in MTEF are set in view of FRBM roadmap on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure and other macro-economic factors etc. Ministry further added that Budget Estimates were fixed on the basis of re-assessment of situation which may again undergo some change at Revised Estimates stage depending upon pace of actual expenditure, absorptive capacity of economy and various other macro-economic factors.*

*Ministry however, assured that continuous efforts were being made for improved assessment in order to make more realistic projections so as to keep the variation between projections and actual Budget Estimates to the minimum.*

Reply of the Ministry indicates deficiencies in the process of making assumptions while preparing the fiscal policy statements. This leads to frequent and substantial recalibration in later years and also having impact on structural imbalance in composition of expenditure.

***Recommendation:*** *The Government may strengthen the process of making underlying assumptions for projections of receipt and expenditure in various fiscal policy statements to insulate them from frequent changes and to seamlessly integrate the projections in the Budget.*

### **Conclusion**

The analysis of the projections of receipts and expenditure included in the fiscal policy statements for multi-year revealed that the projections were at variance *vis-a-vis* corresponding figures for that year as reflected in subsequent statements and Budget documents.



## Chapter 6: Disclosure and Transparency in fiscal operations

The FRBM Act requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations and make such disclosures in the prescribed forms. This chapter analyses general transparency in government accounts together with data contained in disclosure forms/statements mandated under the Act.

### 6.1 Transparency in Government Accounts

Section 6(1) of FRBM Act provides that the Central Government shall ensure greater transparency in its fiscal operations in the public interest and minimise as far as practicable, secrecy in the preparation of the Annual Financial Statement and the Demands for Grants. Further, the principles of recognition of expenditure and receipt are required to be consistent in the Budget documents, Finance and Appropriation Accounts. Observations relating to issues of transparency are discussed in succeeding paras.

#### 6.1.1 Variation in deficits figures

The issue of variation in figures of revenue and fiscal deficits derived on the basis of data contained in Annual Financial statements (AFS)/Union Government Finance Accounts (UGFA) and those reflected in the Budget at a Glance (BAG) had regularly been reported in the Reports of C&AG. **Table-6.1** below presents budgeted projections for financial year 2015-16 in respect of revenue and fiscal deficits as derived from Annual Financial Statement and reflected in Budget at a Glance.

**Table-6.1: Variation in estimates of deficits: 2015-16**

(₹ in crore)

Estimates as per	Revenue Receipt	Revenue Expenditure	Revenue Deficit (RD)	Total non-debt Receipt	Total Expenditure	Fiscal Deficit (FD)
	1	2	3=2-1	4	5	6=5-4
Annual Financial Statement	13,97,620	17,92,562	3,94,942	14,89,834	20,45,988	5,56,154
Budget at a Glance	11,41,575	15,36,047	3,94,472	12,21,828	17,77,477	5,55,649
	<b>Variation in RD</b>		<b>470</b>	<b>Variation in FD</b>		<b>505</b>

Source: Budget 2015-16

AFS is a statement of receipts and expenditure of the Government laid before both the Houses of Parliament in compliance to Article 112(1) of the Constitution. However, in BAG which shows in brief the estimates of receipts and disbursements, the estimates of deficits have been arrived at after netting of receipts against expenditure on the logic that these are fiscal neutral/non-cash

transactions. Reconciliation statements are appended in the Receipt and Expenditure Budget explaining the transactions netted from the AFS.

An examination of reconciliation statements showed that estimates of revenue expenditure was netted by ₹ 470.53 crore on account of Securities issued to African Development Fund/Asian Development Fund and the identical amount has been accounted under capital receipt. Since transaction relating to securities issued to African Development Fund/Asian Development Fund was of capital nature, no explanation was furnished in the Budget document for netting this transaction from revenue expenditure, resulting in variation on like amount in revenue deficit in comparison to AFS. Further, a transaction of ₹ 34.84 crore on account of Securities issued to International Monetary Fund had been netted in capital expenditure and capital receipt.

At the end of the financial year corresponding to the estimate year, the variation gets more accentuated after obtaining supplementary provisions during the year and finalisation of Union Government accounts, as can be observed from **Annexure 3.1**. For financial year 2015-16, the variation in actual fiscal deficit figure worked out based on data contained in AFS/Union Government Finance Accounts and those in BAG was ₹ 52,706 crore<sup>15</sup>. Against this, the variation at estimated stage was only ₹ 505 crore.

While making the estimates of deficits in BAG netting of certain transactions of receipts and expenditure are carried out by the Government. As targets of fiscal indicators in MTFP Statement are integrated from figures contained in BAG, netting of any transactions which affects the computation of revenue and fiscal deficit is inconsistent with the definitions of deficits prescribed in the FRBM Act.

*Ministry stated (June 2017) that securities issued to African Development Fund/Asian Development Fund was in the form of contribution and non-cash transaction; therefore it was netted with revenue expenditure. It added that on receipts side the amount was booked appropriately on capital side under Major Head 6001. Ministry also explained that on account of securities issued to international bodies, ₹ 633 crore was netted on revenue account expenditure and amount of ₹ 52,181.60 crore was netted on capital account expenditure resulting in variation in actual deficit figures as worked out from AFS/Union Government Finance Accounts with those in BAG.*

While taking into consideration the reply of the Ministry, it is emphasised that Section 6(1) of the FRBM Act requires the Central Government to take suitable

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<sup>15</sup> In the Union Government Finance Accounts 2015-16, the recovery of loans and advances has been shown as ₹ 41,878.38 crore, while in Annual Financial Statement it has been shown as ₹ 41,869.80 crore, a difference of ₹ 8.58 crore.



measures to ensure greater transparency in its fiscal operations. The practice of netting of any transaction, cash and/or non-cash, is inconsistent with the definition of deficits prescribed under the FRBM Act. The continuance of inconsistent practice year after year had resulted in variation of deficit figures depicted in Budget at a Glance and those as arrived from Annual Financial Statement/Union Government Finance Accounts.

### 6.1.2 Variation in expenditure on grants for creation of capital assets

In the Budget document, figure of actual expenditure incurred on grants for creation of capital assets appears in Budget at a Glance and Ministry-wise details thereof are appended with Expenditure Budget, Volume-I. In Union Government Finance Accounts, compiled by the Controller General of Accounts (CGA) under the Ministry of Finance, this figure appears in Appendix to Statement No. 9 as a disclosure statement. Accounts at a Glance is another document published by the CGA providing macro level overview of financial information of the Government for relevant year. While comparing the actual figure of expenditure on grants for creation of capital assets for financial year 2015-16, variation was noticed between the Budget documents and documents compiled/prepared by CGA as detailed in **Table-6.2** below:

**Table-6.2: Expenditure on grants for creation of capital assets: 2015-16**

(₹ in crore)		
As per Union Government Finance Accounts/Account at a Glance	As per Budget at a Glance/ Expenditure Budget, Volume-I	Variation
1,30,955	1,31,754	799

Source: Budget documents, Account at a Glance and Union Government Finance Accounts

*The Ministry stated (June 2017) that information provided in the Budget Statement on grants for creation of capital assets was based on the inputs/information provided by various Ministries/Departments. It further submitted that Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Ministry however intimated that efforts are being made to rectify the errors/ inconsistency.*

Ministry of Finance, being the nodal Ministry for the administration of the FRBM Act, should ensure that information being collected and disclosed under the Act is complete, accurate and consistent with other Government documents brought out by the various arms of the same Ministry.

### 6.1.3 Variation in the amount of liabilities

In the Receipt Budget a statement showing liabilities of the Central Government is appended as annexure. The details of liabilities are also reflected through Union Government Finance Accounts (UGFA). **Table-6.3** below presents the variation in the position of liabilities of the Government at the end of financial year 2015-16, as reflected through Receipt Budget and UGFA.

**Table-6.3: Variation in the amount of liabilities: 2015-16**

(₹ in crore)

	Liabilities as shown in		Variation
	Receipt Budget	UGFA	
Public Debt	55,15,097	55,15,097	Nil
National Small Savings, Provident Funds, Other Accounts	11,88,361	12,31,500	43,139
Reserve Funds and Deposits	1,98,513	1,98,513	Nil
<b>Total liability</b>	<b>69,01,971</b>	<b>69,45,110</b>	<b>43,139</b>

Source: Receipt Budget 2017-18 and Statement No. 2 of Union Government Finance Accounts 2015-16

The gross liabilities on account of National Small Savings, Provident Funds, Other Accounts in Public Account in the UGFA 2015-16 have been reflected as ₹ 12,31,500 crore. However in Receipt Budget, the National Small Savings, Provident Funds, Other Accounts liabilities though shown on gross basis, has a variation of ₹ 43,139 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers.

*The Ministry stated (June 2017) that the observation regarding variation in the amount of total liabilities is being examined and comments/reply in this regard will be communicated shortly.*

### 6.2 Lack of transparency in Direct tax receipt figure

In the Annual Financial Statement and Union Government Finance Accounts, the estimates and actual collection from Tax Revenue are reflected after taking into account the amount of refunds (including interest on refunds). Analysis of direct tax receipt of the Union Government, revealed that substantial portion of tax collected are refunded every year, as detailed in the **Table 6.4** below:



**Table 6.4: Collection of Direct Tax and Refunds**

(₹ in crore)

Financial Year	Direct Tax Collection* (1)	Refunds # (2)	Total Direct Tax collection (3=1+2)	Percentage of refunds to direct tax collection (2/3)
2011-12	4,93,987	1,00,300	5,94,287	16.88
2012-13	5,58,989	90,432	6,49,421	13.93
2013-14	6,38,596	95,658	7,34,254	13.03
2014-15	6,95,792	1,17,495	8,13,287	14.45
2015-16	7,42,012	1,29,482	8,71,494	14.86

\* Source: Union Government Finance accounts and CAG's Reports No. 2 of 2017 (Direct Taxes).

# Refunds also include interest on refunds of taxes.

During last five years period 2011-16, the refunds ranged from 13.03 to 16.88 per cent of the total direct tax collection. In financial year 2015-16, amount of refunds included ₹ 6,886 crore as expenditure on interest on refunds. Though the amount of refunds was substantial, no information about the quantum of refunds was disclosed either in the Annual Financial Statement or in the Union Government Finance Accounts. As such, the accounts of the Government were not transparent in respect of information on Tax Revenue collections.

*The Ministry stated (June 2017) that in Finance Accounts revenue receipts are categorized as 'Tax Revenue Receipts' and 'Non-tax Revenue Receipts' and figures for Direct Taxes are not shown separately. It added that in Finance Accounts, tax collections are accounted/shown at the minor head level which are net of refunds. Refund of revenue is accounted for at one level below, viz. sub head level.*

Reply of the Ministry does not address the audit concern relating to transparency in account of gross tax collection and refunds made therefrom in a year, although net collections are captured in the accounts. The Union Government Finance Accounts are prepared at Minor Head level, whereas the amount of refunds despite being significant are recorded at a lower level of classification and thereby refunds get obscured in this compilation. Appropriate disclosure of this information in the Union Government Finance Account or in Budget documents would address the transparency requirement as envisaged in the FRBM Act.

### **6.3 Transparency in disclosure statements mandated under FRBM Act**

In compliance to Section 6 of FRBM Act, along with Budget, six disclosure statements, as detailed in **Annexure 1.1**, are placed before the Parliament. Examination of these statements revealed inadequacy in disclosures, as discussed in succeeding paras.

### 6.3.1 Inconsistency in disclosure of arrears of Non-Tax Revenue

Rule 6 of the FRBM Rules requires laying of a statement providing details of non-tax revenue in arrear in **Form D-2**. Receipt Budget 2017-18 (Annex-11) provided details of arrears of non-tax revenue as at the end of reporting year 2015-16. As per this disclosure, at the end of financial year 2015-16, the arrears of non-tax revenue was ₹ 1,41,966.26 crore, which also includes ₹ 43,182.92 crore as arrears of interest receipts from State/Union territory Government, Department Commercial Undertakings and Public Sector Undertakings.

It was noticed that arrears of interest receipts from State/Union Territory Governments and other loanee entities as disclosed through Union Government Finance Accounts for financial year 2015-16<sup>16</sup> was at variance with disclosure made through **Form D-2** as detailed in **Table 6.5** below:

**Table-6.5: Inconsistency in disclosure of arrears of interest: 2015-16**

(₹ in crore)

Loanee entity	Interest arrears as per		Variation
	Form D-2	UGFA	
State/Union Territory Government	1,858.90	2,097.78	+238.88
Public Sector and other Undertakings	41,324.02	41,073.88	-250.14

Source: Receipt Budget and Union Government Finance Accounts

Further examination revealed that Ministry of Information and Broadcasting while furnishing information in respect of Form D-2, did not furnish the arrears of interest amounting to ₹ 3,753.11 crore which was receivable from Prasar Bharti and clearly appearing in Section 3 of Statement No.15 of UGFA of 2015-16.

Ministry of Information and Broadcasting stated (February 2017) that information relating to Prasar Bharti (statutory and autonomous organisation) was not included in Form D-2 furnished to the Ministry of Finance, as information was called for only in respect of State/UT Governments, Public Sector and Departmental Commercial Undertakings. In view of the reply of the Ministry of Information and Broadcasting, the information collated and presented to the Parliament in Form D-2 by the Ministry of Finance is incomplete.

### 6.3.2 Incorrect information of coal levy in arrears

The Hon'ble Supreme Court had cancelled (September 2014) allocation of 204 captive coal blocks and imposed additional levy @ ₹ 295 per tonne on coal

<sup>16</sup> Statement No. 3.



extracted. In the first report of CAG on FRBM (No.27 of 2016), a para on outstanding amount of coal levy amounting to ₹ 3,368 crore (as on 31 March 2015) and its non-inclusion in the disclosure statement (Form D-2) pertaining to arrears of non-tax revenue was made.

It was noticed that for the reporting year 2015-16, the outstanding amount of coal levy furnished to the Ministry of Finance in Form D-2 by the Ministry of Coal was incorrect, in comparison to information furnished to Audit. The information furnished in Form D-2 and to the Audit are detailed in **Table-6.6** below:

**Table-6.6: Arrears of non-tax revenue - Reporting year 2015-16**

(₹ in crore)

	Amounts Pending			Total amount outstanding
	0-1 year	1-2 year	2-3 year	
Other Receipts (Additional Levy) as shown in Form D-2	3,368.18	3,551.36	3,536.55	10,456.09
Information provided to Audit which should have been depicted in Form D-2	183.18	3,368.18	Nil	3,551.36

### 6.3.3 Variation in disclosure of details in asset register

Rule 6 of the FRBM Rules requires laying of a statement of physical and financial assets of the Government in **Form D-4**. Receipt Budget 2017-18 (Annex-4(iv)) provides details of assets of the Union Government as at the end of reporting year 2015-16. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2015-16 was ₹ 10,63,677.39 crore. Following inconsistencies were noticed in the disclosure pertaining to asset register.

#### 6.3.3.1 Inconsistency in figures of loans to Foreign Governments

Examination of disclosure statement **Form D-4** revealed that a sum of ₹ 12,248.21 crore was shown as loans outstanding from Foreign Governments at the end of 2015-16. Similar information contained in the Union Government Finance Account 2015-16 revealed that a sum of ₹ 12,034.59 crore was outstanding as loans from foreign governments. Thus, there was overstatement of ₹ 213.62 crore of loans outstanding from foreign governments in **Form D-4** statement.

### 6.3.3.2 Variation in figures of closing and opening balances of assets

On examination of **Form D-4** appended with Receipts Budget 2016-17 and 2017-18, variations were noticed in the closing and opening balances of assets, as depicted below in the **Table-6.7**.

**Table-6.7: Variations in value of assets**

(₹ in crore)

Total assets at the end of Reporting year (closing figure)		Total assets at beginning of next Reporting year (opening figure)		Variation in closing and opening figures
<b>2014-15</b>	9,71,354.25	2015-16	9,48,173.47	23,180.78
<b>2015-16</b>	10,63,677.39			

Source: Receipt Budgets for financial years 2016-17 and 2017-18.

This discrepancy was also pointed out in the first Report (No.27 of 2016) of CAG on FRBM. However in the Receipt Budget 2017-18, a foot note - 'variation between closing balance of previous year and opening balance of the reporting year is due to reconciliation' had been inserted in Form D-4 to qualify the said variations. Since the physical and financial assets are depicted under various categories in Form D-4, it has not been indicated specifically which category of assets had undergone reconciliation, leading to variations in closing balance of previous year and opening balance of the reporting year .

*In respect of Para 6.3.1, 6.3.2 and 6.3.3 Ministry stated (June 2017) that Budget Division compiles the information strictly on the basis of the information furnished by the respective Ministries/Departments. Ministry further added that Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Citing the example of inconsistent information on arrears of non-tax revenue by Ministry of Information and Broadcasting, Ministry stated that Audit itself has attested error on the part of the line Ministry. Ministry of Finance however added that efforts were being made to rectify the errors/ inconsistency.*

Ministry of Finance, being the nodal Ministry for the administration of the FRBM Act, should issue appropriate directions to all the Ministries/Departments to ensure coordination so that correct and consistent figures are included in the prescribed disclosure forms and other linked documents.


**Recommendation:** *The Government should ensure adequate transparency and consistency in its fiscal operations so that fiscal indicators are computed accurately and disclosure forms as mandated under the Act contain correct information.*



## Conclusion

Transparency in fiscal operations of the Government is an important ingredient to achieve the accurate target of fiscal indicators envisaged under the FRBM Act. However, there was lack of transparency in disclosing the deficit figures in Budget at a Glance and Annual Financial Statements. Expenditure on grants for creation of capital assets as disclosed through Union Government Finance Accounts and Expenditure Budget was at variance. Further, gross liability position of the Government shown through Union Government Finance Accounts and Receipt Budget were also at variance. Though a significant amount of refund is made from gross direct tax collection, its depiction is obscured in the Government Finance Accounts and other publications. The disclosures made by the Government through various Forms envisaged under the FRBM Act were not complete and at variance with corresponding information contained in Union Government Finance Accounts.


New Delhi  
Dated: 14 July 2017



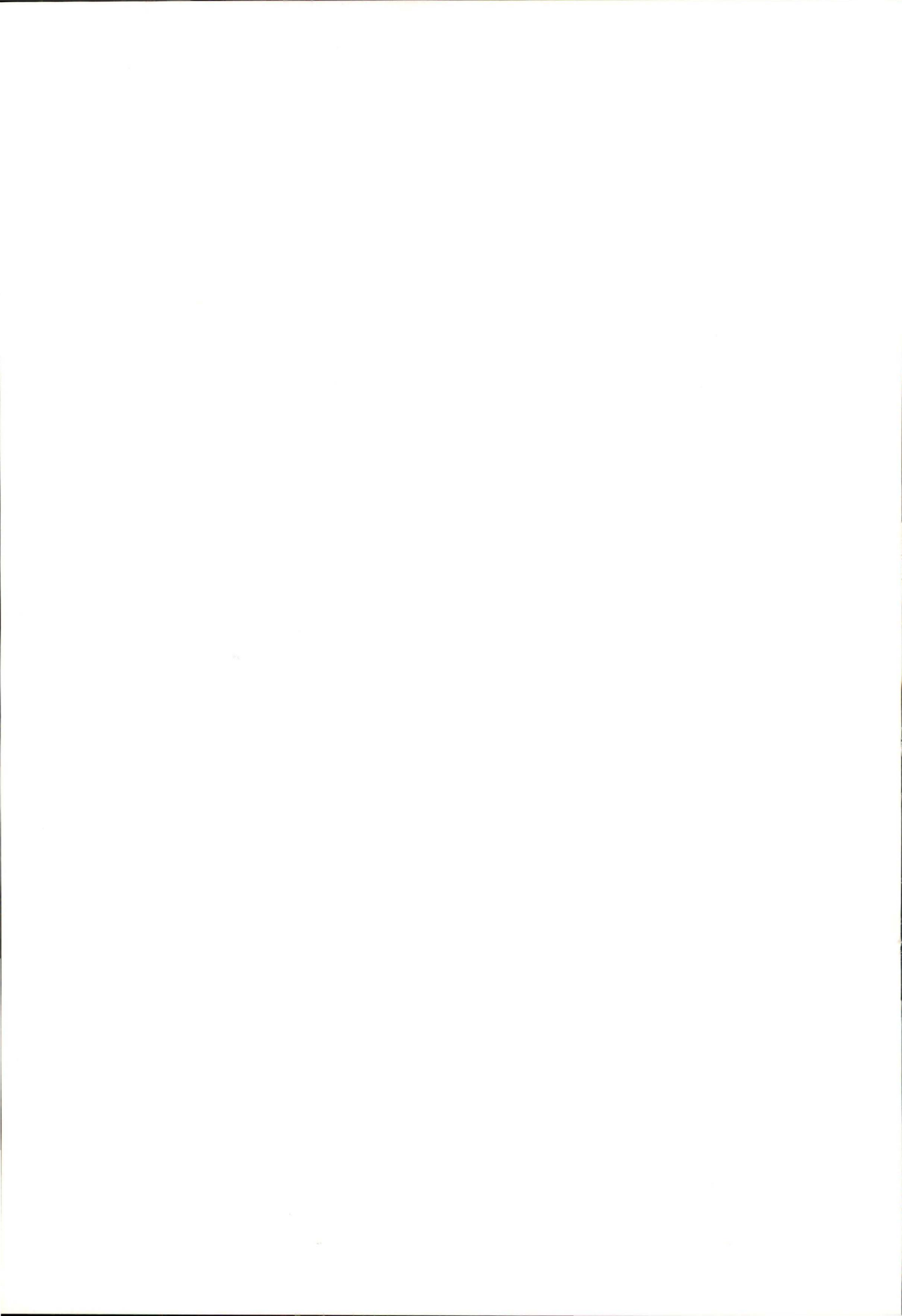
(MUKESH PRASAD SINGH)  
Director General of Audit  
Central Expenditure

Countersigned

New Delhi  
Dated: 14 July 2017

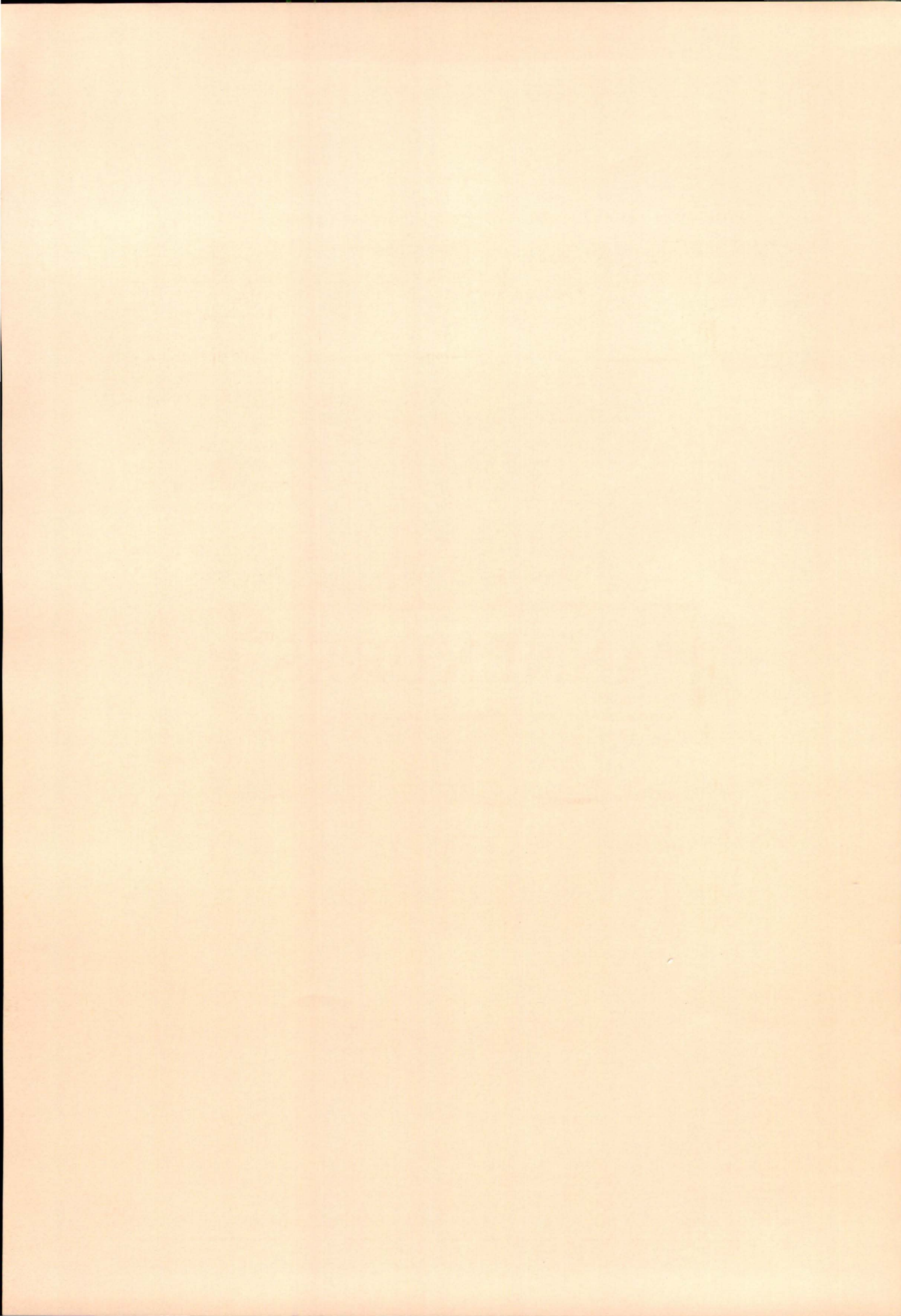


(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India





# ANNEXURES





## Annexure-1.1

(Refer Para no. 1.2 and 6.3)

## Fiscal policy statements and disclosure forms prescribed under the FRBM Act

Fiscal policy statements	
Medium Term Fiscal Policy Statement	MTEFP Statement contain three year rolling targets for three fiscal indicators, Tax Revenue and Total Outstanding Liabilities as a percentage to GDP with specifications of underlying assumptions, including assessment of sustainability relating to balance between revenue receipt and revenue expenditure; use of capital receipts including market borrowings for generating productive assets.
Fiscal Policy Strategy Statement	FPS Statement contain policies of the Central Government for the ensuing financial year, relating to taxation, expenditure, market borrowings and other liabilities, lending and investment, pricing of administered goods and services, securities and description of other activities etc.
Macro-economic Framework Statement	MF Statement contain an assessment of overview of the Economy, growth in GDP, fiscal balance of the Union Government and external sector balance of economy as reflected in current account of balance of payment.
Medium Term Expenditure Framework Statement	MTEF Statement contain three year rolling target for prescribed expenditure indicators, with specification of underlying assumptions and risks involved.
Disclosure Statements	
Form No.	Details
D-1	Tax Revenue raised but not realized
D-2	Arrears of Non-Tax Revenue
D-3	Guarantees given by the Government
D-4	Asset Register
D-5	Liability on Annuity Projects
D-6	Grants for creation of capital assets

**Annexure-3.1**  
(Refer Graph 3.1, 3.2, 3.4 and Para 6.1.1)  
**Deficits, GDP and Grants for creation of capital assets**

(₹ in crore)

Financial Year	GDP*	Derived from Annual Financial Statement/Union Government Finance Accounts					As per Budget at a Glance					
		Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit	Expenditure on Grants for creation of capital assets	Grants for creation of capital assets as %age of Revenue Deficit	Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit	Expenditure on Grants for creation of capital assets	Grants for creation of capital assets as %age of Revenue Deficit	Variation in fiscal deficit
	1	2	3=2-5	4	5	6=5/2	7	8=7-10	9	10	11	12=4-9
2011-12	87,36,039 RE <sub>2</sub>	3,94,918	2,93,687	5,17,881	1,01,231	25.6	3,94,348	2,61,766	5,15,990	1,32,582	33.6	1,891
2012-13	99,51,344 RE <sub>2</sub>	3,64,582	2,48,872	4,94,514	1,15,710	31.7	3,64,282	2,48,572	4,90,190	1,15,710	31.8	4,324
2013-14	1,12,72,764 RE <sub>2</sub>	3,57,303	2,27,465	5,03,230	1,29,838	36.3	3,57,048	2,27,630	5,02,858	1,29,418	36.2	372
2014-15	1,24,88,205 RE <sub>1</sub>	3,66,228	2,35,468	5,15,948	1,30,760	35.7	3,65,520	2,34,760	5,10,725	1,30,760	35.8	5,223
2015-16	1,35,76,086 PE	3,43,369	2,12,414	5,85,497	1,30,955	38.1	3,42,736	2,10,982	5,32,791	1,31,754	38.4	52,706

\* GDP (new series) released in May 2016 has been adopted. RE-Revised Estimates, PE- Provisional Estimates



## Annexure-3.2

(Refer Para No. 3.4.4.2)

## Deficiency in estimating grants for creation of capital assets

(₹ in crore)

Sl. No.	Ministry/ Department	Estimates for FY 2015-16 as provided in		Variation	Remarks
		Expenditure Budget Vol-I	DDG		
	1	2	3	4=3-2	5
1.	Finance- Transfer to State/UT Governments	Nil	13,500.00	13,500.00	
2.	Food Processing	Nil	10.00	10.00	
3.	Health Research	Nil	98.00	98.00	
4.	Women & Child Development	Nil	457.37	457.37	Ministry in December 2016 intimated that BE of ₹ 457.37 crore was intimated to the MoF which was not included in the Expenditure Budget of 2015-16.
5.	Civil Aviation	80.00	122.40	42.40	Ministry while accepting this, stated (February 2017) that the amount was inadvertently omitted while furnishing data for Expenditure Budget.
6.	Earth Science	55.90	31.27	(-)24.63	Ministry accepted the observation and stated (March 2017) that variation was due to receipt of less BE 2015-16 under the object head 35 as reflected in DDG.
7.	Environment & Forest	126.06	125.80	(-)0.26	Ministry stated (March 2017) that in DDG the amount was inadvertently shown under a different object head resulting in discrepancy.
8.	Higher Education	6,156.42	6,962.31	805.89	
9.	Health & Family Welfare	2,571.87	2,727.39	155.52	
10.	Information & Broadcasting	610.65	531.05	(-)79.60	
11.	Law & Justice	792.14	563.00	(-)229.14	
12.	Power	5,149.94	5,280.00	130.06	
13.	Tourism	196.00	213.00	17.00	Ministry in February 2017 accepted the observation.
14.	Urban Development	5,859.49	5,834.21	(-)25.28	Ministry of Urban Development has accepted the observation.
15.	Water Resources, River Development & Ganga Rejuvenation	4,446.00	4,442.00	(-)4.00	Ministry stated (March 2017) that amount of ₹ 4442 crore communicated to the MoF was correct.
16.	Petroleum	50.00	2.00	(-)48.00	In DDG the provision of ₹ 48 crore to Rajiv Gandhi Institute of Petroleum Technology was made under the head Grants-in-aid general but in Expenditure Budget Vol. I it was shown under grants for creation of capital assets.
17.	Posts	331.65	Nil	(-)331.65	Object head grants for creation of capital assets was not being operated by Posts and the entire provision of ₹ 331.65 crore were shown under

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					capital major head.
18.	Pharmaceuticals	Nil	96.97	96.97	
19.	Housing and Urban and Poverty Alleviation	Nil	4,086.41	4,086.41	Ministry did not furnish the information to Ministry of Finance.
20.	Ministry of Defence	Nil	170.00	170.00	Provisions were made in DDG but were not included in Expenditure Budget Vol I.
<b>Total underestimation of grants for creation of capital assets</b>					19,569.62
<b>Total overestimation of grants for creation of capital assets</b>					742.56
<b>Net impact</b>					18,827.06

MoF - Ministry of Finance, Department of Economic Affairs, Budget Division



## Annexure- 4.1

(Refer Para No. 4.3.1)

## Misclassification of expenditure as reported in Para 4.4 of CAG's Report No. 34 of 2016

Sl. No	Description of Grant	Major head	Object head in which expenditure was incorrectly booked	Amount (₹ in crore)
<b>(A) Para No.4.4.1-Misclassification of expenditure of capital nature as revenue expenditure</b>				
1.	04-Department of Atomic Energy	2852	51/52/60	10.71
2.		3401	51/52	11.26
3.	60-Department of Higher Education	2202	53	2.99
4.	66-Ministry of Micro, Small and Medium Enterprises	2851	52	3.27
<b>Total (A)</b>				<b>28.23</b>
<b>(B) Para No.4.4.2-Misclassification of expenditure of revenue nature under capital head of expenditure</b>				
1.	89-Ministry of Shipping	5051	50	0.64
2.		5052	50	0.35
3.	97-Ministry of Tourism	5452	28	0.62
4.	103-Lakshadweep	4810	35	2.00
<b>Total (B)</b>				<b>3.61</b>
<b>(C) Para No.4.4.3-Misclassification of expenditure of revenue nature under capital head of expenditure</b>				
1.	15-Department of Telecommunications	5275/4552	60	319.99
2.	21-Ministry of Defence (Civil)	5054	53	1,600.25
3.	93-Department of Space		60/53/52	4.39
<b>Total (C)</b>				<b>1,924.63</b>
<b>(D) Para No.4.4.3-Misclassification of expenditure of capital nature under revenue head of expenditure</b>				
1.	93-Department of Space		21/50	317.23
<b>Total (D)</b>				<b>317.23</b>
<b>Understatement of capital expenditure (A+D)</b>				<b>345.46</b>
<b>Overstatement of capital expenditure (B+C)</b>				<b>1,928.24</b>
<b>Net overstatement of capital expenditure</b>				<b>1,582.78</b>

## Annexure-4.2

(Refer Para No. 4.3.2)

## Short transfer of levy/cess collected during financial year 2015-16

(`in crore)

Sl. No.	Levy/Cess	Receipts collected	Transfer to the Fund	Short Transfer
1.	<b>Universal Service Obligation (USO)</b> Fund was setup in April 2002 to be utilized exclusively for meeting the Universal Service Obligation by providing access to basic telegraph services, viz. public telecommunication and information services and household telephones in rural and remote areas, as may be determined by the Central Government. The resources for meeting the USO Fund are to be credited to the Consolidated Fund of India (CFI) raised through a 'Universal Access Levy' and subsequently transferred to the non-lapsable USO Fund in the Public Account of India for being utilized exclusively towards the stated objectives. (Head 8235.118)	9,835.70	3,100.00	6,735.70
2.	<b>National Clean Energy (NCE)</b> Fund was established in 2010-11 for funding research and innovative projects in clean energy technology by levying a clean energy cess on coal produced in India and imported coal. The cess credited to the CFI is subsequently transferred to the NCE Fund in the Public Account. (Head 8235.129)	12,675.60	100.00	12,575.60
3.	Cess on <b>Feature Film</b> collected during the year and credited to CFI was to be transferred to Cine Workers Welfare Fund in the Public Account. (8229.115)	4.13	1.93	2.20
4.	Cess on <b>Tea</b> collected during the year and credited to CFI was to be transferred to Development Fund for Tea Sector. (Head 8229.126)	60.12	Nil	60.12
5.	Cess on <b>Iron Ore</b> collected during the year and credited to CFI was to be transferred to Mines Welfare Fund.	15.84	35.42	11.25
	Cess on <b>Limestone and Dolomite</b> collected during the year and credited to CFI was to be transferred to Mines Welfare Fund. (Head 8229.00.114)	30.83		
6.	<b>Swachh Bharat</b> Cess collected during the year and credited to CFI was to be transferred to Rasrtiya Swachhata Kosh. (Head 8235.135)	3,925.74	2,400.00	1,525.74
<b>Total</b>		<b>26,547.96</b>	<b>5,637.35</b>	<b>20,910.61</b>



**Annexure-5.1**  
(Refer Para No. 5.2)  
**Expenditure projection for FY 2015-16**

(₹ in crore)

Heads of expenditure	Projections for FY 15-16 (in MTEF Statement for FY 2014-15)	BE in MTEF of 2015-16	% age change in BE 2015-16 (Col.3 w.r.t Col.2)	RE for 2015-16 in MTEF Statement for FY 2016-17	% age change in RE 2015-16 (Col.5 w.r.t Col.2)	
1	2	3	4	5	6	
<b>Revenue Expenditure</b>						
Salary	99,625	1,00,619	1.00	93,740	-5.91	
Interest	4,68,431	4,56,145	-2.62	4,42,620	-5.51	
Pension	90,154	88,521	-1.81	95,731	6.19	
Subsidy						
	Fertilizer	76,000	72,969	-3.99	72,438	-4.69
	Food	1,20,000	1,24,419	3.68	1,39,419	16.18
	Petroleum	50,000	30,000	-40.00	30,000	-40.00
Centralized Provision for Grants to States	1,27,926	1,12,690	-11.91	1,06,679	-16.61	
Defence	1,47,853	1,55,072	4.88	1,48,228	0.25	
Postal Deficit	6,908	6,665	-3.52	6,749	-2.30	
External Affairs	10,041	9,625	-4.14	9,674	-3.66	
Home Affairs	16,809	15,827	-5.84	16,471	-2.01	
Tax Administration	12,988	18,627	43.42	19,591	50.84	
Finance	22,546	30,902	37.06	24,484	8.60	
Education	76,762	55,916	-27.16	56,495	-26.40	
Health	34,259	26,110	-23.79	29,190	-14.80	
Social Welfare	38,671	25,142	-34.98	31,571	-18.36	
Agriculture and Allied	30,416	22,206	-26.99	21,362	-29.77	
Commerce and Industry	16,178	14,030	-13.28	13,602	-15.92	
Urban Development	15,588	13,259	-14.94	8,132	-47.83	
Rural Development	1,15,334	79,581	-31.00	90,319	-21.69	
Development of North East Region	2,348	2,187	-6.86	1,843	-21.51	
Planning and Statistics	6,419	6,064	-5.53	5,668	-11.70	
Scientific Department	10,393	10,827	4.18	10,639	2.37	
Energy	12,011	9,256	-22.94	10,310	-14.16	
Transport	18,125	14,314	-21.03	21,286	17.44	
IT and Telecom	8,060	5,627	-30.19	11,789	46.27	
UT	6,277	6,299	0.35	6,489	3.38	
Others	34,237	23,148	-32.39	23,155	-32.37	
<b>Revenue Expenditure</b>	<b>16,74,359</b>	<b>15,36,047</b>	<b>-8.26</b>	<b>15,47,673</b>	<b>-7.57</b>	
<i>of which Grants for creation of capital assets</i>	<b>3,01,598</b>	<b>1,10,551</b>	<b>-63.34</b>	<b>1,32,004</b>	<b>-56.23</b>	

<b>Capital Expenditure</b>					
<b>Defence</b>	1,08,776	98,176	-9.74	85,114	-21.75
<b>Home Affairs</b>	14,275	9,349	-34.51	9,539	-33.18
<b>Finance</b>	21,912	11,136	-49.18	32,316	47.48
<b>Health</b>	3,483	934	-73.18	1,021	-70.69
<b>Commerce and Industry</b>	1,637	1,657	1.22	1,022	-37.57
<b>Urban Development</b>	11,853	10,068	-15.06	10,636	-10.27
<b>Planning and Statistics</b>	1,113	375	-66.31	437	-60.74
<b>Scientific Departments</b>	5,273	3,615	-31.44	3,207	-39.18
<b>Energy</b>	9,904	6,107	-38.34	7,673	-22.53
<b>Transport</b>	69,767	75,873	8.75	63,105	-9.55
<b>IT and Telecom</b>	5,352	2,738	-48.84	2,473	-53.79
<b>Loans to States</b>	13,200	12,500	-5.30	12,500	-5.30
<b>UT</b>	2,244	1,946	-13.28	1,880	-16.22
<b>Others</b>	10,948	6,957	-36.45	6,794	-37.94
<b>Capital Expenditure</b>	<b>2,79,738</b>	<b>2,41,430</b>	<b>-13.69</b>	<b>2,37,718</b>	<b>-15.02</b>
<b>Total Expenditure</b>	<b>19,54,096</b>	<b>17,77,477</b>	<b>-9.04</b>	<b>17,85,391</b>	<b>-8.63</b>



## Glossary

<b>Annual Financial Statements (Budget)</b>	In terms of Article 112 of the Constitution the President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year, referred to as the “annual financial statement”. Receipt and disbursements are shown under three parts in which government accounts are kept, viz. (i) Consolidated Fund, (ii) Contingency Fund, and (iii) Public Account.
<b>Budget at a Glance</b>	This document shows in brief, receipts and disbursements along with broad details of tax revenues, other receipts and details of resources transferred by the Central Government to State and Union Territory Governments. This document also shows deficits of the Government.
<b>Capital Expenditure</b>	Expenditure of a capital nature is broadly defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent character or of reducing recurring liabilities.
<b>Capital Receipt</b>	Capital receipt comprises of loans raised by the Government, borrowing from the Reserve Bank of India and loans taken from foreign Governments/institutions. It also embraces recoveries of loans advanced by the Government and sale proceeds of government assets, including those realized from divestment of Government equity in PSUs.
<b>Consolidated Fund of India</b>	All revenues received by the Government of India, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled the “Consolidated Fund of India” established under Article 266 (1) of the Constitution.
<b>Effective Revenue Deficit</b>	Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. It can be interpreted as the difference between the government’s current expenditure (on revenue account) and revenue receipts less grants for creation of capital assets which is recorded as revenue expenditure.
<b>External Debt</b>	Bilateral and multilateral debt contracted by the Government from foreign Governments and financial institutions abroad, mostly in foreign currency.
<b>Finance Accounts</b>	The Finance Accounts presents the accounts of receipts and disbursements together with the financial results disclosed by the revenue and capital accounts, the accounts of the public debt and the liabilities and assets as worked out from the balances recorded in the accounts.
<b>Finance Bill</b>	The Finance Bill is a money bill presented in fulfillment of the requirement under Article 110(1)(a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget for the next financial year. Once the Finance Bill is passed by both the houses of the Parliament and assented to by the President, becomes the Finance Act.



<b>Fiscal Deficit</b>	<b>Excess of total disbursements from the Consolidated Fund of India, excluding repayment of debt over total receipts in the Fund, excluding the debt receipts, during a financial year.</b>
<b>Fiscal Policy</b>	The fiscal policy of a Government is concerned with the raising of government revenue and the incurring of government expenditure, to ensure how well the financial and resource management responsibilities have been discharged.
<b>Gross Domestic Product</b>	Gross Domestic Product (GDP) is the monetary value of all finished goods and services produced within a country's borders in specific time period, generally calculated on an annual basis. It includes all private and public consumption, government's outlays, investments and exports less imports that occur within a defined territory. GDP is worked out at constant prices with reference to specified base year and also at current prices (which includes changes in prices due to inflation or a rise in the overall price level).
<b>Guarantees</b>	Article 292 of the Constitution extends the executive power of the Union to giving of guarantees on the security of the Consolidated Fund of India within such limits, if any, as may be fixed by the Parliament.
<b>Internal Debt</b>	Internal Debt comprises loans raised in India. It is confined to loans raised and credited into the Consolidated Fund of India.
<b>Loans and Advances</b>	This include loans and advances given by the Union Government to the State and UT Governments, Foreign Governments, Public Sector Undertakings, Government Servants, etc.
<b>Public Account</b>	All other public moneys than those credited in the Consolidated Fund, received by or on behalf of the Government of India, are credited to the Public Account of India in terms of Article 266 (2) of the Constitution. These are the moneys in respect of which the Government acts more as a banker.
<b>Public Debt</b>	Government debt from internal and external sources contracted in the Consolidated Fund of India is defined as Public Debt.
<b>Revenue Deficit</b>	Excess of revenue expenditure over revenue receipts.
<b>Revenue Expenditure</b>	Charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order and also all other expenses incurred for the day to day running of the organisation, including establishment and administrative expenses are classified as revenue expenditure. Grants given to State/UT Government and other entities are also treated as revenue expenditure, even if some of the grants may be meant for creating capital assets.
<b>Revenue Receipts</b>	These include proceeds of taxes and duties levied by the Government, interest and dividend on investments made by the Government, fees and other receipts for services rendered by the Government.