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

for the year 2016-17

Union Government (Civil)
Department of Economic Affairs
(Ministry of Finance)
Report No. 20 of 2018

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Preface

The Comptroller and Auditor General of India (CAG) was entrusted with the responsibility of periodically reviewing the compliance of the provisions of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and present such reviews before both Houses of Parliament under Section 7A of the Act. Rule 8 framed under Section 7A of the Act provides that the CAG shall carry out an annual review of the compliance of the provisions of the FRBM Act and the Rules made thereunder beginning with the financial year 2014-15.

The present report is the third report of the CAG on the compliance of the provisions of the Act and the Rules made thereunder by the Central Government for the year ended March 2017.

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 2016-17. Matters, which have bearing on fiscal indicators pertaining to the period earlier than 2016-17, have also been included, wherever relevant.

The audit has been conducted in conformity with the auditing standards issued by the CAG.

Executive Summary

Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act 2003, as amended from time to time, was enacted to provide for the responsibility of the Central Government with the objectives of ensuring inter-generational equity in fiscal management and long-term macro-economic stability. The FRBM Act required that the Central Government should work to attain sufficient revenue surplus and ensure prudential debt management through limits on borrowings, debt and deficits. Greater transparency in fiscal operations and having fiscal policy in a medium-term framework were also stated objectives of the FRBM Act. In order to meet these objectives, the FRBM Act and the Rules framed thereunder specified targets with regard to eliminating/containing three fiscal indicators namely, Revenue Deficit, Effective Revenue Deficit and Fiscal Deficit and stipulated capping of guarantees and additional liabilities.

What the Report covers

The present report discusses the compliance of the provisions of FRBM Act, 2003 and the Rules made thereunder by the Union Government for the financial year 2016-17. Audit has examined a few cases of off budget financing and analyzed impact of such operations on overall fiscal operations.

FRBM targets and achievement for 2016-17

Fiscal Indicator →	Revenue Deficit	Fiscal Deficit	Effective Revenue Deficit
Target	2.1	3.3	0.9
Achievement	2.1	3.5	1.0

Major observations

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

Government had fixed target of Revenue deficit, Fiscal deficit and Effective Revenue deficit at 2.3, 3.5 and 1.2 *per cent* of GDP respectively in the budget 2016-17. The FRBM targets for 2016-17 of Revenue deficit, Fiscal deficit and Effective Revenue deficit were 2.1, 3.3 and 0.9 *per cent* respectively. The actual achievement was 2.1, 3.5 and 1.0 *per cent* of GDP respectively.

However, the achievement of annual target in 2016-17 was against the base that prevailed in 2015-16 in respect of Effective Revenue deficit and Fiscal deficit. Effective Revenue deficit and Fiscal deficit at the end of March 2017 would have been 0.9 *per cent* and 3.3 *per cent* instead of 1.0 and 3.5 *per cent* of GDP respectively, after taking into account cumulative annual reduction target for 2015-17 together due to deviation in 2015-16.

(Para 2.1, 3.1.1, 3.2.1 and 3.3.1)

There is mismatch between the provision under FRBM Act and corresponding provision under FRBM Rules in respect of liability targets. The Act provided for ceiling on total annual liability to be assumed, however the Rules provided for annual additional liability instead of total liability. Moreover, the Rules envisaged a sunset point at the end of March 2014 after which no additional liability was to be assumed. However, in 2014-15, 2015-16 and 2016-17, additional liability assumed by the Government was 4.1, 4.7 and 3.2 *per cent* of GDP respectively.

(Para 2.2)

The Government could not meet the mid-year fiscal deficit and Revenue deficit target of 70 *per cent* of Budget Estimate for the year 2016-17 even after relaxing this target twice from 45 *per cent* in 2004-05 to 60 *per cent* in 2012-13 and 70 *per cent* in 2015-16. Further, factors responsible for such deviation *vis-à-vis* expenditure and receipt, and specific corrective measures, which Government was to take in the year, were not presented in the statement to the Parliament.

(Para 2.3)

Government has increasingly resorted to off-budget financing for revenue as well as capital spending. In terms of revenue spending, off-budget financing was used for covering deferring fertilizer arrears/bills through special banking arrangements; food subsidy bills/arrears of FCI through borrowings and for implementation of irrigation scheme (AIBP) through borrowings by NABARD under the Long Term Irrigation Fund (LTIF). In terms of capital expenditure, off budget financing of railway projects through borrowings of the IRFC and financing of power projects through the PFC are outside the budgetary control. Such off-budget financing are not part of calculation of the fiscal indicators despite fiscal implications.

(Para 3.1.2 and 3.7)

Taking into account the understatement of Public Account liability of ₹ 7,63,280 crore, total liability of the Central Government at the end of the financial year 2016-17 would be ₹ 76,69,545 crore which is 50.5 *per cent* of GDP rather than 45.5 *per cent* against the projection of 47.10 *per cent* in MTFP statement 2016-17.

(Para 3.4.2)

Misclassification of expenditure, short/non-transfer of levy/cess to earmarked funds in the Public Account from the CFI, etc. resulted in understatement of revenue expenditure at least by ₹ 50,999 crore and hence revenue deficit was understated by the same amount.

(Para 4.3 and 4.4)

The actuals for the year 2016-17 in respect of gross tax revenue, outstanding liabilities, and disinvestment varied from the projection for financial year 2016-17 included in Medium Term Fiscal Policy Statement placed with the Budget for 2014-15.

(Para 5.1)

Revised Estimates/Actuals of 2016-17 under various heads of expenditure for financial year 2016-17 varied from the projections included in Medium Term Expenditure Framework Statements placed in 2015.

(Para 5.2, Annexure-5.1)

Audit noticed variation in (a) deficit figures depicted in Budget at a Glance and Annual Financial Statements/Union Government Finance Accounts; (b) in disclosure of actual expenditure on grants for creation of capital assets between Expenditure Budget/Budget at a Glance and Union Government Finance Accounts; and (c) in disclosure of liability position shown through Receipt Budget and Union Government Finance Accounts.

(Para 6.1)

Refunds of ₹ 1,72,894 crore (including interest on refunds of taxes) were made from gross direct tax collection in financial year 2016-17 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 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) *The Government may ensure adherence to the medium term fiscal path as specified under FRBM Act/Rules and align its annual achievements accordingly.*

(ii) *Mid-year benchmarks for comparison with pro-rata performance against the budget estimates should be realistic and mid-course corrections should enable achievement of year-end targets, which should be disclosed transparently to Parliament.*

(iii) *Government may consider putting in place a policy framework for off-budget financing, which, amongst others, should include disclosure to Parliament:*

a) *The rationale and objective of off-budget financing, quantum of off-budget financing and budgetary support under the same project/ scheme/programme, instruments and sources of financing, means and strategy for debt servicing of off budget financing, etc.*

b) *Details of off budget financing undertaken during a financial year by/through all the bodies/companies substantially owned by Government; and*

c) *Government may consider disclosing the details of off-budget Borrowings through disclosure statements in Budget as well as in Accounts.*

(iv) *Government may ensure that all transfers/funds meant to be kept in the designated funds in Public Account, including those for meeting future liability, specific-purpose cesses, etc. are not kept in the Consolidated Fund to avoid overstatement of revenue receipts.*

(v) *Government may lay down guidelines for treating which items created out of grants for creation of capital assets qualify as Capital Assets and expenditure only for those assets should be considered as grants for creation of capital assets.*

(vi) *Government may ensure explicit disclosures of all transactions having fiscal implications and avoid presenting mis-matched figures.*

Chapter 1: Introduction

1.1 Background

The objective of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long-term macro-economic stability. The Central Government should achieve the objectives through sufficient revenue surplus and prudential debt management through limits on borrowings, debt and deficits. It also stipulated requirement of greater transparency in fiscal operations of the Central Government and conducting the fiscal policy in a medium-term framework. The FRBM Rules 2004 framed under Section 8 of the Act came into force in July 2004.

The FRBM Act, 2003 (as amended from time to time) and Rules made thereunder specified targets with regard to eliminating/containing three fiscal indicators namely, revenue deficit, effective revenue deficit and fiscal deficit in terms of percentage of Gross Domestic Product (GDP[1]) to be achieved by 31 March 2018 with annual reduction targets for the respective indicators. The Act and the Rules also included requirements of capping of guarantees, additional liabilities with the stipulation of not resorting to borrow from Reserve Bank of India except in special situations[2]. Besides, the Act and the Rules require the Government to lay in both the houses of Parliament three policy statements, *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. Further, it also required laying of Medium-term Expenditure Framework (MTEF) Statement in Parliament immediately following the session of Parliament in which the previously mentioned three policy statements were laid.

The FRBM Act and Rules 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**.

The following **Table 1.1** gives an overview of the sunset targets and applicable targets at the end of 2016-17 after resetting targets based on actual reduction in 2015-16 with regard to the various fiscal indicators.

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[1] Figures of Gross Domestic Product (GDP) as appearing in the report refer to GDP at current price as defined under the FRBM Act.

[2] To meet temporary excess of cash disbursement over cash receipt, subscription of primary issues upto 1 April 2005 and thereafter on grounds of national security, national calamity, etc. and open market operations in the secondary market.

Table -1.1 : Targets of fiscal indicators under the FRBM Act/Rules as amended from time to time

(As percentage of GDP)

Fiscal Indicators	*Sunset/overall targets*	*Annual target for 2016-17*
Fiscal Deficit	Not more than three *per cent* of GDP by 31 March 2018 with annual reduction of 0.4 *per cent* or more of GDP beginning with the FY 2015-16	3.5
Revenue Deficit	Not more than two *per cent* of GDP by 31 March 2018 with annual reduction of 0.4 *per cent* or more of GDP beginning with the FY 2015-16	2.1
Effective Revenue Deficit	To eliminate by 31 March 2018 with annual reduction of 0.5 *per cent* or more of GDP beginning with the FY 2015-16.	1.1
Guarantees	Not to give guarantee aggregating to an amount exceeding 0.5 *per cent* of GDP in any financial year beginning with FY 2004-05	0.5
Liabilities	Not to assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for the financial year 2004-05 and in each subsequent financial year, progressively reduce the limit of 9 *per cent* of GDP by at least one *percentage* point of GDP	Nil

1.2 FRBM Review Committee

The Government in 2016 felt a need to review the FRBM Act attributing it to substantial changes in global backdrop including slowdown, developments in China and Eurozone, protectionism and low inflation and unconventional monetary policy, etc. It was felt that due to increased financial integration with the world economy, domestic policy changes to cope with challenging, uncertain and volatile exogenous environment were needed.

It was also argued that changes and flexibility in fiscal rules in several countries allow fiscal space to absorb exogenous shocks. Presence of independent fiscal council, escape clauses and automatic correction to impart transparency, flexibility and credibility to the framework in the fiscal rules also necessitated alignment of rules in India in the same parlance.

With these objectives in mind, Government constituted the FRBM review committee in May 2016 under the chairmanship of Shri N.K. Singh to comprehensively review the working of FRBM Act over last 12 years and to suggest way forward. Terms of reference of Committee include particularly in exploring the feasibility of having fiscal deficit range as the target instead of fixed numbers in order to give necessary policy space to the Government to manage dynamic situations and aligning the fiscal expansion or contraction with credit contraction or expansion respectively in the economy.

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

- Repeal the existing FRBM Act, 2003 and the FRBM Rules, 2004 and enact a new Debt and Fiscal Responsibility Act, enact and adopt the Debt and Fiscal Responsibility Rules in pursuance of the new Act, as per drafts suggested by the Committee.
- Adopt a prudent medium-term ceiling for General Government debt 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 States.
- 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 2017-18 to 2019-20, 2.8 *per cent* in financial year 2020-21, 2.6 *per cent* in 2021-22 and 2.5 *per cent* in 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 2016-17, 2.05 *per cent* in 2017-18, 1.8 *per cent* in 2018-19, 1.55 *per cent* in 2019-20, 1.30 *per cent* in 2020-21, 1.05 *per cent* in 2021-22 and 0.8 *per cent* in 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 in conditions such as national security, act of war, national calamity, collapse of agriculture, structural reforms in the economy, decline in real output growth, etc.
- Constitute a Fiscal Council with the terms and conditions as mentioned in the Report of the Committee.

1.3 Action taken by the Government on recommendations of the Committee

The Government has made comprehensive amendments in the FRBM architecture through Finance Act 2018 presented along with Budget 2018-19 in view of the recommendations made by the FRBM Review Committee. In compliance to amendment in FRBM Act through Finance Act 2018, Central Government notified FRBM (Amendment) Rule 2018 on 2 April 2018.

In the revised FRBM architecture, the Government will simultaneously target debt and fiscal deficit and treat fiscal deficit as an operational target. The revised FRBM framework has done away with the requirements of achievement of targets on revenue account (Revenue Deficit) and consequently Effective Revenue Deficit.

Further, Medium-term Fiscal Policy cum Fiscal Policy Strategy Statement is now required to be prepared in place of earlier Medium-term Fiscal Policy Statement. This includes new indicators such as Primary deficit[3], non-tax revenue and Central Government debt.

The major amendments made through the Finance Act 2018 in the FRBM framework are;

- Fiscal deficit as the key operational target with focus on achieving three *per cent* of GDP by the end of the FY 2020-21.
- Doing away with the Revenue Deficit target and consequently Effective Revenue Deficit target and inclusion of Primary deficit as a fiscal indicator.
- Achieving the General Government debt[4] target of 60 *per cent* and Central Government debt target of 40 *per cent* by the end of the FY 2024-25. The scope of 'Central Government Debt' has been expanded to include the total outstanding liabilities on the security of the Consolidated Fund of India and Public Account plus such financial liabilities of any body corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service.
- Not to give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of one-half *per cent* of GDP in any financial year.
- Widening of grounds (escape clauses) on which Central Government is allowed to breach the deficit targets including national security, act of war, national calamity, collapse of agriculture, structural reforms in the economy, decline in real output growth, etc. However, any deviation from Fiscal Deficit target shall not exceed one-half *per cent* of the GDP.
- In case of increase in real output growth of a quarter by at least three *per cent* points above its average of the previous four quarters, reduce the fiscal deficit by at least one-quarter *per cent* of the GDP in a year.
- Half-yearly review in place of quarterly review and preparation of monthly statement of accounts.

The Government, however, has not included the recommendations of the Committee relating to indicator of Revenue Deficit and establishment of Fiscal

[3] Fiscal deficit minus interest payments

[4] General Government Debt means total liabilities of the Central Government and the State Governments excluding inter-Governmental liabilities

Council in the amended FRBM Act. With regard to not including the indicator of revenue deficit, the Government argued that there is little or no evidence to say that capital expenditure should enjoy pre-eminence over revenue expenditure in a country like India. Moreover, expenditure of revenue nature such as health and education also enhance human capital formation. The Government did not provide any specific reason in either budget documents and/or MTFP statements for not constituting Fiscal Council as recommended by FRBM review Committee.

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

As per Rule 8 of amended FRBM Rules 2015, 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 two Reports of CAG on compliance of the provisions of FRBM Act for financial year 2014-15 (Report No. 27 of 2016) and 2015-16 (Report No. 32 of 2017) were presented in Parliament in August 2016 and December 2017 respectively.

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 2016-17. 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 2016-17 as compared to the targets set under the Act and Rules including trend analysis of fiscal indicators since financial year 2014-15.

- **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 2016-17 *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 issues of transparency in fiscal operations.

Chapter 2: Deviation in performance from the Act and Rules

The FRBM Act 2003 and FRBM Rules 2004 (as amended from time to time) prescribed targets for fiscal indicators. This chapter discusses deviations from the provisions of the Act and the Rules including shifting of targets in subsequent years.

2.1 Compliance with annual reduction targets specified under the FRBM Act

Rule 3 of FRBM Rules (amended in June 2015) 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 (ERD), Revenue Deficit (RD) and Fiscal Deficit (FD). The reduction in ERD, RD and FD was to be done by an amount equivalent to 0.5, 0.4 and 0.4 *per cent* or more of GDP respectively at the end of each financial year, beginning with financial year 2015-16.

Table-2.1 below analyses compliance of the annual reduction targets for the FY 2016-17 in comparison to 2014-15 and 2015-16.

Table-2.1: Annual Reduction Targets: 2016-17

(As percentage of GDP)

Fiscal Indicators	Annual reduction target	Actuals (As per Budget At Glance)			Annual Reduction against target mentioned at column (1)	
	June 2015	2014-15	2015-16	2016-17	2015-16	2016-17
	1	2	3	4	5 (2-3)	6 (3-4)
Effective Revenue Deficit	**0.5**	1.9	1.6	1.0	0.3	0.6
Revenue Deficit	**0.4**	2.9	2.5	2.1	0.4	0.4
Fiscal Deficit	**0.4**	4.1	3.9	3.5	0.2	0.4

The **table** shows that the Government was not able to achieve annual reduction targets in respect of ERD and FD in 2015-16 *vis-à-vis* 2014-15 as actual reduction was 0.3 and 0.2 *per cent* against targeted reduction of 0.5 and 0.4 *per cent of* GDP respectively. However, the Government achieved the reduction target in case of all the three fiscal indicators in 2016-17.

Although Government was able to achieve annual reduction targets in respect of all the three indicators in 2016-17, it was against the base that prevailed in 2015-16 in respect of ERD and FD. In 2015-16, Government had already deviated from the annual reduction target by 0.2 *per cent* against ERD target of 0.5 *per cent* and by 0.2 *per cent* against the FD target of 0.4 *per cent*. As such, taking into consideration 2015-16 and 2016-17 together, if Government would have met the annual reduction targets as required by 2015 amendment, the actual ERD at the end of March 2017 would have been 0.9 *per cent* and not 1.0 *per cent* and the actual FD would have been 3.3 *per cent* and not 3.5 *per cent*. As such, after the amendment in 2015, Government was not able to achieve the cumulative reduction target for two years together.

Ministry stated (July 2018) that the FRBM Rules provided for reduction in the FD/RD/ERD targets by an amount equivalent to 0.4 per cent/0.4 per cent/ 0.5 per cent beginning with FY 2015-16; the reference points for comparing the annual reduction target is 2015-16 and not 2014-15. The annual reduction targets are prospective, beginning with end of 2015-16.

The reply of the Ministry is not tenable as the FRBM Rules 2015 amended in June 2015 requires that in order to achieve the FD/RD/ERD deficit target of three *per cent*, two *per cent* and *Nil* of the GDP respectively by the end of FY 2017-18 (target year), Central Government shall reduce such deficit by an amount equivalent to 0.4, 0.4 and 0.5 *per cent* or more of GDP respectively at the end of each financial year beginning with financial years 2015-16.

Audit is also comparing the achievement in annual reduction targets at the end of March 2016-17 with reference to those at the end of March 2015-16, as stated by the Ministry. However, audit is pointing out non-achievement of targets in 2015-16. Though the amended annual reduction targets (amendment in June 2015) of 0.5 *per cent* and 0.4 *per cent* for ERD and FD respectively were applicable for FY 2015-16 also, Government could achieve annual reduction of only 0.3 *per cent* and 0.2 *per cent* of ERD and FD respectively. Hence, in 2015-16, there was less achievement by 0.2 *per cent* of annual reduction for ERD and FD both. Further, if the pre-amended targets (before June 2015 amendment) are taken into account, the target of annual reduction for ERD was 0.8 *per cent* and FD was 0.5 *per cent*. As such, comparing actual annual reduction in 2015-16 of 0.3 *per cent* and 0.2 *per cent* of ERD and FD, there was less achievement by 0.5 *per cent* and 0.3 *per cent* for ERD and FD respectively.

This implies that first annual reduction was to be effected from the end of financial year 2015-16 as compared to actual figures at the end of financial year 2014-15. Hence, Ministry's view about 2015-16 as a reference year for effecting this amendment and reckoning of first annual reduction at the end of 2016-17 rather than 2015-16 is not consistent with the provision of the amended Rules.

2.2 Inconsistency in specifying liability targets between FRBM Act and Rules

As per Section 4 (2) (b) of the FRBM Act, 2003, the Central Government shall, by rules made by it, specify the annual targets of assuming contingent liabilities in the form of guarantees and the total liabilities as a percentage of gross domestic product. Rule 3(4) of the FRBM Rules 2004 provides that the Central Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of nine *per cent* of GDP for the financial year 2004-05 with one *per cent* reduction in each subsequent year instead of total liability limit as specified in the Act.

While the Act required an annual target of assuming contingent liabilities and total liabilities, the Rules specified a cap on additional liability of nine *per cent* of GDP for the year 2004-05 and required one *per cent* annual reduction thereafter. As such, the Rules envisaged a sunset point at the end of March 2014 after which no additional liability was to be assumed. However, in 2014-15, 2015-16 and 2016-17, additional liability was 4.1, *4.7* and 3.2 *per cent* respectively.

Ministry stated (July 2018) that Section 4 of FRBM Act has since been modified vide Finance Act 2018 and Rule 3(4) of the FRBM Rules, 2004 and assumption of additional liabilities has also been omitted by amending the FRBM Rules, 2004 on 2 April 2018.

The reply of the Ministry recognises this anomaly in principle and states that concept of Central government debt has been introduced in place of additional/total liabilities from financial year 2018-19. However, the audit observation pertains to FY 2016-17 on the provisions of Act that were applicable at that time.

2.3 Continuous deferment of mid-year benchmarks for review to enforce corrective measures

In order to take corrective measures timely to enforce compliance, Section 7 (1) of the Act required quarterly review of the trends of receipts and expenditure in relation to budget estimates and pre-specified levels mentioned in the Fiscal Policy Strategy Statement by the Minister-in-charge of the Ministry of Finance. In order to have controlled achievement of annual targets and have scope for timely corrective measures, the Government fixed mid-year benchmarks (second quarter ending September) in respect of non-debt receipts, fiscal deficit and revenue deficit. Government was required to maintain Fiscal Deficit and Revenue Deficit up to 70 *per cent* of Budget Estimates for the year in 2016-17. In the event of breach of this mid-year targets, the Government was required to take appropriate corrective measures and appraise the Parliament of such corrective measures in the session immediately following the end of second quarter.

Audit noticed that the mid-year benchmarks for review at the end of the second quarter in respect of fiscal deficit and revenue deficit as compared with the figures of budget estimates were revised twice; from 45 *per cent* in 2004 to 60 *per cent* in 2013 and then to 70 *per cent* in 2015 through amendments as detailed in **Table 2.2**.

Table – 2.2: Revisions in benchmarks for mid-year review of trend of fiscal indicators compared with budget estimates

Fiscal indicators	Mid-year benchmark as a per cent of Budget Estimate for that year		
	As per FRBM Rules 2004	As per FRBM Amendment Rules 2013	As per FRBM Amendment Rules 2015.
Fiscal deficit	Higher than 45 *per cent*	Higher than 60 *per cent*	Higher than 70 *per cent*
Revenue deficit	Higher than 45 *per cent*	Higher than 60 *per cent*	Higher than 70 *per cent*

A comparison of the actuals in 2016-17 against mid-year benchmark revealed that the actuals were higher than the benchmarks as follows:

Table – 2.3: Actual versus benchmarks for mid-year review of trend of fiscal indicators compared with budget estimates

Fiscal indicators	Performance benchmarks under FRBM Rules	Actuals
		2016-17
Fiscal deficit	Higher than 70 *per cent* of BE	83.9 %
Revenue deficit	Higher than 70 *per cent* of BE	92.1 %

This shows that even after relaxing the target twice, the Government was unable to keep the indicators at the benchmark levels of budget estimates. The Finance Minister informed Parliament about reasons of breach of targets and corrective measures being taken to stick to annual targets. However, specific areas of expenditure and receipt responsible for breach and specific corrective measures were not specified in the statement.

Ministry stated (July 2018) that deviation vis-à-vis mid-year benchmarks in respect of fiscal deficit and revenue deficit may be seen in the context of higher pace of expenditure on one hand and comparatively slow progress in realisation of receipts in general and non-tax receipts and disinvestment receipts in particular on the other side.

It was further stated in the Statement that the Government is continuously monitoring the emerging economic scenario and is taking measures for reviving growth. To mobilize higher amount of resources, administrative, legal and technological measures initiated by Government are underway. Measures initiated by Government for expenditure management, fiscal prudence, subsidy reforms, direct transfer of benefits (DBT) are also in progress and incremental benefits may become visible in later part of the financial year. Government is steadfast on the policy of fiscal rectitude and committed to achieve the fiscal targets as estimated in budget 2016-17.

The reply of the Ministry neither provides specific reasons of continuous deferment of mid-year benchmarks of FD and RD nor highlights specific reasons of breach of mid-year benchmarks in 2016-17. This defeats the purpose of having mid-year benchmarks and presenting strategy statement before Parliament to correct the course in achieving the targets.

2.4 Audit Summation

Though the Government met the annual reduction targets of Fiscal Deficit (FD), Revenue Deficit (RD) and Effective Revenue Deficit (ERD) in 2016-17, it had deviated in 2015-16 by 0.2 *per cent* against ERD target of 0.5 *per cent* and by 0.2 *per cent* against the FD target of 0.4 *per cent*. As such, together for 2015-16 and 2016-17, the actual ERD at the end of March 2017 would have been 0.9 *per cent* and not 1.0 *per cent*, and the actual FD would have been 3.3 *per cent* and not 3.5 *per cent*. The FRBM Rules specified a cap on additional liability of nine *per cent* of GDP for the year 2004-05 and one *per cent* annual reduction thereafter; meaning after March 2014, no additional liability was to be assumed by the Government. However, assumption of liability, as reflected in borrowings for meeting fiscal deficit continued to exist. With regard to mid-year review of trend of fiscal indicators (FD, RD) compared with budget estimates, even after relaxing the benchmark twice, the Government was unable to keep the indicators within the mid-year target of budget estimates for 2016-17.

2.5 Recommendations

(i) ***The Government may ensure adherence to the medium term fiscal path as specified under FRBM Act/Rules and align its annual achievements accordingly.***

(ii) ***Mid-year benchmarks for comparison with pro-rata performance against the budget estimates should be realistic and mid-course corrections should enable achievement of year-end targets, which should be disclosed transparently to the Parliament.***

Chapter 3: Progress in achievement of FRBM targets

This chapter analyses the extent of achievement of fiscal indicators for financial year 2016-17 in relation to the targets set in the FRBM Act/Rules as amended from time to time and in comparison to estimates and trend of previous years. Annual reduction targets of achievement of fiscal indicators *viz* Revenue Deficit, Fiscal Deficit and Effective Revenue Deficit were revised in June 2015 applicable from financial year 2015-16. Analysis of progress of achievement of these fiscal indicators has been made from financial year 2014-15 as the base year and progress in subsequent years. For analysis, GDP[5] at current prices (new series with 2011-12 as base year) released by Central Statistical Office, Ministry of Statistics and Programme Implementation on 31 January 2017 and 31 May 2017 have been adopted.

3.1 Revenue Deficit

Section 2(e) of FRBM Act, defines revenue deficit as the difference between revenue expenditure and revenue receipts. Revenue deficit signifies that Government's own revenue is insufficient to meet the expenditure on general functioning of Government and provisions for various services. Financing the gap implies deferred taxation as debts raised in current financial year would ultimately be paid by collecting money from taxation in future unless Government augments its non-tax revenue receipts.

Through the amended FRBM Act 2018 and the Rules made thereunder, Government has removed revenue deficit targets which would be applicable for the year 2018-19 and onwards. It has been cited that in a country like India, there is little or no evidence to say that capital expenditure should enjoy pre-eminence over revenue expenditure. However, the Government added that this strategy will not compromise on the capital expenditure since Government is meeting the requirement through off-budget borrowings. Debt raised for the purpose would be repaid through revenue generation from such projects. Thus, both revenue and capital expenditure needs of the economy would be met.

Though Government's strategy to meet capital expenditure through off-budget financing provides flexibility in meeting requirement of capital intensive projects, such financing would be outside budgetary control. Further, mainly backed by the trust in the Government's explicit or implicit guarantee, it would pose fiscal risk in

5 The GDP figures for 2012-13 and 2013-14 are taken from press note dated 31 January 2017 and for 2014-15 to 2016-17 from press note dated 31 May 2017.

the long term in cases the entity that raises the funds fails to meet debt servicing. Select cases of off-budget financing of Ministries of Government of India were examined to understand methods and extent of such borrowings which remain beyond Parliamentary control. It came to notice that the Government resorts to off-budget methods of financing to meet revenue and capital requirements. The quantum of such borrowings is huge and current policy framework lacks transparent disclosures and management strategy for comprehensively managing such borrowings.

Ministry maintained (July 2018) that off-budget borrowings remain within the scope of Union Budget as provisioning of repayment of principal and of interest of off-budget borrowings is being made through the Budget. Expenditure Budget contains the details of Extra Budgetary Resources (EBRs). Statement for 'Resources of Public Enterprises' contains details of Ministry-wise Internal and Extra Budgetary Resources of the public enterprises.

Ministry also stated that amendments to FRBM Act in 2018 now include a debt target and widens the scope of the Central Government debt which inter-alia includes such financial liabilities of any body, corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the annual financial statement. Thus, it is incorrect to say that there is no direct legislative control over off-budget borrowings.

The fact remains that off-budget financing is a tool of deferring the expenditure for subsequent year(s). As such, the overall quantum of such borrowings remains beyond calculation of fiscal indicators. Despite being solely dependent on Government's implicit/explicit guarantees, such borrowings are not being included in accounts either as debts or guarantees. The Ministry's reply about provisioning of repayment of principal and interest of off-budget borrowings through the Annual Budgets endorses audit view that Government is using off-budget borrowings for financing schemes and subsidy. However, though interest is budgeted for under relevant head, the modality of repayment of debt/borrowing is not spelt out.

3.1.1 Revenue Deficit target

As per the amended FRBM Rules 2015 (June 2015), in order to achieve the target of two *per cent* of Revenue Deficit by the 31 March 2018, the Central Government shall reduce such deficits by an amount equivalent to 0.4 *per cent* or more of the GDP at the end of each financial year beginning with financial year 2015-16. Thus, Revenue Deficit target for 2016-17 works out to 2.1 *per cent* of GDP after factoring in annual reduction of 0.4 *per cent* in 2015-16 and 2016-17 each from 2.9 *per cent* in 2014-15. However, the budgeted target for Revenue Deficit was kept at 2.3 *per cent* of GDP for 2016-17.

The Government was able to maintain it at 2.1 *per cent* primarily due to 2.34 *per cent* reduction in Revenue Expenditure. The details are in following **Table 3.1**.

Table-3.1 : Revenue Deficit - Estimates and Actuals in 2016-17

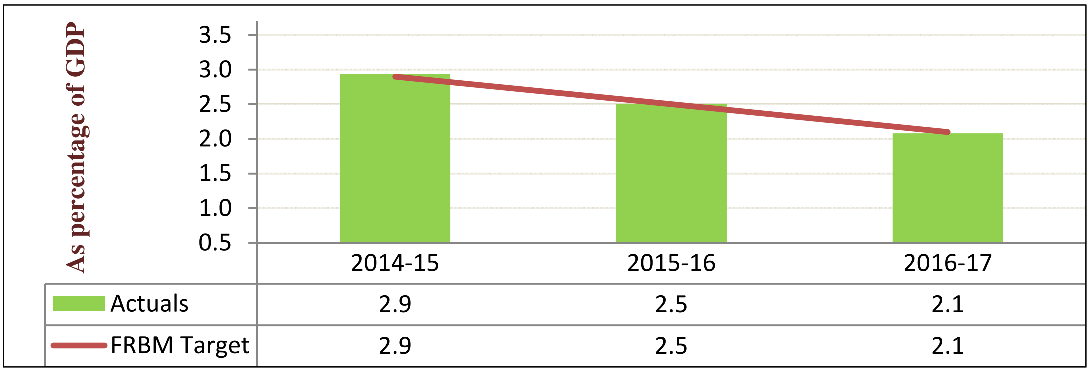
(₹ in crore)

Components	Revenue Expenditure	Revenue Receipts	Revenue Deficit (RD)	RD as % of GDP
	(1)	(2)	(3=1-2)	
Budget Estimates	17,31,037	13,77,022	3,54,015	2.3%
Actuals	16,90,584	13,74,203	3,16,381	2.1%
Variation with reference to Budget Estimates	40,453	2,819	37,634	0.2%
Variation	-2.34%	-0.20%	-10.63 %	

Source: Budget at a Glance for 2016-17 and 2018-19.

Graph-3.1 below shows the downward trend of revenue deficit as a percentage of GDP over the period 2014-15 to 2016-17 and consistent achievement of FRBM targets applicable as per amended FRBM Rules 2015:

Graph-3.1: Trend of Revenue Deficit: 2014-15 to 2016-17



Source: Budget at a Glance for 2016-17, 2017-18 and 2018-19.
*Note: Data in absolute terms for deficits is at **Annexure-3.1**.*

3.1.2 Off-budget financing of Revenue Expenditure

Subsidy expenditure against supplies (e.g., food and fertilizers) during a financial year is Revenue Expenditure and unpaid arrears against those supplies for that financial year is committed expenditure. Following cases of food and fertilizer subsidy depict this carryover subsidy liability. Government has adopted off-budget means of financing the subsidy arrears, thereby deferring the payment in the relevant financial year and in the process also incurring additional cost by way of interest payments.

Case Study - 1

Special Banking Arrangements by Ministry of Chemicals and Fertilizers.

When the budget allocation made to Ministry of Chemicals and Fertilizers in a financial year is not sufficient to clear all the dues of fertilizer subsidies, the dues of fertilizer subsidies are carried over to next financial year. During recent years, these accumulated carryover liabilities of the Ministry have increased, as shown in the following **table**[6]:

(₹in crore)

Year	Subsidy Expenditure	Carryover liability
2012-13	70,592	26,417
2013-14	71,280	40,341
2014-15	75,067	31,831
2015-16	76,538	43,356
2016-17	70,100	39,057

The accumulated subsidies adversely affect cash flow of the companies, which have huge subsidy receivables from Government. To overcome the liquidity problems of the fertilizer companies, Department makes 'Special Banking Arrangement' (SBA) in which loans from PSU banks are arranged to make payments against arrears of subsidies with some selected companies. Government makes payments of interest on these loans at Government Security (G-sec) rate. Interest over and above G-sec rate is borne by the fertilizer companies. Recent instances of SBA by Department of Fertilizers are given in following **table**:

(₹in crore)

Year	Amount of SBA	Interest Paid on SBA
2013-14	13,961.08	169.93
2014-15	6,806.66	64.03
2016-17	9,969.00	80.90

Resorting to SBA in order to improve the liquidity of fertilizer companies is an off-budget arrangement for financing a part of the subsidy payment, which is deferred.

Case Study - 2

Off-budget financing for Food Corporation of India (FCI).

Food Corporation of India (FCI) is a statutory corporation created through Food Corporations Act 1964 by Parliament to implement the objectives of the National Food Policy. FCI procures food grains at minimum support price (MSP) notified by Government of India and provides food grains for public distribution system (PDS). The difference between the cost of procurement and cost of providing it to fair price shops is worked out as subsidy bill and it is raised with Government for payment. When the budget allocation of a financial year to Ministry of Consumer Affairs, Food and Public Distribution is not sufficient to clear all the dues of food subsidies bill raised by FCI, the dues of such subsidies are carried over to next financial year. During recent years, these accumulated carryover liabilities on account of subsidies have increased as follows:

[6] Standing Committee on Chemicals & Fertilizers (2016-17).

(₹ in crore)

Year	Subsidy Expenditure	Carryover liability
2011-12	59,936	23,427
2012-13	71,980	31,753
2013-14	75,530	45,633
2014-15	91,995	58,654
2015-16	1,12,000	50,037
2016-17	78,335	81,303

(Source: Department of Economic Affairs, Ministry of Finance)

In order to cover financial requirements arising out of the subsidy arrears, FCI resorts to a number of methods in different years such as Bonds (₹ 13,000 crore), unsecured short term loans (₹ 40,000 crore), National Small Saving Funds (NSSF) Loans (₹ 70,000 crore) etc.

Besides**,** Cash Credit Facility guaranteed by Government of India with consortium of 68 banks (₹ 54,495 crore) also remains available with FCI. Government regularly extends this guarantee.

It is evident that there was increase of about 350 *per cent* in carried over subsidy arrears in the five years preceding 2016-17 which require financing from a number of methods including very high interest cash credit facility which increases actual cost of this subsidy substantially.

Case Study - 3
Off-budget funding under Accelerated Irrigation Benefits Programme (AIBP)

The Accelerated Irrigation Benefit Programme (AIBP) was launched during 1996-97 to give assistance to States to help them complete some of the incomplete major/medium irrigation projects which were at an advanced stage of completion and to create additional irrigation potential in the country. Like other Central Sector Schemes, several components of the scheme are eligible for grant of assistance from 2004. Actual expenditure by Central Government on this account in 2015-16 and 2016-17 was ₹ 2,549.01 crore and ₹ 999.86 crore respectively. However, a dedicated Long Term Irrigation Fund (LTIF) in National Bank for Agriculture and Rural Development (NABARD) was created in 2016-17 for funding and fast tracking the implementation of incomplete major and medium irrigation projects. This funding mechanism through NABARD was for both States and Central share of financing irrigation projects.

Analysis of financial statements of NABARD revealed that bonds worth ₹ 9,086 crore were issued during 2016-17 to arrange financing for LTIF. NABARD disbursed ₹ 3,336.88 crore towards Central share to National Water Development Agency (NWDA) for LTIF Projects, ₹ 2,414.16 crore towards Central share to NWDA for Polavaram Project and ₹ 3,334.98 crore towards States share for LTIF Projects.

Earlier, expenditure for AIBP schemes were provided through the budget appropriations, but due to off-budget financing it does not appear in the budget of 2016-17 onwards.

It is evident from the instances given above that certain expenditure (grants and subsidies) of the Government in 2016-17 were through off-budget financing route with fiscal implication of understating Government's expenditure in the year as they were deferred. Such off-budget financial arrangement, defers committed liability, being interest bearing, increases cost of subsidy, and understates the annual subsidy expenditure and prevents transparent depiction of fiscal indicators for the relevant year. As such, appropriate disclosure framework may be required for off-budget financing.

Ministry reiterated (July 2018) that off-budget borrowings are not beyond the scope of Union Budget as provisioning of repayment of principal and of interest of off-budget borrowings is being made through the Budget. Ministry also mentioned disclosure of Internal and Extra Budgetary Resources (IEBR) of NABARD and loans to FCI by NSSF in budget documents/finance accounts.

Ministry acknowledged that practice of provisioning 95 per cent of food subsidy in budget for a year and clearing remaining five per cent in subsequent years after finalization of accounts of FCI exists. Due to budgetary constraints, it may not be possible to provide the entire amount of food subsidy in a particular year. The off-budget financial arrangement is to meet the working capital requirement of FCI which was being met from banking sources independently.

The reply of Ministry supports audit view that such borrowings caused by budgetary constraints in financing current subsidy/planned expenditure defer this expenditure to future period. Besides, repayment of principal and interest through the budgets in future years not only prevents transparent depiction of deficit indicators but also adversely affects inter-generational equity.

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

As per the amended FRBM Rules 2015 (June 2015), in order to achieve the target of three *per cent* of Fiscal Deficit by the 31 March 2018, the Central Government shall reduce such deficit by an amount equivalent to 0.4 *per cent* or more of the GDP at the end of each financial year beginning with financial year 2015-16. Thus, Fiscal Deficit target for 2016-17 works out to 3.3 *per cent* of GDP after factoring in annual reduction of 0.4 *per cent* in 2015-16 and 2016-17 each from 4.1 *per cent* in 2014-15.

However, the budgeted target for Fiscal Deficit was 3.5 *per cent* of GDP for 2016-17, without factoring in non-achievement of annual reduction target in 2015-16, which, in turn, would have resulted in actual target of 3.3 *per cent* (Please see paragraph 2.1). Fiscal deficit in 2016-17 was 3.5 *per cent* as detailed in **Table 3.2** below:

Table-3.2 : Fiscal Deficit-Budget Estimate and Actuals in 2016-17

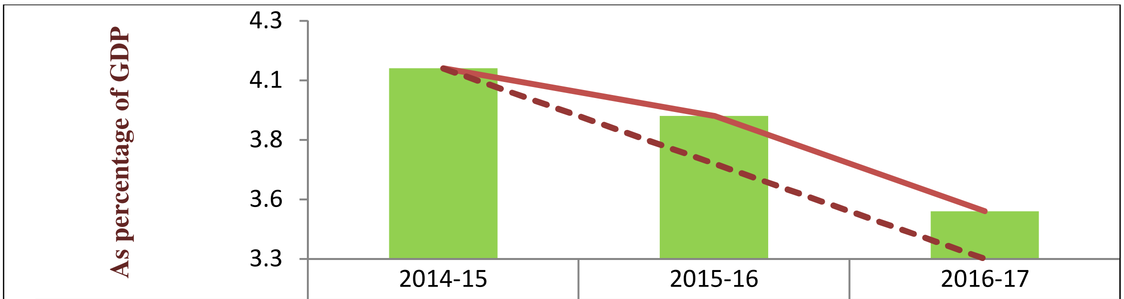
Components	Total Expenditure (1)	Non-debt Receipts (2)	Fiscal Deficit (FD) (3=1-2)	FD as % of GDP
			(*₹ in crore*)	
Budget Estimates	19,78,060	14,44,156	5,33,904	3.5 %
Actuals	19,75,194	14,39,576	5,35,618	3.5 %
Variation with reference to Budget Estimates	2,866	4,580	-1,714	-
Percentage of variation	-0.14%	-0.32%	0.32%	

Source: Budget at a Glance for 2016-17 and 2018-19.

Table above shows that there was an upward variation of 0.32 *per cent* in Fiscal Deficit compared with Budget Estimates. Further, ₹ 40,453 crore reduction in revenue expenditure (shown in **Table 3.1** above) got offset due to ₹ 37,587 crore increase in capital expenditure. Overall variation between budgeted and actual figures of total expenditure stood at ₹ 2,866 crore (₹ 40,453 crore - ₹ 37,587 crore) only.

Graph-3.2 below presents the trend of fiscal deficit as a percentage of GDP over the period from 2014-15 to 2016-17:

Graph-3.2: Trend of Fiscal Deficit: 2014-15 to 2016-17



	2014-15	2015-16	2016-17
Actuals	4.1	3.9	3.5
Budgeted Target	4.1	3.9	3.5
FRBM targets	4.1	3.7	3.3

Source: Budget at a Glance for 2014-15 to 2018-19.
Note: Data in absolute terms for deficits is at ***Annexure-3.1****.*

The fiscal deficit shows a declining trend which converged to its budgeted level during the financial years 2014-17. However, if we factor in annual reduction target of fiscal deficit of 0.4 *per cent* during 2015-17 (after amendment in 2015), the Government deviated by 0.2 *per cent* from planned course of achievement of FRBM targets of fiscal deficit of 3.3 *per cent*.

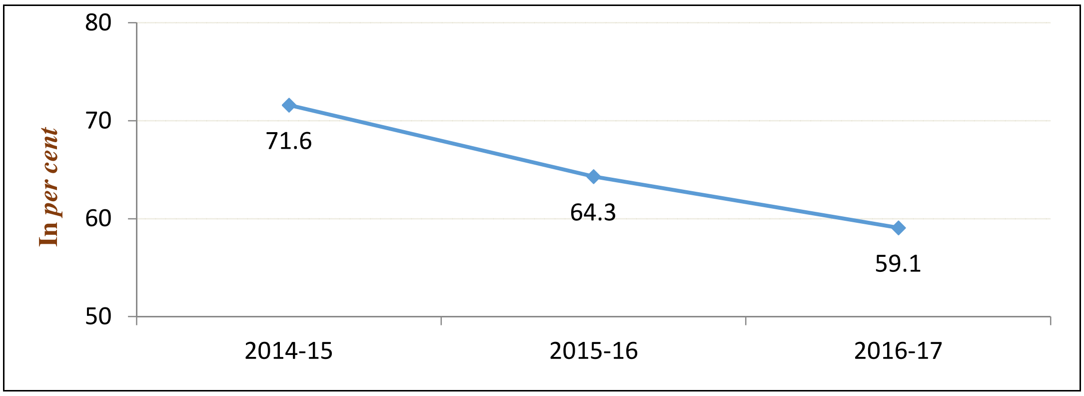
Ministry stated that the annual target for 2016-17 has been reached and reiterated that annual targets are not cumulative. Recalibration of target of fiscal deficit from 2018-19 in the amendments has since been brought out in 2018 in Budget Statements.

The fact remains that achieving annual targets could have helped Government achieve further reduction cumulatively.

3.2.2 Revenue Deficit as a component of Fiscal Deficit

The amended FRBM Act/Rules envisage fiscal deficit of not more than three *per cent* of GDP and revenue deficit of not more than two *per cent* of GDP by 31 March 2018, implying that the revenue deficit accounts for two-thirds (66.6 *per cent*) of fiscal deficit. **Graph-3.3** below presents the trend of revenue deficit as a component of fiscal deficit over the period 2014-15 to 2016-17:

Graph-3.3: Trend of RD as component of FD: 2014-15 to 2016-17



Source: Budget at a Glance for 2016-17 to 2018-19.

Graph-3.3 depicts that during 2015-16, Revenue deficit as a component of Fiscal deficit improved to 64.3 *per cent* from 71.6 *per cent* in 2014-15 and further to 59.1 *per cent* in 2016-17. During 2014-15 to 2016-17, major portion of fiscal deficit was because of revenue deficit, resulting in revenue deficit averaging 65 *per cent* of fiscal deficit.

It is clear that Revenue Deficit, although contained within limit, constitutes a large part of Fiscal Deficit. In the light of the amended FRBM Act 2018, doing away with Revenue Deficit target carries the risk of not addressing the issue of revenue deficit.

Ministry stated (July 2018) that the Revenue Deficit is still being projected as a fiscal indicator in Medium-term Fiscal Policy cum Fiscal Policy Strategy Statement.

However, the fact remains that revenue deficit continues to have significant bearing on targets of fiscal deficit and there is need of addressing revenue deficit in containing fiscal deficit as an indicator.

3.3 Effective Revenue Deficit

Fiscal indicator 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) defined 'effective revenue deficit' as the difference between the revenue deficit and grants for creation of capital assets.

3.3.1 Effective Revenue Deficit target

As per the amended FRBM Rules 2015 (June 2015), in order to achieve the target of elimination of Effective Revenue Deficit by the 31 March 2018, the Central Government shall reduce such deficits by an amount equivalent to 0.5 *per cent* or more of the GDP at the end of each financial year beginning with financial year 2015-16. Thus, Effective Revenue target for 2016-17 works out to 0.9 *per cent* of GDP after factoring in annual reduction of 0.5 *per cent* in 2015-16 and 2016-17 each from 1.9 *per cent* in 2014-15.

However, the budgeted target for Effective Revenue Deficit was kept at 1.2 *per cent* of GDP for 2016-17 without factoring in non-achievement of annual reduction target in 2015-16 (Please see paragraph 2.1). Government was able to maintain it at 1.0 *per cent* as detailed in **Table 3.3** below:

Table-3.3 : Effective Revenue Deficit-Budget Estimate and Actuals: 2016-17

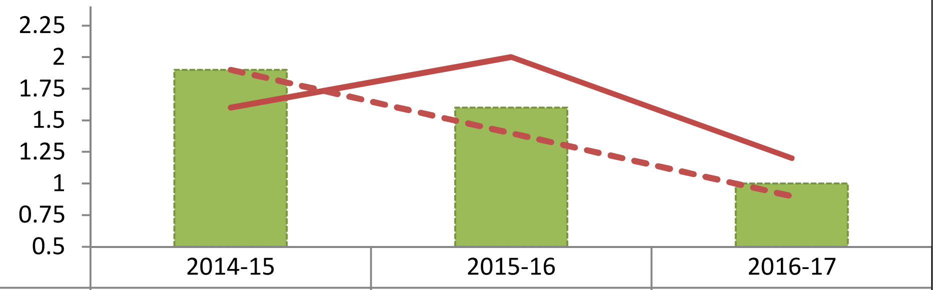
Components	Revenue Deficit	Grant for creation of capital assets	Effective Revenue Deficit (ERD)	ERD as % of GDP
	(1)	(2)	(3=1-2)	
			(₹ in crore)	
Budget Estimates	3,54,015	1,66,840	1,87,175	1.2
Actuals	3,16,381	1,65,733	1,50,648	1.0
Variation with reference to BE	-37,634 (-10.63%)	- 1,107 (-0.66%)	-36,527 (-19.51%)	0.2

Source: Budget at a Glance for 2016-17 and 2018-19.

Table-3.3 above reflects that 10 *per cent* reduction in revenue deficit led to around 20 *per cent* reduction in Effective Revenue Deficit over the Budget Estimates.

The trend of effective revenue deficit as a percentage of GDP over the period 2014-15 to 2016-17 is given in **Graph-3.4** below:

Graph-3.4: Trend of Effective Revenue Deficit: 2014-15 to 2016-17



	2014-15	2015-16	2016-17
Actuals	1.9	1.6	1.0
Budgeted Target	1.6	2.0	1.2
FRBM Target	1.9	1.4	0.9

Source: Budget at a Glance
Note: Data in absolute terms for deficits is at ***Annexure 3.1***

Graph above shows declining trend of effective revenue deficit, which remained below its budgeted target during 2015-17 period. However, if we factor in the annual reduction target of effective revenue deficit of 0.5 *per cent* during 2015-17, the actual effective revenue deficit was 1.0 *per cent* against the planned course of achievement of FRBM targets of 0.9 *per cent* in 2016-17. This was due to deviation of 0.2 *per cent* in 2015-16.

In reply to this observation, Ministry stressed that the annual reduction targets are prospective, beginning with 2015-16 and not cumulative.

The audit observation depicts status of adherence to budgeted and FRBM target after amendment in June 2015 and does not insist on achievement of cumulative targets for two-year period. However, it does show that Government has not been consistent in its annual achievement of targets.

3.3.2 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. The Detailed Demands for Grants (DDG) of the respective Ministries reflects this along with the actuals of previous year, and furnish the same to the Ministry of Finance. On the basis of this 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).

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 2016-17 and their cross-verification with Detailed Demands for Grants (DDG) of 28 Ministries/Departments revealed variation in two sets of documents as detailed in **Annexure-3.2**. The errors/omissions resulted in under/over estimation of grants for creation of capital assets with overall impact of underestimation of ₹ 2,692.25 crore. The budgeted figures of grants for creation of capital assets would have been ₹ 1,69,532 crore instead of ₹ 1,66,840 crore which has also impacted the correct estimation of effective revenue deficit.

3.3.3 Re-appropriation from object head 35 – Grants for creation of capital assets

As per amended FRBM Rules, in order to achieve the target of elimination of effective revenue deficit by the end of 31 March 2018, the Central Government shall reduce such deficit by an amount equivalent to 0.5 *per cent* or more of the GDP at the end of each financial year beginning with the financial year 2015-16.

To achieve the elimination of ERD target by 31 March 2018 and considering the wide gap between Revenue deficit and Grants for creation of capital assets, Ministry of Finance issued an Office Memorandum in February 2016 whereby Ministry stated that "*Re-appropriation from the object head Grant-in-aid (GIA) for creation of capital assets to other object heads must be avoided. Re-appropriation would be allowed within the same object head only.*"

Scrutiny of Re-appropriation orders pertaining to Grant No. 95, Ministry of Urban Development for the year 2016-17 revealed that funds aggregating to ₹ 50.46 crore were re-appropriated from the object head 35 to the different object heads as detailed in **Annexure-3.3**.

Keeping in view huge gap of ₹ 1,50, 648 crore between Revenue Deficit and Grants for creation of capital assets in FY 2016-17, re-appropriation from the object head Grant-in-aid (GIA) for creation of capital assets to other object heads is not only violation of above office memorandum but also inconsistent with the final target of eliminating Effective Revenue Deficit by 2017-18.

Ministry stated (July 2018) that instructions have been issued to all Ministries/ Departments, for avoiding instances of re-appropriation from the object head Grant-in-aid (GIA) for creation of capital assets to other object heads and the issue is being pursued with the concerned Ministry.

3.3.4 Alteration in previous year's Budget provision

The Parliament had approved a budget provision of ₹ 134.12 crore under the object head 'Grants for Creation of Capital Assets' for Department of Space for the year 2016-17. However, allocation under this object head placed in Parliament in February 2017 along with the budget for the year 2017-18 revealed that the budget estimates for financial year 2016-17 was depicted as ₹ 525.87 crore instead of ₹ 134.12 crore. Similarly, in case of Department of Atomic Energy, Grants for creation of Capital Assets of ₹ 1,080 crore were depicted in Detailed Demands for Grants for 2016-17, whereas the same figures were depicted as ₹ 1,052 crore in Expenditure Budget 2017-18.

Provisions under any head of expenditure in any financial year are approved by the Parliament and revision in 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 a bearing on the deficit indicators, changing them frequently defeats the very concept of having any fiscal target in respect of deficit indicators.

The Department of Space, in its reply (December 2017), accepted error on their part and stated that information was inadvertently furnished by the department to the Ministry of Finance and it would take utmost care in future.

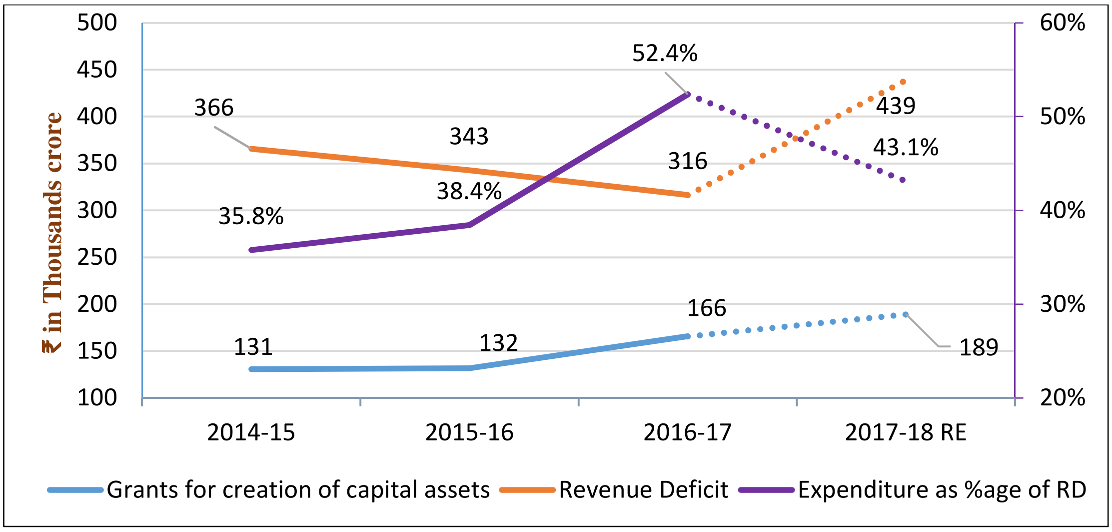
Ministry replied (July 2018) that efforts are being made to rectify errors/ inconsistencies in reporting of information by various Ministries/Departments.

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.

3.3.5 Expenditure on grants for creation of capital assets

Elimination of effective revenue deficit implies that expenditure on grants for creation of capital assets must be equal to 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 2014-15 to 2016-17 and projections/revised estimate for 2017-18 are given in **Graph-3.5**.

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.

Graph-3.5 depicts that grants (which are part of revenue expenditure) for creation of capital assets increased from 38.4 *per cent* in 2015-16 to 52.4 *per cent* of Revenue deficit in 2016-17, i.e. more than 50 *per cent* of Revenue deficit was due to such grants. The revised projection for 2017-18 shows that Government has planned to bypass the FRBM target of elimination of effective revenue deficit by the end of 2017-18. However, the Government has expressed intention in MTFP statement 2018-19 (Para 5) to finance expenditure of Capital nature through off-budget borrowings.

Ministry stated (July 2018) that the reason for continuous revision in ERD was due to structural issues relating to booking of grant-in-aid for creation of capital assets in the revenue side of the account. Till such time, this structural issue is addressed through a suitable and appropriate accounting mechanism or through a substantial change in the revenue-capital composition of Government expenditure, this imbalance is likely to persist.

3.4 Liability of the Government

The Government resorts to borrowing from internal and external sources to meet its annual fiscal deficit. The internal borrowings mainly comprise 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.

3.4.1 Liability target

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

Table 3.4 shows the liability position of the Government since 2012-13:

Table-3.4: Liability of the Government: 2012-13 to 2016-17

(₹ in crore)

Financial year	Liability at the beginning of the year	Liability at the end of the year	Additional liability during the year	GDP	Liability as %age of GDP	Additional liability as %age of GDP
	1	2	3=(2-1)	4	(2/4)	(3/4)
2012-13	41,51,284	47,06,586	5,55,302	99,46,636	47.3	5.6
2013-14	47,06,586	52,59,310	5,52,724	1,12,36,635	46.8	4.9
2014-15	52,59,310	57,75,685	5,16,375	1,24,45,128	46.4	4.1
2015-16	57,75,685	64,23,032	6,47,347	1,36,82,035	46.9	4.7
2016-17	64,23,032	69,06,265	4,83,233	1,51,83,709	45.5	3.2

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 2016-17 was 45.5 *per cent* of GDP down from 47.3 *per cent* of GDP in 2012-13. It also indicates that additional liabilities declined from 5.6 *per cent* in 2012-13 to 3.2 *per cent* of GDP in 2016-17.

3.4.2 Understatement of liability

A comment relating to understatement of Public Account liability was included In Para 1.5 of CAG's Report No. 44 of 2017 on the Union Government Accounts for financial year 2016-17. The understatement of liability works out to ₹ 7,63,280 crore. Taking into account the actual liability in the Public Account, total liability of the Central Government at the end of the financial year 2016-17 would be ₹ 76,69,545 crore[7] which is 50.5 *per cent* of GDP as against 45.5 *per cent* shown in **Table 3.4** above.

Ministry replied (July 2018) that understatement of Central Government Liabilities is due to Post Office Insurance Funds operated through private fund managers and shown as negative credit instead of debit balance and stated that the same needs to be shown in the same manner as NSSF operations. This will be kept in view while

[7] ₹ 76,69,545 crore =₹ 69,06,265 crore + ₹ 7,63,280 crore.

preparing the liabilities and assets statement in the year 2019-20 on the analogy of NSSF.

The Ministry's reply needs to be seen in the context that the total understated liability on account of NSSF is ₹ 7,63,280 crore and relating to investment in the Post Office Insurance Funds is only ₹ 53,634 crore. The rest of ₹ 7,09,646 crore relates to other components of investment from the NSSF.

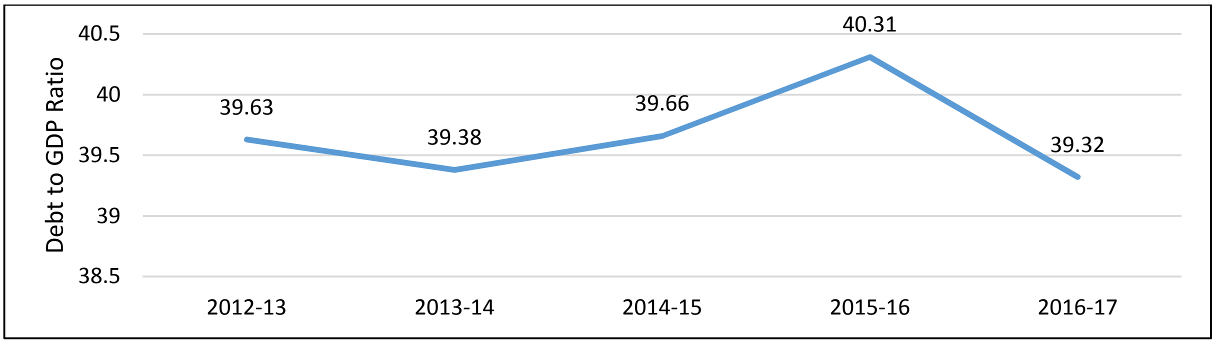
3.4.3 Debt Sustainability

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 to GDP ratio can be considered as leading towards stability. The ratio of interest payments to revenue receipt is also used to measure debt sustainability. In this section, assessment of the sustainability of debt has been made using trends observed in critical variables.

3.4.3.1 Debt – GDP Ratio

The trend in the Debt-GDP ratio is an important indicator, which signifies sustainability of the debt, which is presented in **Graph 3.6** below:

Graph-3.6: Trends in Debt-GDP ratio

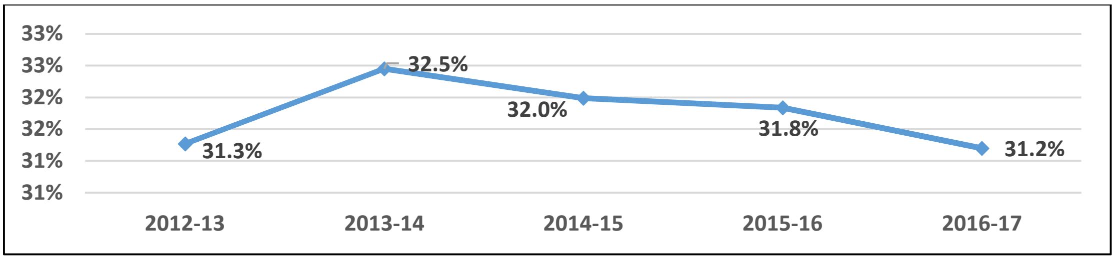


Source: Union Government Finance Accounts

3.4.3.2 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 three years 2014-15, 2015-16 and 2016-17, from a peak of 32.5 *per cent* in 2013-14 as shown in **Graph 3.7** below:

Graph-3.7: Ratio of Interest Payment to Revenue Receipt

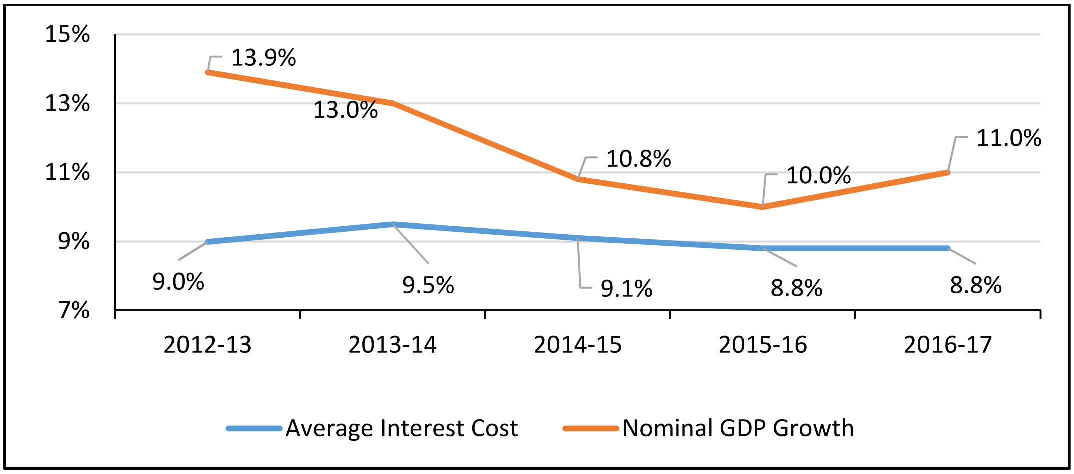


Source: Union Government Finance Accounts

3.4.3.3 Average Interest Cost

Average Interest Cost (AIC) is arrived at by dividing interest payments during the year with average debt stock[8]. A declining average interest cost augurs well for the sustainability of the debt. However, as depicted in **Graph 3.8**, over the period 2012-17, the average interest cost ranged between 8.8 to 9.5 *per cent*.

Graph-3.8: Average Interest Cost and Nominal GDP growth



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

In reply (July 2018) Ministry maintained that AIC remained between 6.6 and 6.9 per cent during 2013-17 period.

The source of Ministry's information is Status paper on Government Debt, 2016-17 whereas Audit worked out average interest costs on the basis of figures of debt and interest payments available in certified finance accounts.

3.5 Guarantees

Central Government extends guarantees primarily for 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 being contingent liabilities do not form part of debt, in the eventuality of default, they have the potential of aggravating the liability position of the Government.

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[8] Average debt stock is a simple average of outstanding debt at the beginning and at the end of the year.

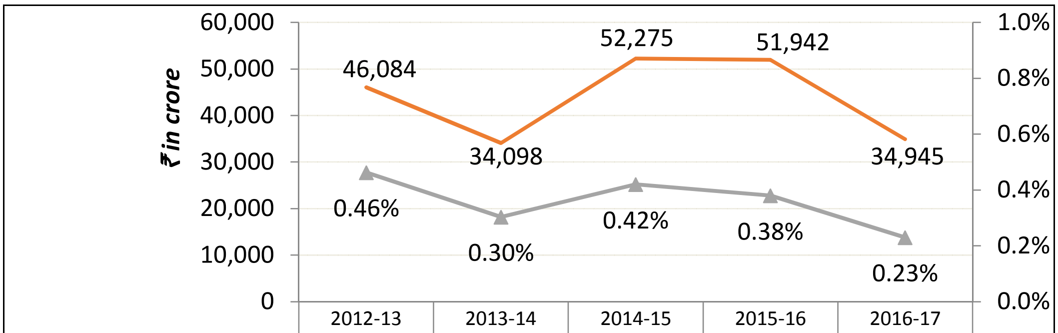
3.5.1 Guarantees target

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 financial year 2004-05.

3.5.2 Trend of additions in Guarantees

Following **Graph-3.9** shows the trend of additions in guarantees given by the Government in a financial year as a percentage of GDP over the period from 2012-13 to 2016-17:

Graph 3.9: Trends of addition in guarantees: 2012-13 to 2016-17



	2012-13	2013-14	2014-15	2015-16	2016-17
Addition of guarantee	46,084	34,098	52,275	51,942	34,945
Addition as % of GDP	0.46%	0.30%	0.42%	0.38%	0.23%

Source: Union Government Finance Accounts.
Note: Second axis represents addition in guarantees as percentage of GDP.

Graph 3.9 shows that in the last five years, addition of guarantees in a financial year remained within the prescribed target of 0.5 *per cent* of GDP. It was 0.23 *per cent* of GDP in 2016-17.

3.6 Payment of Commitment Charges

Prudential debt management is one of the objectives of Fiscal Responsibility & Budget Management (FRBM) Act, 2003. Effective debt servicing plays a key role in prudential debt management. Debt servicing refers to payment made to creditors towards interest and matured principal amount, which includes service charges, commitment charges, etc.

Commitment charges on undrawn balance of external loans are paid on principal amount rescheduled for drawl on later dates. During the period 2012-13 to 2016-17, commitment charges to the extent of ₹ 553.22 crore were paid. The details are given in **Table 3.5**.

Table-3.5: Payment of Commitment Charges

(₹ in crore)

Year	Unutilized committed external assistance	Commitment Charges
2012-13	1,85,381	92.95
2013-14	2,16,083	117.33
2014-15	2,08,275	110.53
2015-16	2,52,396	110.60
2016-17	2,54,779	121.81
	Total	**553.22**

The need for payment of commitment charges points towards inadequate planning of the loan/credits without proper linkages with the requirement leading to avoidable payment of commitment charges.

Ministry stated (July 2018) that commitment fee/charges are payable by the borrowers on the undisbursed committed loan amount, as per the prevalent terms and conditions of relevant loan/credit agreement with the external agencies from time to time.

The reply of the Ministry does not address the reasons for huge commitment charges nor does suggest methods to reduce this avoidable expenditure.

3.7 Off-budget financing of Capital Expenditure

Fiscal Responsibility & Budget Management (FRBM) Act, 2003 provided debt management framework through containing revenue and fiscal deficits. Prudential borrowing norms suggest that borrowed funds should be deployed in such a manner that return from deployment of borrowed funds is more than borrowing cost of debt to be sustainable. It is therefore essential that there should be a policy framework for deployment of borrowed funds keeping in mind cost of borrowing and potential of increase in income.

The Ministry of Finance stated that borrowed funds are required to meet the mismatches between the Government Receipts and disbursements and that funds are not mobilized for income generation or cost off settings activities. It was also mentioned that it is not possible to account for and earmark the borrowed funds for use in specific sectors on one to one basis.

It appears that there is no policy with respect to either rate of return, creation of assets, potential of increase in income, socio-economic or regional disparities for deployment of borrowed funds. Government has now recognized off-budget borrowings as a prominent method of financing capital expenditure. Financing for large infrastructure projects involving huge investments should be aligned in such a manner that the future rate of return from the investment is able to generate enough revenue to cover debt-servicing costs. However, in the absence of any policy guidelines in respect of deployment of borrowed funds, there is risk of deployment of these funds in areas which do not generate enough returns to cover future debt servicing needs.

Ministry stated (July 2018) that funds are not raised only for income generation activities and money being fungible, cannot be earmarked for a dedicated purpose. Ministry also mentioned that Government's expenditure on social security, defence, civil facilities, infrastructure, administrative expenses etc. is indispensable in nature and borrowings are required to meet both productive and other establishment related expenses. It has been emphasised that investment in human capital have long gestation period and borrowing only with commercial motive and seeing cost benefit analysis could not be the only criterion.

The reply of the Ministry illustrates expenditure of revenue nature and points out that these expenditures could not be treated with commercial motive or cost-benefit analysis. Audit observation pertains to borrowings for capital expenditure where clear policy of deployment of borrowed funds in investment avenues having capacity to generate financial resources for servicing of debt is required. Such policy becomes all the more important while resorting to off-budget methods of financing capital expenditure as investors judge feasibility of projects solely on financial viability and implicit/explicit guarantees of government.

Cases of Indian Railway Finance Corporation (IRFC) and Power Finance Corporation (PFC) were studied to understand the method and quantum of borrowings.

Case Study – 4

Arrangement of financial resources by Indian Railway Finance Corporation (IRFC)

At the end of 2016-17, long term and short term borrowings of IRFC were ₹ 96,710.26 crore and ₹ 5,769.35 crore respectively.

IRFC was created in 1986 exclusively for arranging finances for projects of Indian Railways. IRFC arranges finances for Ministry of Railway in International and Domestic market using various financial instruments. Bonds issued by IRFC are listed based on Issue Specific Rating given by various Credit Rating Agencies (CRAs). Investors draw assurance about safety of their investment based on Rating assigned by CRAs. It is understood that the CRAs consider the ownership of IRFC by Government of India, its functioning under Ministry of Railway, favourable lease agreements with Indian Railways protecting net interest margin, and transfer the interest and foreign exchange risks on its borrowings to Railways. International rating agencies also recognize that IRFC's credit profile is inseparable from the Government's credit profile and bank on "almost certain" likelihood of Government of India extraordinary support to IRFC in events of financial distress. Ministry of Railways provides letters of undertaking (LoU) to foreign lenders stating that in the event of IRFC falling short of funds to redeem the bonds on maturity and/or to repay the term loans owing to inadequate cash flows during the year, Ministry of Railways shall make good such shortfalls.

Case Study - 5
Power Finance Corporation (PFC) Ltd.

PFC’s total market borrowings includes ₹ 2,00,187 crore long term loans/bonds and ₹ 2401 crore short term borrowings at the end of 2016-17

Power Finance Corporation (PFC) Ltd was incorporated in 1986 as a dedicated Financial Institution in Power Sector. It was registered as Non-Banking Finance Company (NBFC) in 1998 and was categorized by RBI as Infrastructure Finance Company (IFC) in 2010. PFC is a nodal agency for various Government of India schemes such as Ultra Mega Power Projects (UMPPs) and Integrated Power Development Scheme (IPDS) for the development of the country’s power sector. PFC is strategically important for achieving the Government’s objective of augmenting power capacity across the country. PFC provides loans for a range of power-sector activities, including generation, distribution, transmission, and plant renovation and maintenance. As of 31 March 2017, Government of India owned 66 *per cent* stake in PFC.

PFC's rating by international rating agency Moody’s is in line with the rating for the Government of India due to its linkage with the Government, given the latter's ownership, as well as the strategic role it plays in the Government's plans for the power sector. PFC’s role in Ministry of Power's Restructured Accelerated Power Development & Reforms Program and the Ultra Mega Power Projects Program also has bearing on its ratings.

Similarly, while assigning rating to PFC, international rating agency Fitch noted that PFC's ratings reflect its strong operational and strategic ties with the Government of India as the company plays an important role in developing and financing power sector utilities in India. Role of PFC in Ministry of Power's Restructured Accelerated Power Development & Reforms Program and the Ultra Mega Power Projects Program also finds mention by Fitch.

Rating agency CRISIL notes PFC's high strategic importance to Government of India is reflected in the role it plays in implementing Government policies, and its importance in financing India's power sector, particularly state power utilities (SPUs). Additionally, majority ownership by GoI implies a strong moral obligation on the Government to support the company in the event of an exigency.

ICRA notes that PFC's ratings continue to reflect its majority sovereign ownership (66.35 *per cent* equity held by the GoI as on 31 March 2017) and its strategically important role in the implementation of various GoI schemes such as Ultra Mega Power Projects (UMPPs) and Integrated Power Development Scheme (IPDS) for the development of the country’s power sector. Further, PFC, as one of the major power sector financiers, remains strategically important for achieving the Government’s objective of augmenting power capacities across the country.

PFC finances Private and Public sector units involved in power generation and distribution. About 83 *per cent* of financing provided by PFC is in Public Sector and remaining 17 *per cent* in private sector. In an Audit report (2015-16) related to practices adopted by PFC while providing finances to private sector Independent Power Producers (IPPs), CAG highlighted several weaknesses in its operations related to IPPs.

Being off-budget in nature, these borrowings do not find mention in the Finance Accounts nor are included as part of guarantees given by the Government. This not only reflects lack of disclosure; it also puts major sources of funding of Government's crucial infrastructure projects beyond the control of Parliament. Such substantial borrowings for capital expenditure may require concrete policy for sustainability of debt and adequate disclosure.

Ministry reiterated its stand (para 3.1) (July 2018) that off-budget borrowings remain within the scope of Union Budget as provisioning of repayment of principal and of interest of off-budget borrowings is being made through the Budget.

Ministry further stated that the Central Public Sector Enterprises (CPSEs) have autonomy to leverage on Government backing and due to this fact they are able to borrow at a better rate. If Government borrows the funds on behalf of CPSEs, it will have fiscal deficit implications.

The reply of the Ministry suggests that the CPSEs have autonomy and their borrowings are for independent business ventures where government backing just helps in getting a better interest rate. However, the audit observations are regarding expenditure being incurred by CPSEs on behalf of the Government which otherwise would have been borne on the budget. This fact was also accepted by the Ministry when it stated that planned borrowings of CPSEs are taken as IEBR in budget documents and payment of principal and interest remains within scope of budget. Thus, in the absence of any comprehensive policy regarding debt sustainability and transparent disclosure for such off-budget borrowings, fiscal implications of financial risks of CPSEs could not be ruled out.

3.8 Audit Summation

The Government in 2016-17 met the annual reduction targets of the revenue deficit (by 0.4 *per cent*), effective revenue deficit (by 0.5 *per cent*) and fiscal deficit (by 0.4 *per cent*) over the previous year (2015-16). As at the end of March 2017, it also met the target of revenue deficit of 2.1 *per cent* of GDP, effective revenue deficit of 1.1 *per cent* (actual was 1.0 *per cent*) of GDP and fiscal deficits of 3.5 *per cent* of GDP. Revenue deficit as component of fiscal deficit declined from 71.6 *per cent* in 2014-15 to 59.1 *per cent* in 2016-17, which implies corresponding increase in capital expenditure.

With regard to debt sustainability, Audit noticed that *Debt to GDP ratio* in 2016-17 was 39.32 *per cent*; a decline from 40.31 *per cent* in 2015-16. *Ratio of interest payment to revenue receipts* was 31.2 *per cent*; a decline from 32.5 *per cent* in 2013-14. *Average interest cost* was 8.8 *per cent* in 2016-17; a decline from 9.5 *per cent* in 2013-14.

However, audit noticed that Government has increasingly resorted to off-budget financing for revenue as well as capital spending. In terms of revenue spending, off-budget financing, for instance, was used for covering/deferring fertilizer arrears/bills through special banking arrangements; food subsidy bills/arrears of FCI through borrowings and for implementation of irrigation scheme (AIBP) through borrowings by NABARD under the Long Term Irrigation Fund (LTIF). In terms of capital expenditure, for instance, off-budget financing of railway projects through borrowings of the IRFC and financing of power projects through the PFC are outside the budgetary control.

Off-budget financing route being outside the parliamentary control, has implication for fiscal indicators, as they understate Government's expenditure in the year by keeping them off the budget. Such off-budget financial arrangement, defers committed liability (subsidy arrears/bills) or create future liability and increases cost of subsidy due to interest payment. As such, appropriate disclosure framework may be required for off-budget financing.

3.9 Recommendations

Government may consider putting in place a policy framework for off-budget financing, which amongst others, should include disclosure to Parliament:

(i) ***The rationale and objective of off-budget financing, quantum of off-budget financing and budgetary support under the same project/scheme / programme, instruments and sources of financing, means and strategy for debt servicing of off-budget financing, etc.***

(ii) ***Details of off-budget financing undertaken during a financial year by/ through all the bodies/companies substantially owned by Government; and***

(iii) ***Government may consider disclosing the details of off-budget borrowings through disclosure statements in Budget as well as in Accounts.***

Chapter 4: Analysis of components of receipts and expenditure

Dynamics of tax and non-tax revenues, receipts from disinvestments, recovery of loans, expenditure in the nature of revenue, capital and loans & advances are crucial component that affect the achievement of fiscal targets. This chapter presents the macro-economic position of some selected parameters and analysis of components of receipts and expenditure having a bearing on the computation of prescribed deficit indicators.

4.1 Analysis of quarterly review of receipts and expenditure.

As per Rule 7 of the FRBM Rules, Ministry of Finance is required to analyse quarterly trends in receipts and expenditure and take corrective measures to contain any instances of breach of mid-year benchmark in respect of non-debt receipts, fiscal deficit and revenue deficit. Figures of quarterly receipts and expenditure during 2016-17 are as follows:

Table 4.1: Analysis of quarterly review of receipts and expenditure

(₹ in crore)

Sl. No.	Particulars	BE 2016-17	Up to 1st quarter (April to June) (as a % to BE)	Up to 2nd quarter (July to September) (as a % to BE)	Up to 3rd quarter (October to December) (as a % to BE)	Up to 4th quarter (January to March) (as a % to BE)
1.	Revenue Receipts	13,77,022	13.1	41.2	67.9	100
2..	Capital Receipts	6,01,038	55.1	76.7	89.0	100
3.	Non-debt capital receipt	67,134	7.0	19.1	50.5	95
4.	Total Receipts	19,78,060	25.9	52.0	74.3	100
5.	Total Expenditure	19,78,060	25.9	52.0	74.3	100
	Revenue Expenditure	17,31,037	26.7	51.6	74.5	97
	Capital Expenditure	2,47,023	19.8	54.6	73.2	118
6.	Revenue Deficit	3,54,015	79.7	92.1	100.1	87
7.	Effective Revenue Deficit	1,87,175	122	120.3	122.2	76
8.	Fiscal Deficit	5,33,904	61.1	83.9	93.9	100

Table 4.1 indicates that there was a sharp rise in capital expenditure in the last quarter of 2016-17. This was at about 45 *per cent* of the total budget estimates of capital expenditure. Although Revenue Deficit and Effective Revenue Deficit were high as compared to budget estimates in the initial three quarters, these were contained below budget estimates in the year-end due to realization of revenues.

4.2 Analysis of receipts and expenditure and their components

An analysis of some major components of receipts and expenditure during the period 2012-13 to 2016-17 is given in **Table 4.2** and **Table 4.3** below:

Table 4.2: Analysis of receipts

(₹ in crore)

Component	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts (A)	10,55,891	12,17,794	13,28,909	14,36,160	16,15,988
Year on Year Growth	*16.0%*	*15.3%*	*9.1%*	*8.0%*	*12.5%*
Tax Revenue	7,44,914	8,20,766	9,07,327	9,49,698	11,07,968
	(70.5)	(67.4)	(68.3)	(66.1)	(68.6)
Non-Tax Revenue (incl. grants in aid)	3,10,977	3,97,028	4,21,582	4,86,462	5,08,020
	(29.5)	(32.6)	(31.7)	(33.9)	(31.4)
Interest Receipt	38,860	44,027	48,007	46,325	43,496
	(3.7)	(3.6)	(3.6)	(3.2)	(2.7)
Dividends & Profits	53,762	90,442	89,861	1,12,136	1,23,021
	(5.1)	(7.4)	(6.8)	(7.8)	(7.6)
Misc. Capital Receipts	25,890	29,368	37,740	42,132	47,743
Loans and Advances(Recovery)	26,624	24,549	26,547	41,878	40,971

*Source: Union Government Finance Accounts/**Note**: figures in parenthesis denotes percentage of revenue receipts*

Table 4.2 indicates that the after falling continuously for previous two financial years, Tax Receipts grew at about 13 *per cent* on year on year basis in 2016-17. Tax receipts as part of overall revenue receipts also rebound to 68.6 *per cent* in 2016-17 after a low of 66.1 *per cent* in the previous year. Non-tax revenue, however, fell by 2.5 percentage points from 33.9 *per cent* of Revenue receipts in 2015-16.

Table 4.3: Analysis of Expenditure

(₹ in crore)

Component	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Expenditure (B)	14,20,473	15,75,097	16,95,137	17,79,529	19,33,018
Interest Payment	3,30,171	3,95,200	4,25,098	4,57,270	5,04,512
	(23.2)	(25.1)	(25.1)	(25.7)	(26.1)
Pensions	73,447	79,339	98,645	1,02,179	1,38,948
	(5.2)	(5.0)	(5.8)	(5.7)	(7.2)
Subsidy	2,57,179	2,54,745	2,58,299	2,58,471	232802
	(18.1)	(16.2)	(15.2)	(14.5)	(12)
Capital Expenditure	1,50,382	1,68,844	1,72,085	2,78,866	2,49,472
Loans and Advances (Payment)	32,063	31,000	41,922	47,272	60,011
Revenue Deficit (B-A)	3,64,582	3,57,303	3,66,228	3,43,369	3,17,030

Source: Union Government Finance Accounts. Note: Expenditure on Pensions include Civil, Defence and Postal Pensions

Note – Figure in parenthesis denotes percentage of revenue expenditure.

In the total revenue expenditure, there is a continuous increase in the share of interest payments, which grew from 23.2 *per cent* in 2012-13 to 26.1 *per cent* in 2016-17. Although, subsidy payments as part of revenue expenditure show a declining trend in the last five years largely due to decline in petroleum subsidy, carryover liability on account of subsidy continued to exist during these years. Three major components of revenue expenditure (interest payments, subsidies and pension) account for about 46.5 *per cent* during 2012-13, and declined to 45.3 *per cent* of the overall revenue expenditure during 2016-17. While interest payment (26.1 *per cent* of revenue expenditure) is charged expenditure, expenditure on pension (7.2 *per cent* of revenue expenditure) is committed expenditure by its very nature. Expenditure on subsidies, interest and pensions cover almost 54 *per cent* of Revenue Receipts.

Ministry stated (July 2018) that the Government is aware of the fiscal pressures exerted by committed revenue expenditures such as subsidy, pension, interest payments etc. and stated that pension commitments increased substantially due to implementation of recommendations of Seventh Pay Commission and One Rank One Pension (OROP) for Defence Pensions. Payment of subsidy is within the scope of legislature and food subsidy, OROP etc. are a result of Government's legislative actions.

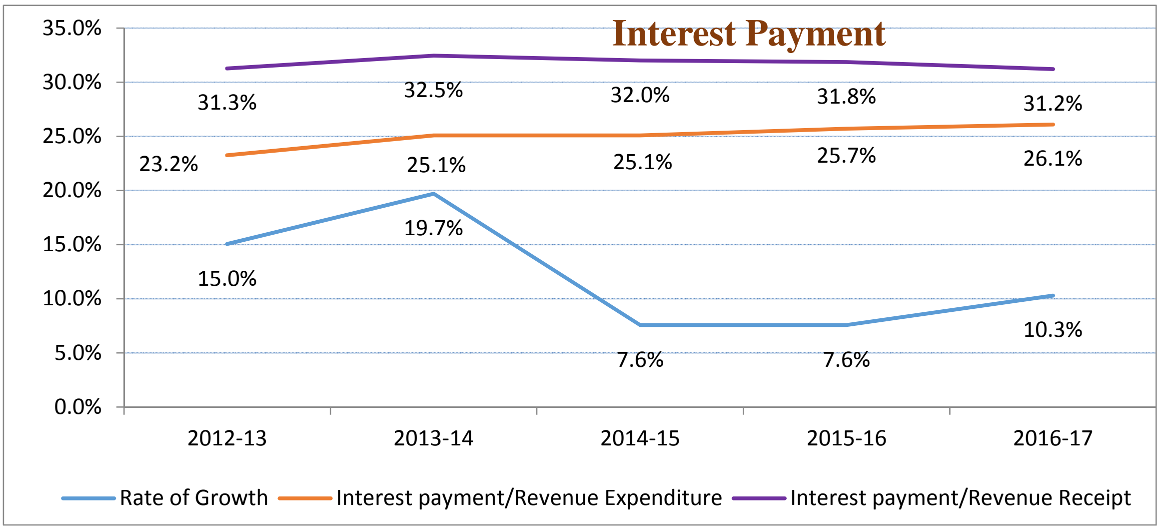
Further, subsidy reforms are underway and measures such as Direct Benefit Transfer of subsidy, decontrol of petrol/diesel etc. are being taken up.

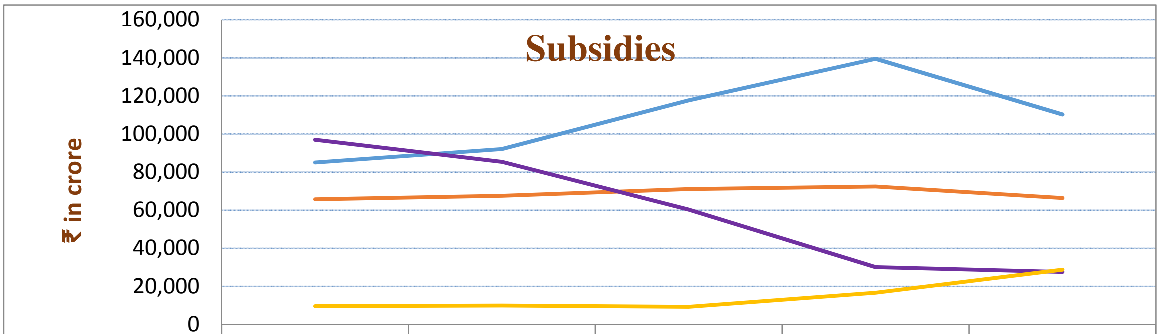
The Ministry also maintained that interest payment as a per cent of revenue receipts is on a downward trajectory showing the Government's sustained commitment towards fiscal discipline.

4.2.1 Trends of Major Revenue Expenditure

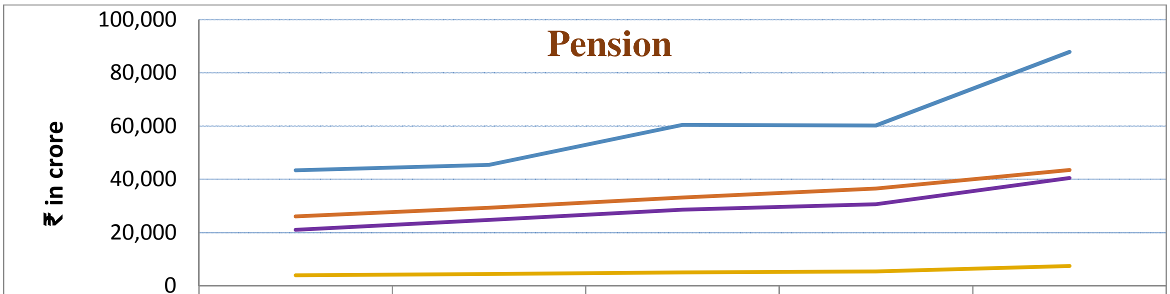
Graph 4.1 presents analysis of trends of interest payments, subsidies and pension expenditure of the Union Government. Graphical presentation of expenditure on pensions include pension expenditure incurred by Civil, Defence, Railways and Posts.

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



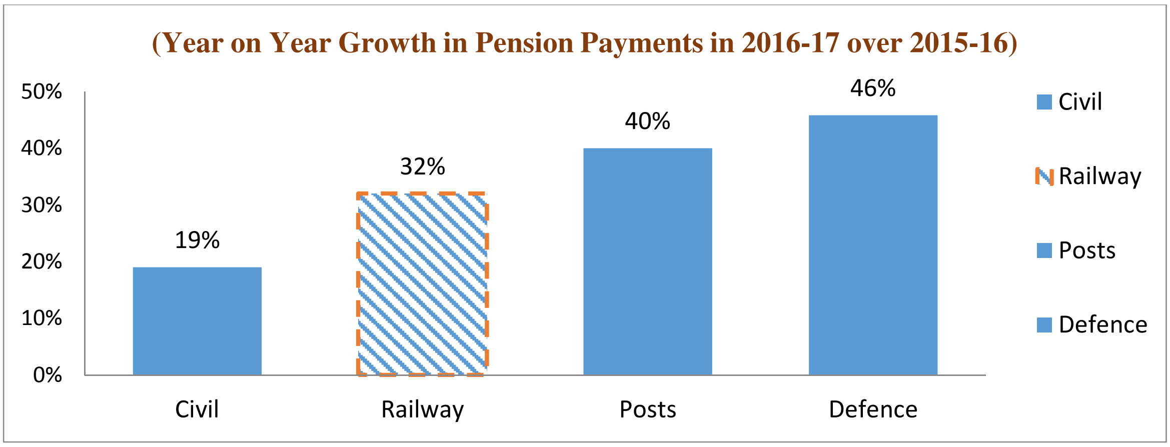


	2012-13	2013-14	2014-15	2015-16	2016-17
Food	85,000	92,000	117,671	139,419	110,173
Fertilizers	65,708	67,465	71,090	72,416	66,313
Petroleum	96,880	85,378	60,269	29,999	27,539
Others	9,591	9,902	9,269	16,637	28,777



	2012-13	2013-14	2014-15	2015-16	2016-17
Defence	43,368	45,499	60,450	60,238	87,826
Civil	26,111	29,397	33,161	36,533	43,575
Railway	21,021	24,761	28,642	30,701	40,463
Posts	3,968	4,443	5,034	5,408	7,547

Source: CAG's Report No. 44 of 2017.



Overall, pension payments grew considerably during 2016-17, but the growth of defence pensions outstripped growth of civil, railway and postal pensions. Pension expenditure of railways is financed through Pensions Fund created in the Public Account. The Railway Pensions Funds in Public Account are credited with revenues generated by railways. Hence, there is no impact of railway pensions on revenue deficit.

Further, beside the pension expenditure to retired personnel, Government is also bearing the matching contribution under the New Pension Scheme (NPS).

4.3 Transactions affecting the computation of deficit indicators

During the course of audit of accounts for financial year 2016-17 of the Union Government, instances of transaction impacting fiscal indicators were noticed as detailed in succeeding paragraphs.

4.3.1 Understatement of Revenue Deficit due to misclassification of expenditure

During the audit of Union Government Accounts for financial year 2016-17, 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. 44 of 2017 on the Union Government Accounts for 2016-17. Obtaining budget provisions under incorrect head of accounts, and subsequent booking of expenditure there against resulted in instances of misclassifications in the accounts. The revenue expenditure of the Union Government in financial year 2016-17 was overstated by ₹ 752.18 crore and understated by ₹ 2,229.40 crore due to misclassification, leading to net overstatement of capital expenditure by ₹ 1,477.22 crore, as detailed in **Annexure-4.1**. Due to overstatement of capital expenditure by ₹ 1,477.22 crore, revenue deficit was understated by an equivalent amount in financial year 2016-17.

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. 44 of 2017 on the Union Government accounts for financial year 2016-17, non-transfer of ₹ 31,155.95 crore, collected under different categories of levies and cesses 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 is at **Annexure- 4.2**. Further, there is no disclosure in the annual accounts or in the Budget documents with regard to the actual utilization of cess collected for the intended purpose and unutilized balances. Short transfer of levies/cess of ₹ 31,155.95 crore during financial year 2016-17 and retaining it in the Consolidated Fund of India led to understatement of revenue and hence fiscal deficit by an equivalent amount.

Earlier, the Ministry had accepted short transfers of amounts realized through levy of cess to dedicated funds kept in the Public Account in certain cases. It was reasoned that the capacity of the Ministry/Department or the progress of the Scheme/Programme is taken into account while rationally deploying scarce resources as larger transfers to Public Account without corresponding expenditure would restrict the room for expenditure on desired schemes/programmes. It was also mentioned that efforts are being made to provide maximum funds from tax related cesses for earmarked activities, and gap is expected to be closed in next fiscal.

However, it emerged that this gap has actually widened considerably from ₹ 20,910.61 crore in 2015-16 to ₹ 31,155.95 crore in 2016-17 and it seems cesses are being levied without either corresponding expenditure requirements or the capacity to absorb the fund is absent.

Thus, due to misclassification of certain expenditure and non-transfer of cesses to the designated or to be designated funds in Public Account, revenue was overstated and hence revenue deficit was understated by an amount of ₹ 32,633 crore in 2016-17.

Ministry stated that disclosures of unspent collection of cess are not possible in the present format of Union Government Finance Accounts. It also stated that larger transfers to public account with no corresponding expenditure would reduce desirable expenditure on social and economic considerations. Ministry maintained that short transfers of cess collections to dedicated reserve funds is not directed to *achieve fiscal discipline but to prevent parking the funds in the public account where ability of the Ministries/Departments to utilise is less.*

Reply of the Ministry does not address the underlying spirit for levying the cess. Parliament's mandate for levy/cess is to serve specific purpose and provide necessary financial impetus to a particular sector/area of economy. Hence, the Government merely acts as custodian of funds so collected till these are appropriated for the mandated purpose to be kept in Public Account. Transfer of unutilized funds to Consolidated Fund of India has also fiscal implications as future financial requirements of sector for which cess is being collected would require budgetary support.

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 2016-17, an expenditure of ₹ 1,65,733 crore was incurred on grants for creation of capital assets by Ministries/Departments on various schemes/programmes, as reflected in Statement-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 organization will fall under the category 'capital creation'. In absence of any guidelines, expenditure incurred on procurement and maintenance under some schemes are also being 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 organization, 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.

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**.

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

Schemes	Components of work not resulting in creation of capital assets
MGNREGS	• Drought proofing, including afforestation and tree plantation • Plantation, horticulture, land development • Renovation of traditional water bodies, including de-silting of tanks • Maintenance of assets created under the Scheme
MPLAD	• Purchase of books for school, college and public library • Purchase of tricycles and wheelchair (manual/battery operated) • Purchase of artificial limbs for differently-abled persons • Expenditure on purchase of software and imparting of training for the purpose • Purchase of mobile library and furniture

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 itemized 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[9].

a) Pradhan Mantri Awas Yojana (PMAY), 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 2016-17, expenditure of ₹ 16,055 crore was incurred by the Ministry on the PMAY 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 utilized for providing housing facilities which are owned by the beneficiaries and not owned by the grantee entities/organisations, categorizing expenditure on PMAY as grant for creation of capital assets was incorrect.

The Ministry, with reference to ownership of assets created out of the grants released for the same in schemes like PMAY (G), replied (July 2018) that grants disbursed under such schemes like IAY are in the nature of "Pass-through Grants" from the Union Government to another entity to be disbursed to the ultimate grantee. Therefore, in the case of grants

[9] Total expenditure incurred as grants for creation of capital assets under MGNREGS and MPLAD was ₹ 47,821 crore and ₹ 3,500 crore respectively.

released under PMAY (G), the ultimate grantee entity and the beneficiary of the schemes happens to be the same.

This reply is not tenable. As per definition of Grants for creation of capital assets in FRBM Act, it means grant given by Central Government to State Governments, Constitutional authorities or bodies, autonomous bodies or local bodies or scheme implementing agencies for creation of capital assets which are owned by said entities. Hence, contention of the Ministry to equate beneficiary with ultimate grantee entity is not in line with definition of grants for creation of capital assets in the Act.

b) During scrutiny of budget documents and other records, it was revealed that certain revenue nature expenditure viz. establishment expenses, training expenses, royalty payment which does not result into creation of any capital assets also have been booked under the head 'grants for creation of capital assets' which is inconsistent with the definition of Grants for creation of capital assets. The details are given below:

Box 4.2: Misclassification of revenue expenditure under grants for creation of assets

(₹ in crore)

Sl. No.	Particulars	Amount
1.	Petroleum royalty	2,204.70
2.	Establishment of 100 smart cities	65
3.	Refresher training of drivers in unorganized sector and human resource development	34.58
4.	Establishment expenses for AMRUT	6. 61
	Total	**2,310.89**

On being pointed out during audit, in respect of petroleum royalty, Department of Expenditure, Ministry of Finance has accepted that expenditure of ₹ 2,204.70 crore was inadvertently booked under Grants for Creation of Capital Assets instead of Grant in Aid (General).

Ministry stated (July 2018) that the responsibility of ensuring that the grants-in-aid are utilized for the intended objectives lies with the Ministry/Department releasing the grants and the grantee entity receiving the grants.

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.

4.5 Audit Summation

We noticed that due to understatement of revenue expenditure on account of misclassification of expenditure (₹ 1,477 crore) and short or non-transfer of levies/cess from the Consolidate Fund of India to the Public Account (₹ 31,156 crore), the revenue deficit was understated by ₹ 32,633 crore in 2016-17.

Further, at least an amount of ₹ 18,366 crore (₹ 16,055 crore under PMAY + ₹ 2,311 crore as in Box 4.2) of revenue expenditure was treated as grants for creation of capital assets. This resulted in understatement of revenue expenditure, overstatement of grant for creation of capital assets and thus understatement of revenue deficit.

Together, revenue expenditure was understated by ₹ 50,999 crore and hence revenue deficit was understated by the same amount.

4.6 Recommendations

(i) ***Government may ensure that all transfers/funds meant to be kept in the designated funds in Public Account, including those for meeting future liability, specific-purpose cesses, etc., are not kept in the Consolidated Fund to avoid overstatement of revenue receipts.***

(ii) ***Government may lay down guidelines for treating which items created out of grants for creation of capital assets qualify as Capital Assets and expenditure only for those assets should be considered 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 namely, Medium Term Fiscal Policy (MTFP) Statement, Fiscal Policy Strategy (FPS) Statement, and Macro-economic Framework (MF) Statement in both the Houses of Parliament along with the Annual Financial Statement and 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 statement is mandated to be laid before both the 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 2016-17 *vis-à-vis* projections contained in the fiscal policy statements, Budget at a Glance and Annual Financial Statement.

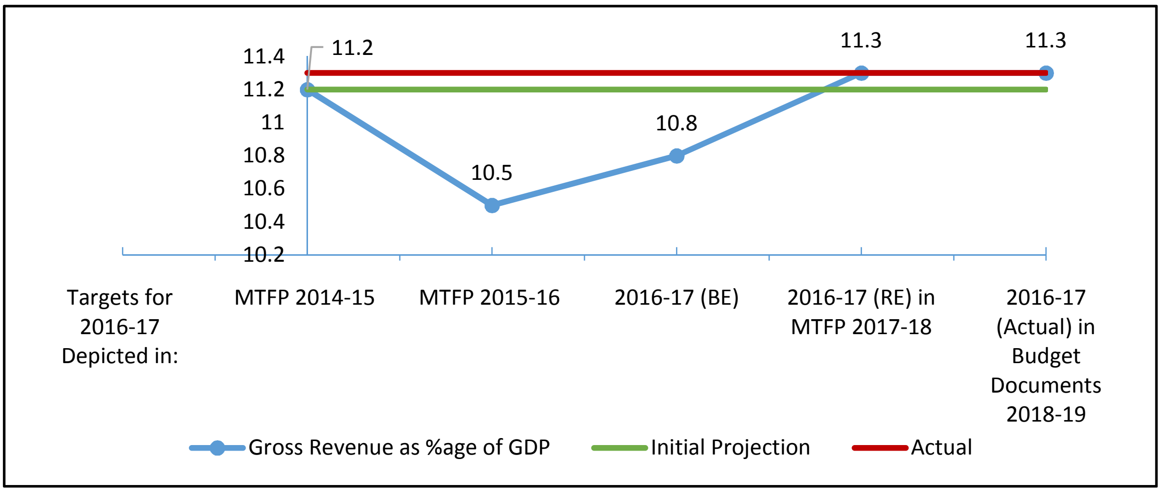
5.1 Projections in Medium Term Fiscal Policy Statement

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 2016-17 in MTFP Statement are made below:

5.1.1 Gross Tax Revenue projection

In the MTFP Statement placed along with Budget 2014-15, the Government had set gross tax revenue target of 11.2 *per cent* of GDP for the financial year 2016-17. This target was revised to 10.5 *per cent* and 10.8 *per cent* of GDP in subsequent MTFP Statements placed with Budget 2015-16 and 2016-17 respectively. The target however was revised upward again to 11.3 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2017-18. The actual gross collection of tax revenue was 11.3 *per cent* of GDP for financial year 2016-17. As such, compared with MTFP Statement 2014-15, the actual varied by 0.1 *per cent*.

Graph 5.1: Gross Tax Revenue Projections

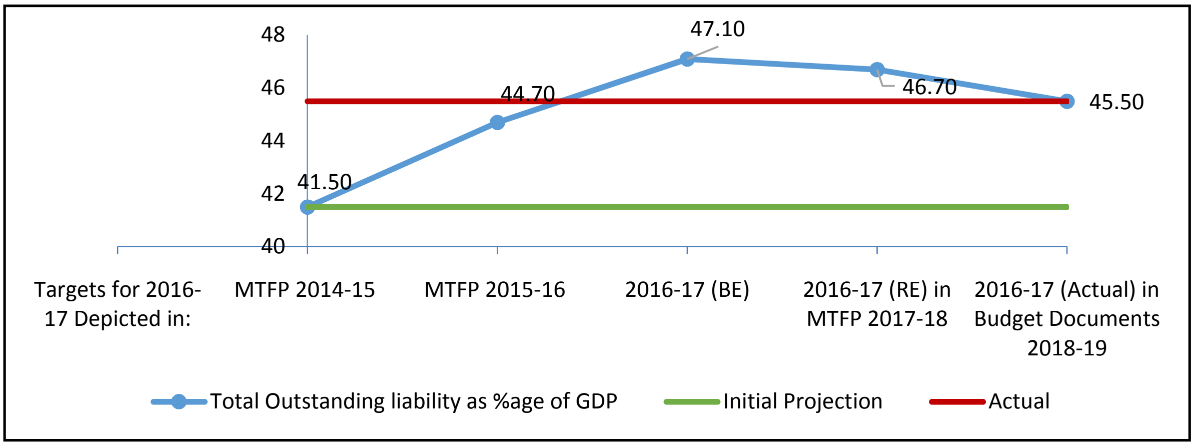


Ministry stated (July 2018) that the projections of Gross Tax Revenue are based on certain underlying assumptions regarding tax collection buoyancy, GDP growth and other macroeconomic factors and many such factors are exogenous in nature. The Government continuously tries to assess the macroeconomic environment and base the projections for various fiscal indicators on the basis of such assessment. This continuous assessment leads to recasting of projections.

5.1.2 Total Outstanding Liability projection

In Budget 2014-15, the Government had set the target for liability as 41.5 *per cent* of GDP for financial year 2016-17. This projection was revised upward to 44.7 *per cent* and 47.1 *per cent* of GDP in next two MTFP Statements placed along with Budgets for the financial years 2015-16 and 2016-17 respectively. The target was further reviewed and revised on higher side to 46.7 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2017-18. The actual ratio of total liability to GDP for 2016-17 stood at 45.5 *per cent*.

Graph 5.2: Total Outstanding Liability Projections

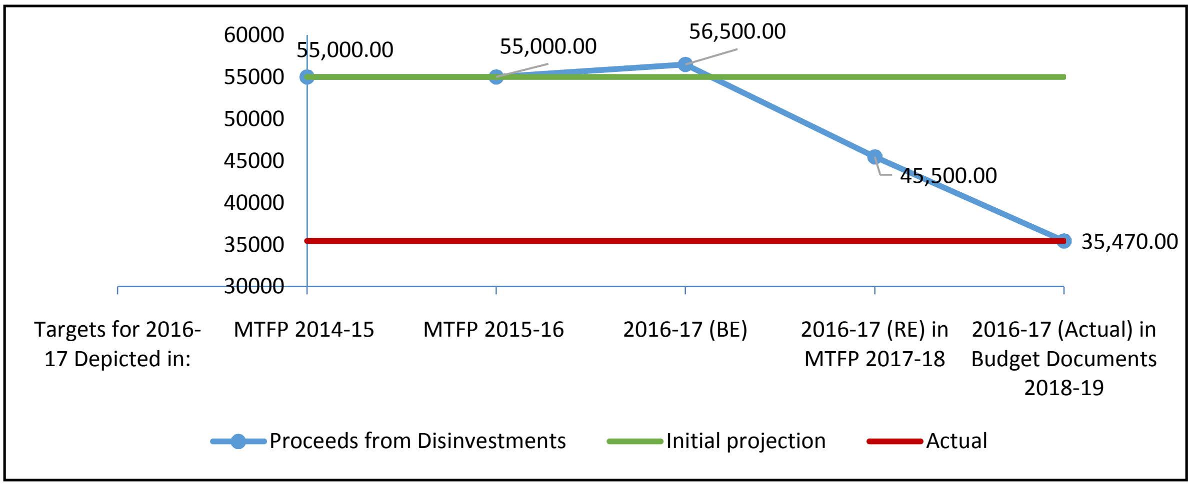


Ministry stated (July 2018) that Government makes constant endeavour to make projections realistic but these are based on certain exogenous assumptions which are remain beyond control. The Government continuously tries to assess the macroeconomic environment and base the projections for various fiscal indicators on the basis of such assessment.

5.1.3 Disinvestment projection

In the MTFP Statement placed with Budget 2014-15, an amount of ₹ 55,000 crore was projected as disinvestment proceeds for financial year 2016-17. Further, in MTFP Statement placed along with the Budget of 2015-16, these estimates remained the same in MTFP Statements for the years 2016-17. However, in the Budget 2016-17, Government revised these estimates of projected disinvestment proceeds to ₹56,500 crore, but in RE 2016-17, this projection was scaled down to ₹ 45,500 crore. The actual realization from disinvestment of Public Sector Undertakings in financial year 2016-17 was ₹ 35,470 crore. As such, actual disinvestment proceeds varied by 35 *per cent* compared the MTFP projection in 2014-15.

Graph 5.3: Disinvestment Projections



Frequent changes in projections of tax revenues, liability and disinvestment as discussed in paragraphs 5.1.1, 5.1.2 and 5.1.3 above indicate that despite target fixed under the FRBM Act/Rules for fiscal discipline, Government kept changing the estimates flexibly during 2014-15 to 2016-17.

Ministry stated (July 2018) that the estimate of receipts from disinvestments including through the sale of strategic assets was budgeted at ₹56,500 core in BE 2016-17. Disinvestment receipts are dependent on various macro-economic factors, especially market volatility. The RE was pared down in view of market volatility, and strategic decisions.

The replies of the Ministry in respect of paragraphs 5.1.1, 5.1.2 and 5.1.3 reinforces the audit assertion that the projections for various components of fiscal indicators contained in the fiscal policy statement deviate from planned course and may require fag end intervention for achievement of fiscal targets set up in FRBM Act.

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 with specification of underlying assumptions and risks involved.

Comparison of projection of expenditure for financial year 2016-17 contained in MTEF Statement of 2015-16 (August 2015) with Budget estimates for financial year 2016-17 contained in MTEF Statement of 2016-17 (August 2016) and revised estimates for financial year 2016-17 as contained in MTEF Statement of 2017-18 (August 2017) is given in **Annexure-5.1**.

Analysis of figures of projections and actual expenditure indicates that the expenditure projections, made for the financial year 2016-17 in MTEF Statements, were off the mark. The variations ranged from 31 *per cent* decrease in actual expenditure for Planning and Statistics to 577 *per cent* increase in expenditure for Transport. There were continuous changes in projections of expenditure for 2016-17 in MTEF Statements.

Further, a comparison of the actual expenditure on significant items against projections/BE/RE is given in **Table 5.1** below:

Table 5.1: Expenditure projection and actuals for financial year (FY) 2016-17

(₹ in crore)

Heads of expenditure	Projections for FY 2016-17 as per MTEF Statement for FY 2015-16	BE i2016-17 as per MTEF Statement for2016-17	RE for2016-17 as per MTEF Statement of 2017-18	Actuals (As per Budget at a Glance 2018-19)	% age variation
	(August 2015)	(August 2016)	(August 2017)	(February 2018)	(Col.5 w.r.t. Col.2)
1	2	3	4	5	6
Revenue Expenditure	16,60,475	17,31,036	17,34,561	16,90,584	1.8
Interest	4,96,000	4,92,670	4,83,069	4,80,714	-3.1
Pension	1,02,639	1,23,368	1,28,166	1,31,401	28.0
Fertilizer subsidy	75,000	70,000	70,000	66,313	-11.6
Food subsidy	1,32,000	1,34,835	1,35,173	1,10,173	-16.5
Petroleum subsidy	32,000	26,947	27,532	27,539	-13.9

Grants for creation of capital assets	1,49,634	1,66,840	1,71,472	1,65,733	10.8
Capital Expenditure	2,60,967	2,47,025	2,79,849	2,84,610	9.1

Source: MTEF Statements and Budget at a Glance

As seen from **Table 5.1**, the actual expenditure of Pension and Capital expenditure outstripped the projection for the year as contained in MTEF Statement 2015-16 by 28 and nine *per cent* respectively. However, there was decline in actual expenditure on all the three components of subsidy *viz* fertilizer, food and petroleum subsidy on an average 14 *per cent vis-à-vis* projection made in MTEF 2015-16 in August 2015. Further, actual expenditure on revenue and capital expenditure was more or less as projection made in MTEF 2015-16 as variation was less than 10 *per cent*.

Ministry stated (July 2018) that MTEF has now started tracking the BE very closely. Ministry attributed reassessment of expenditure priorities by Ministries / Departments, pace of expenditure and ability to spend to change in expenditure allocations at RE and actual stage.

Audit has no further comments on the response of the Ministry, as the Ministry has already taken cognisance of the matter.

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 deficit figures

The issue of variation in figures of revenue and fiscal deficit 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) has regularly been reported in the Reports of C&AG. **Table-6.1** below presents variations for financial year 2016-17 in respect of revenue and fiscal deficits as derived from Annual Financial Statement and reflected in Budget at a Glance. This was also highlighted in FRBM report for the year 2015-16, but the discrepancy of different figures of deficits in different set of accounts of Government continue to prevail.

Table-6.1: Variation in deficits: 2016-17

(₹ in crore)

Actuals 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	16,15,988	19,33,018	3,17,030	17,04,702	22,42,501	5,37,799
Budget at a Glance	13,74,203	16,90,584	3,16,381	14,39,576	19,75,194	5,35,618
Variation in RD			**649**	**Variation in FD**		**2,181**

Source: Budget 2018-19

Annual Financial Statement 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, 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 revenue expenditure was netted by ₹ 648.83 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 of like amount in revenue deficit in comparison to AFS. Further, a transaction of ₹ 1672.19 crore on account of Securities issued to International Monetary Fund had been netted in capital expenditure and capital receipt.

While working out 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 (July 2018) that due diligence is done to ensure that there are no inconsistencies with the definition of fiscal indicators given in the FRBM Act.

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 measures to ensure greater transparency in its fiscal operations. 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 2016-17, variation was noticed between the Budget documents and documents compiled/prepared by CGA as detailed in **Table-6.2**.

Table-6.2: Expenditure on grants for creation of capital assets: 2016-17

(₹ in crore)

Year	As per Union Government Finance Accounts/Account at a Glance	As per Budget at a Glance/ Expenditure Budget, Volume-I	Variation
2016-17	1,66,560	1,65,733	827

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

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 2016-17, as reflected through Receipt Budget and UGFA.

Table-6.3 : Variation in the amount of liabilities: 2016-17

(₹ in crore)

	Liabilities as shown in		Variation
	Receipt Budget	UGFA	
Public Debt	59,69,968	59,69,968	-
National Small Savings, Provident Funds, Other Accounts	12,57,994	13,11,628	53,634
Reserve Funds and Deposits	2,08,099	2,08,099	-
Total liability	**74,36,061**	**74,89,695**	**53,634**

Source: Receipt Budget 2018-19 and Statement No. 2 of Union Government Finance Accounts 2016-17

The gross liabilities on account of National Small Savings, Provident Funds, Other Accounts in Public Account in the UGFA 2016-17 have been reflected as ₹ 13,11,628 crore. However in Receipt Budget, the National Small Savings, Provident Funds, Other Accounts liabilities though shown on gross basis, has a variation of ₹ 53,634 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers.

Ministry stated (July 2018) that the para is factual in nature and reason for variation in the amount of liability have already been pointed out in the audit para.

Variation in figures of liabilities under two sets of government documents is against the Rule 6 (1) of FRBM Rule which provides for greater transparency and minimum secrecy in fiscal operation of the Government.

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)
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
2016-17	8,49,801	1,72,894	10,22,695	16.91

** Source: Union Government Finance Accounts and CAG's Reports No. 40 of 2017 (Direct Taxes).*
 # Refunds also include interest on refunds of taxes.

During five-year period 2012-17, the refunds of direct taxes showed steady increase and refunds were at about 17 *per cent* of the total direct tax collection in 2016-17. In financial year 2016-17, amount of refunds included ₹ 10,312 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.

Ministry replied (July 2018) that estimation of refunds is operationally difficult at the time of budgeting.

Reply of the Ministry does not address the audit concern relating to transparency in accountal of gross tax collection and refunds made therefrom in a year, although net collections are captured in the accounts. 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.

Further, it would be also pertinent to mention that Public Account Committee had also observed[10] that Ministry should make broad estimates of expenditure on interest liability on tax refunds based on passed trends.

6.3 Transparency in disclosure forms mandated under FRBM Act

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

[10] 66th Report of PAC, 15th Lok Sabha.

6.3.1 Inconsistency in disclosure of arrears of Non-Tax Revenue

Rule 6 of the FRBM Rules requires laying of a form providing details of non-tax revenue in arrear in **Form D-2**. Receipt Budget 2018-19 (Annex-6) provided details of arrears of non-tax revenue as at the end of financial year 2016-17. As per this disclosure, at the end of financial year 2016-17, the arrears of non-tax revenue was ₹ 1,71,844 crore, which also includes ₹ 42,437 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 2016-17[11] 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: 2016-17

(₹ in crores)

Loanee entity	Interest arrears as per		Variation
	Form D-2	UGFA	
State/Union Territory Government	6,285	2,416	3,869
Public Sector and other Undertakings	36,152	31,728	4,424

Source: Receipt Budget 2018-19 and Union Government Finance Account 2016-17.

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 on coal extracted. This levy was to be collected by Ministry of Coal in two phases, in 1st phase, levy becoming due on or before 31 December 2014 for coal produced since commencement of coal production till 24 September 2014. In second phase, levy becoming due on or before 30 June 2015 for coal produced between 25 September 2014 and 31 March 2015.

During examination of information in respect of Ministry of Coal, it came to knowledge that Ministry of Coal had furnished the incorrect information relating to Arrears of Non-Tax Revenue for financial year 2016-17 for inclusion in consolidated statement of the same presented along with Budget 2018-19. The details are given **Table 6.6**.

[11] Statement No. 3.

Table-6.6: Arrears of Non-Tax Revenue - 2016-17

(₹ in crores)

	Amounts Outstanding			Total amount outstanding
	0-1 year	1-2 year	2-3 year	
As per information furnished by Ministry of Coal to Audit	Nil	144.81	3,053.87	3,198.68
As per information furnished by Ministry of Coal to Ministry of Finance in Form D-2	3,551.36	3,512.99	3,198.43	3,198.43

The consolidated statement of Arrears of Non-Tax Revenue compiled on the basis of report of Ministries/Departments is presented as part of the Budget each reporting year in Annex-6 of Receipt Budget.

Ministry stated (July 2018) that Budget Division compiles the information on the basis of the information furnished by the respective Ministries/Departments.

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, being the nodal Ministry for the administration of the FRBM Act and preparation of Central Budget.

6.3.3 Variation in guarantee given by the Government

As per Rule 6 of FRBM Rule 2004, in order to ensure greater transparency in its fiscal operation in the public interest, the central Government shall, at the time of presenting the Annual Financial Statement and Demand for Grants, make disclosure about guarantees in **Form D 3**.

The details of guarantee given by the Government is published in Receipt Budget in compliance to FRBM Rule. The data is based on information furnished by the Office of Controller General of Accounts (CGA) as reported by the Ministries/Departments. Further, the details of guarantees given by the Government is also mentioned in Statement No.4 of Finance Account compiled by the office of the CGA.

During comparison of guarantee given by the Government for the year 2016-17 published in Receipt Budget 2018-19 and those detailed in Statement No. 4 of Finance Account 2016-17, variation of ₹ 112 crore was noticed between these two sets of documents as detailed in **Table 6.7**.

Table-6.7: Guarantee given by the Government - 2016-17

(₹ in crore)

Heads	As per Finance Account 2016-17	As per Receipt Budget 2018-19	Difference
Maximum amount of guarantee for which Government have entered into agreements	3,78,592.16	3,78,704.16	112

On scrutiny, it was revealed that difference of ₹ 112 crore was due to invocation of guarantee amounting to ₹ 112 crore in respect of Department of Heavy industry which was not depicted in Finance Account.

Variation in details of guarantee without any explanation published in two sets of Government documents undermines the spirit behind greater transparency in public interest as envisaged under Rule 6 of FRBM Rule 2004.

Ministry agreed with the audit observation (July 2018) that the difference of ₹ 112 crore was due to the dual information provided by Department of Heavy Industry (DHI) for the Receipt Budget 2017-18.

It agreed that the total outstanding guarantee at the end of the 2016-17 is ₹ 366188.70 crore which is same as reflected in Finance Account 2016-17.

6.3.4 Variation in disclosure of details in asset register

Rule 6 of the FRBM Rules requires laying of a disclosure form of physical and financial assets of the Government in **Form D-4**. Receipt Budget 2018-19 provides details of assets of the Union Government as at the end of reporting year 2016-17. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2016-17 was ₹ 13,42,278.10 crore. Following inconsistencies were noticed in the disclosure pertaining to asset register.

6.3.4.1 Inconsistency in figures of loans to Foreign Governments

Examination of disclosure statement **Form D-4** revealed that a sum of ₹ 13,501 crore was shown as loans outstanding from Foreign Governments at the end of 2016-17. Similar information contained in the Union Government Finance Account 2016-17 revealed that a sum of ₹ 12,920 crore was outstanding as loans from foreign Governments. Thus, there was overstatement of ₹ 581 crore of loans outstanding from foreign Governments in **Form D-4** statement.

6.3.4.2 Variation in figures of closing and opening balances of assets

On examination of **Form D-4** appended with Receipts Budget 2017-18 and 2018-19, variations were noticed in the closing and opening balances of assets, as depicted in **Table-6.8**.

Table-6.8: Variations in value of assets

(₹ in crore)

Total assets at the end of Reporting year 2015-16 (closing figure)	10,63,677.39
Total assets at beginning of next Reporting year 2016-17 (opening figure)	12,41,184.58
Variation in closing and opening figures	1,77,507.19
Assets acquired during the year 2016-17	1,01,093.52
Total assets at the end of Reporting year 2016-17 (closing figure)	**13,42,278.10**

Source: Receipt Budgets for financial years 2017-18 and 2018-19.

In the Receipt Budget 2018-19, a foot note - '*Variation between closing balance at the end of previous reporting year and opening balance at the end of the reporting year is mainly due to increase in the value of cost of land on account of revision of rates as reported by M/o Housing and Urban Affairs (₹ 1,65,764 crore) and M/o Information and Broadcasting (₹ 8,260 crore)***.**' has been inserted in **Form D4** to explain the said variations. However, it emerged that this could explain difference of ₹ 1,74,024 crore whereas difference in asset register closing balance of 2015-16 and opening balance of 2016-17 is ₹ 1,77,507.19 crore. An amount of ₹ 3,483.19 crore still remained unreconciled.

6.3.5 Non-Submission of disclosure statements as required under the FRBM Act.

As per Rule 6 of FRBM Rule 2004, in order to ensure greater transparency in its fiscal operation in the public interest, the central Government shall, at the time of presenting the Annual Financial Statement and Demand for Grants, make disclosure about arrears of tax revenue and non-tax revenue, guarantees, asset, liability on annuity projects and grants for creation of capital assets in **Form D1** to **D6**. The consolidated statements of disclosures in **Form D1** to **D6**, presented along with Budget, are compiled on the basis of reports of ministries/departments furnished to the Ministry of Finance

During test check of disclosure statements furnished by the individual ministry/department to Ministry of Finance, it was found that some ministries/ departments did not furnish the information to the Ministry of Finance in respect of some disclosure statements on the assumption that information in respect of concerned disclosure statement was 'Nil' or it does not pertains to their department/ministry. The details of such cases are in **Annexure 6.1**.

Since, the consolidated statements of disclosures in **Form D1** to **D6** are compiled solely on the basis of reports of ministries/departments furnished to the Ministry of Finance and thereafter presented in Parliament along with Budget and Ministry of Finance having no mechanism to ensure authenticity of information furnished by the concerned Ministries/Departments, the possibility of incorrectness of information in **Form D1** to **D6** presented along with Budget could not be ruled out.

It is therefore, Ministry of Finance must ensure that each ministry/department must furnish 'Nil' information in **Form D1** to **D6** to it timely for inclusion in Budget even in case the information is 'Nil' or not pertain to it.

Ministry stated (July 2018) that efforts are made to ensure that all Ministries/ Departments furnish information for statement of disclosures under FRBM Act.

6.4 Audit Summation

Audit noticed lack of transparency/mismatches in disclosure of 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 the gross direct tax collected in the relevant year is refunded in subsequent years, Government Finance Accounts do not include this. 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.

6.5 Recommendation

Government may ensure explicit disclosures of all transactions having fiscal implications and avoid presenting mis-matched figures.

(MAMTA KUNDRA)
Director General of Audit,
Central Expenditure

New Delhi
Dated: 25 July 2018

Countersigned

(RAJIV MEHRISHI)
Comptroller and Auditor General of India

New Delhi
Dated: 31 July 2018

ANNEXURES

Annexure-1.1
(*Refer Para No. 1.1 and 6.3*)

Fiscal Policy Statements and disclosure Forms prescribed under the FRBM Act

Fiscal policy statements	
Medium Term Fiscal Policy Statement	MTFP 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 Forms	
Form No.	**Details of disclosures**
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					Variation in fiscal 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	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	
	1	2	3=2-5	4	5	6=5/2	7	8=7-10	9	10	11	12=4-9
2012-13	99,46,636	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	1,12,366,35	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	1,24,45,128	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	1,36,820,35	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
2016-17	1,51,83,709	3,17,030	1,50,470	5,37,799	1,66,560	52.54	3,16,381	1,50,648	5,35,618	1,65,733	52.4	2, 181

** GDP estimate for 2012-13 and 2013-14 are taken from press note dated 31 January 2017 and the 2014-15 to 2016-17 from press note dated 31 May 2017.*

Annexure - 3.2

(Refer Paragraph 3.3.2)

Deficiency in estimating grants for creation of capital assets

(₹in crore)

SI. No.	Name of the Ministry/Department	Estimates for FY 2016-17 as per		Variation	Remarks
		Expenditure Budget Vol. I 2016-17	DDG 2016-17		
1	2	3	4	5 = 3-4	6
1.	Ministry of Civil Aviation	140.5	138.8	1.7	Amount of ₹ 38.30 crore - Grant in aid for creation of Capital asset in respect of National Aviation University (NAU) shown in the DDG 2016-17 was inadvertently shown as ₹ 40.00 crore in Exp. Budget Vol-I 2016-17.
2.	Department of Telecommunication	2,858.7	nil	2,858.7	Department of Telecommunication stated that it is not operating the object head 35 meant for Grants for Creation of capital assets, therefore not included in DDG. However, the above figure was included by the Ministry of Finance under OH 35.
3.	Ministry of Development of North Eastern Region	1,366.18	1,388.60	(-) 22.42	
4.	Ministry of Environment, Forest & Climate Change.	208.46	204.56	3.9	
5.	Ministry of Housing and Urban Poverty Alleviation	4,287.54	4,292.04	(-) 4.5	Ministry has accepted the audit observation.
6.	Ministry of Information & Broadcasting	439.82	386.82	53	
7.	Ministry of Law & Justice	610	600	10	Grant for creation of capital assets for centrally sponsored scheme for development of infrastructure facilities for judiciary worth ₹ 590 crore was shown as ₹ 600 crore in Exp. Budget.
8.	Ministry of Panchayati Raj	0	119	(-) 119	Ministry has accepted error on their part.
9.	Ministry of Road Transport & Highways	12,256	12,281	(-) 25	Scheme of 'Refresher Training of Drivers in unorganized Sector and Human Resource Development' for ₹ 25 crore was left in the expenditure budget.
10.	Ministry of Urban Development	8,440.93	8,282.63	158.30	Ministry has accepted error on their part.
11.	Ministry Of Women And Child Development	1,348.56	1,348.63	(-) 0.07	Token allocation under schemes namely 'Other schemes funded through Nirbhaya Fund', 'Support to Training cum employment programme (STEP)' and 'Hostels for Working women' were not actually accounted for in the Exp. Budget.
12.	Department of Empowerment of Persons with Disabilities	20.54	21.04	(-) 0.5	Allocation of ₹ 0.50 crore under the scheme Establishment of Institute of Sign Language, Research & Training Centre (ISLRTC) has been left out in Exp Budget.
13.	Ministry of Minority Affairs	1,098.78	1,098.76	0.02	₹ 0.02 crore pertaining to GIA – General and GIA- Salary in respect of Central Waqf Council was reported inadvertently under the object head grant for creation of capital assets in Exp Budget.
14.	Ministry of Youth Affairs and Sports	186.09	193.6	(-) 7.51	Ministry has accepted error on their part.
15.	Ministry of Home	1,130	2,010	(-) 880	Ministry had inadvertently forwarded as ₹ 1130 crore instead of ₹ 2010 crore to Ministry of

Sl. No.	Name of the Ministry/Department	Estimates for FY 2016-17 as per		Variation	Remarks
		Expenditure Budget Vol. I 2016-17	DDG 2016-17		
1	2	3	4	5 = 3-4	6
	Affairs- Police				Finance.
16.	Ministry of Micro, Small and Medium Enterprises	187.64	232.14	(-) 44.5	Typographical error as figure of Gen. category (₹124.90 crore) of the scheme infrastructure development and capacity building was written as total figures of all components (₹169.40 crore).
17.	Ministry of Tourism	176.00	154.00	22	Budget provision under "Other Charges' Swadesh Darshan, PRASAD, LRGP, etc, was wrongly mentioned in Exp Budget.
18.	Department of Pharmaceuticals	51.00	51.01	(-) 0.01	Budget provision of ₹ 0.01 crore under GIA-CCA in the sub scheme- Setting up of National Centre for R&D for Bulk Drugs under NIPERs, has not been taken into account in Exp. Budget.
19.	Ministry of Textile	772.53	₹ 786.22	(-) 13.69	
20.	Ministry of Petroleum and Natural Gas	50.00	Nil	50	Provision under the OH 31 (GIA – General), OH 60 (Other capital expenditure) and OH 53 (Major works) in DDG was sent to Ministry of Finance under OH 35 for inclusion in Exp. Budget.
21.	Ministry of Power	6,439.18	6,439.07	0.11	
22.	Department of Higher Education	8,710.89	7,573.94	1,136.95	The variation in the figures in Expenditure Budget Vol. I is on account of inadvertent error in data entry under the IIT.
23.	Department of School Education & Literacy	5,987.45	6,090.20	(-) 102.74	The revised provision under object head 'Grants for Creation of Capital assets' due to changes in Budget Provision of some scheme forwarded to the Ministry of Finance was not included in Exp. Budget.
24.	Department of Post	406.26	Nil	406.26	The Department stated that the provision of ₹ 406.26 crore pertains to budget provision obtained under Major Head 5201 and 4552 (Capital Segment) as shown in Detailed Demand for Grants and not under OH 35 – Grants for creation of capital assets.
25.	Ministry of Defence	Nil	141.75	(-) 141.75	
26.	Department of Revenue	241.86	641.86	(-) 400	The Department stated that figure was incorrectly depicted in the Annex-6.
27.	Ministry of Tribal Affairs	1,720.40	1,650.40	70	Capital Grant of ₹ 70.00 crores which was booked under creation of capital assets head (35) instead of Investment (54).
28.	Ministry of Water Resources, River Development and Ganga Rejuvenation	3,546.00	3,863.00	(-) 317	Budget provision of ₹ 495 crore and ₹ 17 crore in respect of Pradhan Mantri Krishi Sinchai Yojna and National Hydrology Project respectively as per DDG were shown as ₹ 195 crore and Nil in Exp. Budget.
Total overestimation of grants for creation of capital assets					**4,770.94**
Total underestimation of grants for creation of capital assets					**(-)2,078.69**
Net overestimation of grants for creation of capital assets					**2,692.25**

Annexure - 3.3

(*Refer Para No. 3.3.3*)

Details of re-appropriation from object head 35 to other heads during financial year 2016-17

(₹in crore)

Sl. No.	Re-appropriation No. and date	From	To	Amount
1.	G-23011/31/2017-Bt.(UD)(95/31)30th march.2017	3601.04.315..02.05.35 Plan/voted/Revenue Section	2216.05.800.04..01.14 Non plan/voted/Revenue Section	12.43
2.	G-23011/20/2017-Bt.(UD)(95/26) 20th March, 2017	2217.80.001.05.00.35 Plan/Voted/Revenue Section	2052.00.090.28.03.11, 12 and 13 Non Plan/Voted/ Revenue Section	1.76
3.	G-23011/18/2017-Bt. (UD)(95/24) 16th March, 2017	2217.80.001.05.00.35 Plan/Voted/Revenue Section	2059.80.001.02.01.01, 05.00.01 and 2216.05.053.06.00.01 Non Plan/Voted/Revenue Section	29.49
4.	G-23011/01/2017-Bt. (UD)(95/16) 30th January, 2017	2217.80.001.05.00.35 Plan/Voted/Revenue Section	2052.00.090.28.03.02, 06 and 11 and 2059.80. 800.01.00.02 and 28 Non Plan/Voted/Revenue Section	2.71
5.	G-23011/04/2017-Bt. (UD)(95/14) 23rd January, 2017	2217.80.001.05.00.35 Plan/Voted/Revenue Section	2217.80.001.06.03.20 and 28 Plan/Voted/Revenue Section	3.60
6.	G-23011/18/2016-Bt. (UD)(95/10) 13th December, 2016	2217.80.001.05.00.35 Plan/Voted/Revenue Section	2217.80.191.09.00.31 Plan/Voted/Revenue Section	0.47
			Total	**50.46**

Annexure - 4.1

(Refer Para No. 4.3.1)

Misclassification of expenditure as reported in Para 4.4 of CAG's Report No. 44 of 2017

Sl. No	Description of Grant	Major head	Object head in which expenditure was	Amount (₹ *in crore*)
(A) Para No.4.4.1-Misclassification of expenditure of capital nature as revenue expenditure				
1.	04-Department of Atomic Energy	2852	51/52/60	14.04
2.		3401	51/52	11.94
3.	14-Department of Telecommunications	3275	51	0.08
4.	58-Ministry of Micro, Small and Medium	2851	51/52	1.75
5.	85- Ministry of Statistics and Programme Implementation	3454	52	0.06
			Total (A)	**27.87**
(B) Para No.4.4.2-Misclassification of expenditure of revenue nature under capital head of expenditure				
1.	4-Department of Atomic Energy	4861	27	51.18
2.		5401		
3.	14-Department of Telecommunications	5275	11/13/28	2.43
4.	20-Ministry of Defence(Misc)	4076		
5.	74-Ministry of Road Transport and Highways	5054	11/13/20	10.01
6.	80-Ministry of Shipping	5051	50	0.75
		5052	13	5.40
7.	89-	4225	35	60.00
			Total (B)	**152.54**
(C) Para No.4.4.3-Misclassification of expenditure of revenue nature under capital head of expenditure				
1.	11-Department of Commerce	5453	53	38.77
2.	18-Ministry of Corporate Affairs	5475	53	3.74
3.	20-Ministry of Defence (Misc)	5054	53	2031.71
4.	84-Department of Space		52/60	2.64
			Total (C)	**2076.86**
(D) Para No.4.4.3-Misclassification of expenditure of capital nature under revenue head of expenditure				
1.	20-Ministry of Defence (Misc)		01	17.71
2.	56-Ministry of Law and Justice		28	425.35
	61-Ministry of New and Renewable Energy		13	0.68
4.	84-Department of Space	3402	21	272.10
		3402	50	5.0
			21	0.47
5.	87-Ministry of Textiles		35	3.0
			Total (D)	**724.31**
			Understatement of capital expenditure (A+D)	752.18
			Overstatement of capital expenditure (B+C)	2229.40
			Net overstatement of capital expenditure	**1477.22**

Annexure - 4.2

(*Refer Para No. 4.3.2*)

Short transfer of levy/cess collected during financial year 2016-17

(₹ in crore)

Sl. No.	Levy/Cess	Receipts collected	Transfer to the Fund	Short Transfer
1.	The Research and Development Cess Act provides for cess import of technology to encourage commercial application of indigenously developed technology. The Act enables the creation of a Fund for Technology Development and Application to be administered by Technology Development Board (TDB).	1,187.24	30.30	1,156.94
2.	Primary Education Cess	20,	19,	487.41
3.	Secondary and Higher Education Cess	1,941.23	0	1,941.23
4.	Clean Environment Cess (Erstwhile-Energy Cess)	26,117.25	6,436.23	19,681.02
5.	credited to CFI was to be transferred to Development Fund for Tea Sector. (Head 8229.126)	62.28	Nil	62.28
6.	Cess on Sugar (0038.04.119)	2,	2,	568.80
7.		8,	3,596.28	4,782.88
8.	and credited to CFI was to be transferred to Rashtriya Swachhata Kosh. (Head 8235.135)	12,475.39	10,000	2,475.39
	Total	**73,264.04**	**42,108.09**	**31,155.95**

Annexure - 5.1

(*Refer Para No. 5.2*)

Revenue expenditure projections and actuals for financial year 2016-17

(₹ in crore)

Heads of expenditure	Projections for FY 16-17 (in MTEF Statement for FY2015-16)	BE in MTEF of 2016-17	%age change in BE 2016-17(Col.3 w.r.t Col.2)	RE for 2016-17 in MTEF Statement for FY 2017-18	Actuals (as per Budget at a Glance) (February 2018)	%age change in RE 2015-16 (Col.6 w.r.t Col.2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Revenue Expenditure						
Interest	4,96,000	4,92,670	-0.67	4,83,069	4,80,714	-3
Pension	1,02,639	1,23,368	20.2	1,28,166	1,31,401	28
Subsidy :						
Fertilizer	75,000	70,000	-6.67	70,000	66,313	-12
Food	1,32,000	1,34,835	2.15	1,35,173	1,10,173	-17
Petroleum	32,000	26,947	-15.79	27,532	27,539	-14
Centralized Provision for Grants to States	1,06,646	1,12,996	5.95	1,15,616	1,32,704	24
Defense	1,79,876	1,68,380	-6.4	1,75,020	2,51,781	40
Postal Deficit	6,665	8,416	26.27	9,756	11,969	80
External affairs	10,779	9,861	-8.52	9,758	12,753	18
Home Affairs	17,040	17,181	0.83	17,458	78,360	360
Tax Administration	14,540	14,631	0.66	14,418	22,146	52
Finance	33,094	16,133	-51.25	10,749	41,549	26
Education	60,440	57,454	-4.94	57,890	72,016	19
Health	28,951	30,597	5.69	31,825	39,005	35
Social welfare	27,044	32,501	20.18	32,695	31,812	18
Agriculture and Allied	24,003	46,841	95.15	49,798	50,184	109
Commerce and Industry	15,146	14,473	-4.44	17,493	21,364	41
Urban Development	14,700	16,685	13.5	18,838	36,946	151
Rural Development	84,413	1,02,438	21.35	1,14,747	1,13,877	35
Development of North East Region	2,406	1,931	-19.74	2,038	2,496	4
Planning and Statistics	6,510	4,400	-32.41	4,406	4,494	-31
Scientific Departments	11,429	11,710	2.49	11,625	19,493	71
Energy	9,992	18,167	81.82	16,604	30,964	210
Transport	15,092	42,143	179.24	12,785	1,02,200	577
IT and Telecom	6,124	8,553	39.66	13,576	17,985	194
UT	6,889	7,255	5.31	7,615	13,258	92
Others	24,547	28,337	15.44	28,039	63,667	159

Capital expenditure projections for financial year 2016-17

(₹ in crore)

Heads of expenditure	Projections for FY 16-17 (in MTEF Statement for FY2015-16)	BE in MTEF of 2016-17	%age change in BE 2016-17(Col.3 w.r.t Col.2)	RE for 2016-17 in MTEF Statement for FY 2017-18	%age change in RE 2015-16 (Col.5 w.r.t Col.2)
(1)	(2)	(3)	(4)	(5)	(6)
Defence	1,07,016	90,210	-15.7	84,460	-21.08
Home Affairs	9,751	9,271	-4.92	9,699	-0.53
Finance	12,673	32,080	153.14	32,283	154.74
Health	1,069	1,761	64.73	1,678	56.97
Commerce and Industry	1,947	1,206	-38.06	2,945	51.26
Urban Development	12,125	11,502	-5.14	17,182	41.71
Planning and Statistics	382	29	-92.41	29	-92.41
Scientific Department	4,148	3,549	-14.44	3,696	-10.9
Energy	6,630	9,380	41.48	9,259	39.65
Transport	79,518	64,535	-18.84	90,299	13.56
IT and Telecom	3,255	3,098	-4.82	3,657	12.35
Loans to States	13,125	12,500	-4.76	17,800	35.62
UT	2,138	1,867	-12.68	1,767	-17.35
Others	7,190	6,037	-16.04	5,095	-29.14

Annexure - 6.1

(*Refer Para No. 6.3.5*)

Details of Non-Submission of disclosure statements by the Ministries/Departments

Sl. No.	Name of Ministries/ Departments	Remarks on Disclosure Statements under FRBM Act					
		D-1	D-2	D-3	D-4	D-5	D-6
1.	M/o Law & Justice	Not Submitted	-	-	-	-	-
2.	M/o Skill Development & Entrepreneurship	-	Not Submitted	-	-	-	-
3.	D/o Chemical & Petrochemical	-	-	-	-	Not Submitted	-
4.	Ministry of Minority Affairs	Not Submitted	-	-	-	-	-
5.	Department of Heavy Industry	-	-	-	-	Not Submitted	-
6.	Department of Public Enterprises	-	-	-	-	Not Submitted	-
7.	Ministry of Micro, Small & Medium Enterprises	-	-	-	-	Not Submitted	-
8.	Ministry of Women & Child Development	Not Submitted	-	Not Submitted	-	-	-
9.	Department of Rural Development	Not Submitted	-	-	-	-	-
10.	Ministry of New & Renewable energy	-	-	-	-	Not Submitted	-

GLOSSARY

Glossary

Annual Financial Statements (Budget)	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.
Budget at a Glance	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.
Capital Expenditure	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.
Capital Receipt	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.
Consolidated Fund of India	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.
Effective Revenue Deficit	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.
External Debt	Bilateral and multilateral debt contracted by the Government from foreign Governments and financial institutions abroad, mostly in foreign currency.
Finance Accounts	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.
Finance Bill	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.

Fiscal Deficit	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.
Fiscal Policy	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.
Gross Domestic Product (GDP)	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).
Guarantees	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.
Internal Debt	Internal Debt comprises loans raised in India. It is confined to loans raised and credited into the Consolidated Fund of India.
Loans and Advances	This include loans and advances given by the Union Government to the State and UT Governments, Foreign Governments, Public Sector Undertakings, Government Servants, etc.
Public Account	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.
Public Debt	Government debt from internal and external sources contracted in the Consolidated Fund of India is defined as Public Debt.
Revenue Deficit	Excess of revenue expenditure over revenue receipts.
Revenue Expenditure	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.
Revenue Receipts	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.