Chapter 3: Progress in achievement of FRBM targets

The Government set the targets for various fiscal indicators in terms of percentage of GDP. For FY 2014-15, the GDP figure was assumed by the Government based on the GDP growth recorded in previous year viz. 2013-14 (old series with 2004-05 as the base year). Accordingly, in the Budget at a Glance 2014-15 presented on 10 July 2014, GDP was projected at ₹ 128,76,653 crore assuming 13.4 per cent growth over the advance estimates of 2013-14 (₹ 113,55,073 crore) released by the Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation. However, the CSO on 30 January 2015 notified the new series of national accounts containing the new series of GDP, revising the base year from 2004-05 to 2011-12. As a result of this revision, the GDP data for FY 2014-15 (old series with 2004-05 as base year) was not available. Consequently, for analysis of targets for FY 2014-15, the first revised estimates (R1) of GDP (new series with 2011-12 as base year) released by CSO on 8 February 2016 has been adopted in this report, and for earlier years the old series of GDP figures have been adopted.

This chapter analyses the extent of achievement of various fiscal indicators during FY 2014-15 as compared to the targets set in the FRBM Act/Rules (as amended from time to time). Besides, the trend analysis from FY 2005-06 in respect of various fiscal indicators/parameters have also been made in this chapter.

3.1 Revenue Deficit

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

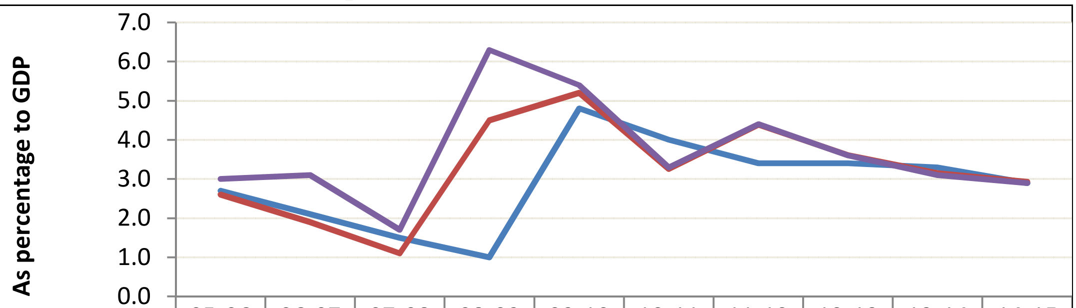
3.1.1 Revenue Deficit target

The FRBM Act as notified in August 2003 had stipulated elimination of revenue deficit by March 2008. Through Finance Act 2004 (September 2004), amendment was made in the FRBM Act and the target was shifted to March 2009. In FRBM Act (amended through Finance Act 2012), the target of elimination was modified with a new target to restrict revenue deficit to not more than two *per cent* of GDP by 31 March, 2015. In the Union Budgets for 2013-14, through MTFP Statement, the target of restricting revenue deficit to not more than two *per cent* of GDP was shifted to March 2016. This was further shifted to March 2017 through the MTFP Statement placed along with the Budget of 2014-15. This target was further extended to March 2018 through the Finance Act 2015.

3.1.2 Trend of Revenue Deficit

Following **Graph-1** shows the trend of revenue deficit as a percentage of GDP over the period from 2005-06 to 2014-15:

Graph-1: Trend of Revenue Deficit: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
BE/Target	2.7	2.1	1.5	1.0	4.8	4.0	3.4	3.4	3.3	2.9
Actuals(BAG)	2.6	1.9	1.1	4.5	5.2	3.3	4.4	3.6	3.1	2.9
Actuals(UGFA)	3.0	3.1	1.7	6.3	5.4	3.3	4.4	3.6	3.1	2.9

Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG) and Union Government Finance Accounts (UGFA). For calculation of Actuals (UGFA), GDP (old data series) upto 2013-14 has been adopted and for 2014-15, R_1 GDP figure (new series) released in February 2016 has been adopted.

*Note: Data in absolute terms for deficits is at **Annex 3.1**. The actual deficit figures as per Union Government Finance Accounts in some years differ from those shown in the Budget at a Glance because the Budget at a Glance figures are not being computed exactly as per the definition of revenue deficit provided in the FRBM Act.*

The analysis of **Graph**[4] and related data above reflects that up to FY 2007-08, the Revenue Deficit was treading in line with fiscal consolidation path envisaged in the FRBM Act/Rules. However, in FY 2008-09 a spike was

[4] In Budget at a Glance, the figures of deficit are worked out by disregarding/netting certain transactions contrary to the definitions provided in the FRBM Act. In this context, para 3.2.3 further elucidates the background.

noticed, thereafter the revenue deficit as percentage of GDP showed a trend converging towards the budgeted level.

3.1.3 Revenue Deficit during 2014-15

For FY 2014-15, the Government had set revenue deficit target at 2.9 *per cent* of GDP which showed 0.4 *per cent* reduction from the level of 3.3 *per cent* for the year 2013-14 (as discussed in Para 2.3). The calculation for computing the revenue deficit is as under:

Table-3 : Revenue Deficit Estimate and Actuals: 2014-15

Component	Revenue Expenditure (1)	Revenue Receipt (2)	Revenue Deficit (RD) (1-2)	RD as % of GDP (As in Budget at a Glance/MTFP)
	(₹ in crore)			
Budget Estimates	15,68,111	11,89,763	**3,78,348**	**2.9**
Actuals	14,66,992	11,01,472	**3,65,520**	**2.9**
Variation with reference to Budget Estimates	-1,01,119 (-6.45%)	-88,291 (-7.42%)	**-12,828 (-3.39%)**	**-**

Source: Budget at a Glance

Note: As per Union Government Finance Accounts, the revenue deficit for FY 2014-15 works out at ₹3,66,228 crore (Difference between revenue expenditure of ₹16,95,137 crore and revenue receipt of ₹13,28,909 crore).

The actual revenue deficit in 2014-15 was contained at the budgeted level, but the required target under the FRBM Act/Rules, viz. not more than 2 *per cent* of GDP by 31 March 2015 was breached. Further, the annual reduction target equivalent to 0.6 *per cent* or more of GDP also could not be achieved, as the reduction in 2014-15 was 0.4 *per cent* with reference to RE 2013-14, as discussed in para 2.2.

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), excluding repayment of debt, over total receipts into the Fund (excluding the debt receipts), during a financial year.

3.2.1 Fiscal Deficit target

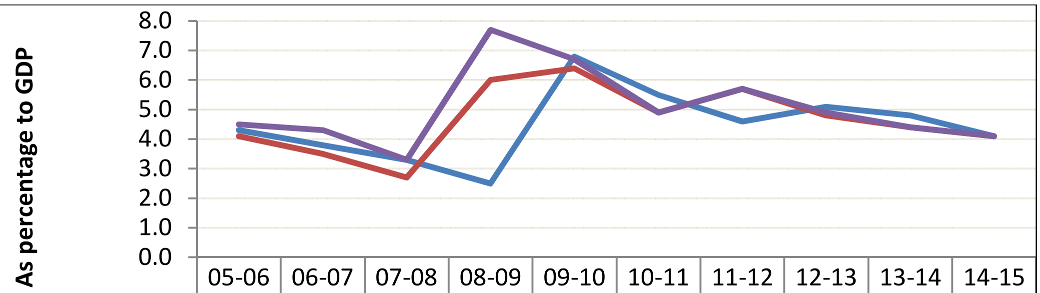
The FRBM Act as notified in August 2003 envisaged achieving fiscal deficit of not more than three *per cent* of GDP by March 2008. However, through

Finance Act 2004 (September 2004), the target was shifted to March 2009. To achieve this target, the fiscal deficit was to be reduced annually by an amount equivalent to 0.3 *per cent* or more of the GDP beginning with FY 2004-05. Further, the amended FRBM Rules notified in May 2013 stipulated that in order to achieve the target of fiscal deficit of not more than three *per cent* of GDP by 31 March 2017, 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 FY 2013–14. Subsequently, through Finance Act, 2015, the fiscal deficit target under the FRBM Act was extended to March 2018.

3.2.2 Trend of Fiscal Deficit

Graph-2 below presents the trend of fiscal deficit as a percentage of GDP over the period from 2005-06 to 2014-15:

Graph-2: Trend of Fiscal Deficit: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
BE/Target	4.3	3.8	3.3	2.5	6.8	5.5	4.6	5.1	4.8	4.1
Actuals(BAG)	4.1	3.5	2.7	6.0	6.4	4.9	5.7	4.8	4.4	4.1
Actuals(UGFA)	4.5	4.3	3.3	7.7	6.7	4.9	5.7	4.9	4.4	4.1

Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG) and Union Government Finance Accounts (UGFA). For calculation of Actuals (UGFA), GDP (old data series) upto 2013-14 has been adopted and for 2014-15, R_1 GDP figure (new series) released in February 2016 has been adopted.

*Note: Data in absolute terms for deficits is at **Annex 3.1**. The actual deficit figures as per Union Government Finance Accounts in some years differ from those shown in the Budget at a Glance because the Budget at a Glance figures are not being computed exactly as per the definition of fiscal deficit provided in the FRBM Act.*

Analysis of data in the above **Graph** reflects that up to the FY 2007-08, the trend of fiscal deficit was in line with fiscal consolidation path envisaged in the FRBM Act/Rules. However, from 2008-09 onwards, it started deviating from the path. The estimate for fiscal deficit for FY 2008-09 was 2.5 *per cent* of GDP, however, it ended up at 6.0 *per cent* of GDP. The estimate for 2009-10 was raised to the level of 6.8 *per cent* (5.5 *per cent* in the interim Budget), in view of bleak outlook for the growth in the world economy. From

2011-12, fiscal deficit has shown a declining trend and it has come down from 5.7 *per cent* in 2011-12 to 4.1 *per cent* in 2014-15.

3.2.3 Fiscal Deficit during 2014-15

For FY 2014-15, the Government had set fiscal deficit target at 4.1 *per cent* of GDP which showed 0.5 *per cent* reduction from the revised fiscal deficit target of 4.6 *per cent* for the year 2013-14. The calculation for computing fiscal deficit is as under:

Table-4: Fiscal Deficit-Budget Estimate and Actuals: 2014-15

Component	Actual Expenditure (1)	Non-debt Receipts (2)	Fiscal Deficit (FD) (1-2)	FD as % of GDP (As in Budget at a Glance/ MTFP)
	(₹ in crore)			
Budget Estimates	17,94,892	12,63,715	**5,31,177**	**4.1**
Actuals	16,63,673	11,52,947	**5,10,726**	**4.1**
Variation with reference to Budget Estimates	-1,31,219 (-7.31%)	-1,10,768 (-8.77%)	**-20,451 (-3.85%)**	**-**

Source: Budget at a Glance

Note: As per Union Government Finance Accounts, the fiscal deficit for FY 2014-15 works out at ₹5,15,948 crore (Excess of total disbursements from CFI excluding repayment of debt amounting to ₹19,09,144 crore over total receipts into the CFI excluding the debt receipts amount to ₹13,93,196 crore).

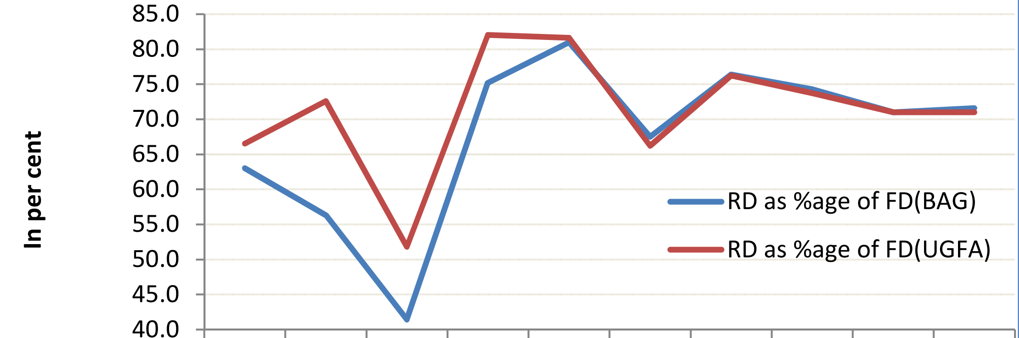
In 2014-15, fiscal deficit was contained at 4.1 *per cent* of GDP, i.e. at the budgeted level and the Government also achieved the annual reduction target of 0.5 *per cent* as discussed in para 2.2.

The figures of revenue and fiscal deficits reported in the Budget at a Glance of the Union Budget differ, in some years, from those indicated/derived from Annual Financial Statements/Union Government Finance Accounts of the respective years. On this issue, the CAG of India in October 2007 had drawn attention of the then Finance Minister. Apart from that, the matter was also reported in the CAG's Audit Reports on the accounts for FY 2004-05, 2005-06, 2007-08, 2008-09 and 2009-10 of the Union Government. The then Finance Minister while explaining the difference in revenue and fiscal deficits, in December 2007 had clarified that the procedure of depicting net expenditure in the Budget at a Glance (Gross expenditure as reported in AFS minus non-cash outgo item) had been followed over the years for budgeting and accounting of Government transactions. Subsequently, in Budget speech for FY 2008-09 the then Finance Minister acknowledged that significant liabilities of the Government on account of oil, food and fertiliser bonds were currently below the line, though the accounting arrangement was consistent with the past practice. He further acknowledged that the fiscal and revenue deficits were understated to that extent and there was need to bring these liabilities into the fiscal accounting. However, the practice of netting certain transactions for arriving at the figure of revenue and fiscal deficits in the Budget at a Glance is still in practice in the Union Budget. Any netting of an item of revenue or capital expenditure that affects the revenue or fiscal deficit is inconsistent with the definition of these deficits under the FRBM Act.

3.2.4 Revenue Deficit as a component of Fiscal Deficit

Fiscal deficit necessitates additional borrowings, having an impact on inter-generational fiscal management. Ideally, the borrowing should be undertaken for investment purposes only. This requires the Government not to use national savings to finance consumption. To quote 13th FC, "all items of consumption expenditure need to be financed from current receipts, a practice which is widely implemented in most countries that have successfully addressed the issue of fiscal responsibility. While some allowances may be made for revenue deficits during recessionary phases, the medium-term fiscal framework must plan for all current expenditures to be financed entirely out of current revenues". **Graph-3** depicts that the major portion of fiscal deficit was on account of imbalance in current expenditure resulting into revenue deficit averaging 67.8 *per cent* of fiscal deficit over the period from 2005-06 to 2014-15:

Graph-3: Trend of Revenue Deficit as component of Fiscal Deficit: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
RD as %age of FD(BAG)	63.0	56.3	41.4	75.2	81.0	67.5	76.4	74.3	71.0	71.6
RD as %age of FD(UGFA)	66.5	72.6	51.8	82.0	81.6	66.2	76.3	73.7	71.0	71.0

Source: RD as %age of FD(BAG) - Budget at a Glance; and RD as %age of FD(UGFA) - Union Government Finance Accounts.
Note: Data in absolute terms for deficits is at ***Annex 3.1****.*

The amended FRBM Act/Rules envisages fiscal deficit of not more than 3 *per cent* of GDP and revenue deficit not more than 2 *per cent* of GDP, i.e. revenue deficit should be two-thirds of fiscal deficit. **Graph-3** shows that during the post financial crisis period, the desired level (66 *per cent* or two-thirds of fiscal deficit) of revenue deficit was achieved only in FY 2010-11. However, from FY 2011-12 onwards, the position had deviated from the desired level.

3.2.5 Transactions affecting the computation of deficit indicators

During the course of audit of accounts for FY 2014-15 of the Union Government, it was noticed that certain transactions and financial eventualities, such as misclassification of expenditure, accruing of one time receipts, short transfer of levies/cess to the designated funds, non-recognition of losses in the operation of National Small Savings Fund (NSSF), short assignment of net proceeds to States, and unpaid expenditure on subsidies, had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder. These transactions are discussed in succeeding paras.

3.2.5.1 Understatement of Revenue Deficit due to misclassification of expenditure

During the audit of Union Government Accounts for FY 2014-15, 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 4.6 of CAG's Report No.50 of 2015. As a result of obtaining budget provisions under incorrect head of accounts, and subsequent booking of expenditure there against resulting in misclassifications, the capital expenditure of the Union Government in FY 2014-15 was overstated by ₹ 748.43 crore and understated by ₹ 522.67 crore, leading to net overstatement of capital expenditure by ₹ 225.76 crore. Correspondingly, revenue deficit for FY 2014-15 was understated by an equivalent amount of ₹ 225.76 crore, as detailed in **Annex-3.2**.

The Ministry stated (May 2016) that misclassification of expenditure, if any is happening despite instructions issued to all Ministries/ Departments to exercise extreme caution while booking expenditure. It added that the matter may be taken up with the concerned Ministries / Departments by Audit.

The reply is in contravention to provision contained in Section 6(1) of FRBM Act which requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations. Being the administrative Ministry for implementation of provisions of the Act, merely issuing instructions to various Ministries to exercise due caution to avoid misclassification do not absolve the Ministry of Finance from the responsibilities mandated under the FRBM Act.

Recommendation: *Budgetary provisioning as well as their accountal need to be in harmony with the codal provisions relating to classification structure of accounts to avoid misclassification of expenditure.*

3.2.5.2 Contraction of Revenue Deficit due to one-time receipts in 2014-15

Levy on coal blocks: The Hon'ble Supreme Court had cancelled (September 2014) allocation of 204 captive coal blocks and imposed additional levy @ ₹ 295 per ton on coal extracted since commencement of production in those coal bocks till the date of its order (i.e. 24 September 2014) to be deposited in Government account by 31 December 2014 and for the period from 25 September 2014 to 31 March 2015 @ ₹ 295 per ton to be deposited by 30 June 2015. Against the total additional levy of ₹ 9,518 crore to be received[5] (for coal extracted up to 24 September 2014) by 31 December 2014, ₹ 6,150 crore were received by the Government till 31 March 2015.

[5] Source: Reply/information received from Ministry of Coal

Receipt from spectrum auction: During 2014-15, the Government had received ₹ 30,624 crore from 'Other Communication Services'. On scrutiny of the transactions, it was observed that out of ₹ 30,624 crore, receipts amounting to ₹ 10,791 crore were collected from spectrum auction which had usage rights of 20 years. Hence, ₹ 10,791 crore received by the Ministry was of the nature of one-time receipt against the auctioned rights for 20 years.

Thus, one-time receipts of ₹ 16,941 crore helped the Government in containing the revenue deficit, which would have been higher but for these receipts. The fact that certain one-time receipts budgeted in 2014-15 would not be available in 2015-16 and 2016-17 was also accepted by the Government in its MTFP Statement for FY 2014-15.

The Ministry stated (May 2016) that the observation was factual in nature and does not warrant any reply/action.

3.2.5.3 Short/non transfer of levies/cess to earmarked funds

Cesses are statutory levies whose proceeds are earmarked for utilisation for specific purposes. The revenue from cess is therefore not shared by Central Government with the States. In Para No. 2.3 of CAG's Report No. 50 of 2015 on the accounts for FY 2014-15 of the Union Government, non-transfer of ₹ 8,123 crore, collected under different categories of levies and cess forming part of tax/non-tax revenue, to the funds earmarked for the purpose have been reported. Details of such cess/levy collected and transferred to designated funds in the Public Account by the Government is at **Annex-3.3**. Such collections were meant to be utilised for specific purposes. However, the Government did not transfer the entire levy/cess collected to the designated funds. Further, there is no disclosure in the annual accounts or in the Budget documents with regard to the utilisation of cess collected for the intended purpose and unutilised balances. This led to corresponding decrease of revenue/fiscal deficit by ₹ 8,123 crore in 2014-15.

The Ministry stated (May 2016) that the audit observation has been made on some selected Funds. Ministry offered following comments in support of its stand:

(i) While it is true that the cesses/levies are levied for specific purposes, it is also the responsibility of the Government, as custodian of public

money, that the resources realized are productively spent and deployed for the purpose for which they were levied;

(ii) *While rationally applying the resources, the capacity of the Ministry/Department or the progress of the scheme/programme is also required to be taken into account;*

(iii) *Funds parked in the reserve/corpus funds operated in the Public Account without being utilized create a liability to the Government on one hand, the scarce resources of the Government are held in the Public Account without productive application;*

(iv) *Keeping the money in the Public Account unutilized would deprive the sectors/schemes/programmes where resources are needed for effective implementation;*

(v) *Prudent financial management requires distribution of scarce resources among various competing needs of the Government depending on the requirement/progress of the Government schemes;*

(vi) *Transfer to the dedicated fund such as Prarambhik Shiksha Kosh is based on estimated collection of education cess, which is approved by Parliament through Appropriation Act. In case of excess collection over estimated collection, the difference in the estimated collection and actual collection cannot be transferred to the account without valid appropriation;*

(vii) *Universal access levy (UAL), which is transferred to Universal Service Obligation Fund (USOF), is not a cess and UAL forms part of non-tax receipt of the Government. USOF has a huge commitment towards implementation of National Optical Fibre Network and Government will finance the expenditure on NOFN as and when the scheme picks up;*

(viii) *It has been explained to the Public Accounts Committee by Ministry of Finance, vide this Ministry's letter dated 30.1.2016, that Government may credit such funds to USOF for being utilized exclusively for meeting Universal Service Obligation;*

(ix) *In case of Cess on Tea, Cess on Films, there are no dedicated funds created in the Public Account for regulating the flow of funds. However, it is incorrect to state that Government has spent less on development of these sectors. Government is, in fact, spending sufficient funds commensurate with receipts in the form of cesses in these sectors; and*

(x) *It is therefore incorrect to state that Government did not transfer the cesses/levies to the designated funds in order to achieve the fiscal deficit as this observation would be narrow in perspective.*

Reply of the Ministry is not acceptable on following grounds:

(i) The levy/cess collected are for specific purpose usages and to provide the intended service in return of the cess/levy charged. Hence, the Government has a specific responsibility and liability as well for providing the service. Till the service is not rendered fully, the unspent collections need to be transparently reflected in the accounts of the Union Government.

(ii) In case of excess collection of cess than estimated in the Budget, the transfer of such collection to the designated funds through the Appropriation Act could also have been augmented through the available mechanism of proposing Supplementary Demands for Grants.

(iii) In respect of levy/cess for which comment has been made in the para above, there exists specific purpose Funds in the Public Account as detailed in **Annex-3.3**.

(iv) The UAL is a levy collected as a percentage of the revenue earned by the operators under various licenses, to be utilised by the Government for providing access to basic telegraph services in rural and remote areas. Thus, being a specific purpose levy accounted for under non-tax revenue has to be utilised for the purpose for which it was collected. For its transparent accountal, a separate USO Fund has been opened in the Public Account. However, the position of unspent amount of levy so far collected for this purpose has not been appearing in the USO Fund maintained in the Public Account.

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

3.2.5.4 Non recognition of losses under NSSF in CFI

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

At the end of FY 2014-15, total accumulated deficit in the operation of NSSF was ₹ 90,707.56 crore. These deficits are in the nature of loss to the Government which will have to be borne on revenue account, whenever the liabilities under NSSF are fully and finally repaid. By keeping the annual loss in the operation of NSSF under Public Account, the deficit figure for the relevant year are not reflected fairly.

The Ministry stated (May 2016) that since inception of NSSF in Public Account, the reflection of deficit as a separate identity is being carried out as a policy matter approved by Ministry of Finance. It added that the accounting procedure of NSSF was got approved by the office of Controller General of Accounts with the office of the CAG. It further stated that outstanding liability *of the Central Government on account of NSSF is understated in the accounts due to netting of NSSF investments in Special State government securities/other securities and accumulated deficit. A footnote is inserted in Statement No. 2 of the Finance Accounts showing total outstanding liabilities, investments and deficits separately.*

The issue relating to surplus/deficit in the operation of NSSF was deliberated amongst the offices of the CAG, the CGA and the Budget Division of the Ministry of Finance in April 2000. During the deliberation, it was brought out by the office of the CGA that the deficit which had arisen in the first year of operation would get adjusted as and when there would be surplus. The operational loss, which was ₹ 1681.68 crore at the end of FY 1999-2000, has steadily increased year after year to ₹ 90,707.56 crore at the end of FY 2014-15 requiring urgent intervention. Under the present system, the subscribers of the National Small Savings Schemes on maturity of their investment are paid (principal/interest) out of the current/fresh subscriptions flowing to the schemes and operational loss of the year is absorbed in the scheme itself. Mere disclosure by way of footnote in the Finance Accounts is not sufficient to mitigate the concern.

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

In reply to the audit recommendation, the Ministry accepted (June 2016) that administrative intervention is required for making good the accumulated losses which occurred in NSSF. It further added that if administrative decision is taken to make good the progressive deficit, this needs to be provided in CFI (with due appropriation authorised by Parliament) and this will have an adverse impact on revenue/fiscal deficit of the Government.

Reply of the Ministry underscores the audit contention that the losses in NSSF affect the computation of prescribed deficit indicators set out in the Act.

3.2.5.5 Net proceeds to States

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

During the certification of 'net proceeds' by the CAG, based on the recommendations of the successive Finance Commissions, it was noticed that during the period 1996-97 to 2014-15 an aggregated amount of ₹ 81,647.70 crore was short devolved to the States.

The Ministry stated (June 2016) that the accuracy of the figures intimated by CAG are required to be ascertained and need to be reconciled with that of Budget Division, Department of Economic Affairs as the calculations for State' share of Central Taxes and Duties are based on set practices and norms which have been meticulously followed year after year.

With regard to certification of net proceeds of taxes, it is pertinent to mention that in July 2000 Ministry requested for certification of net proceeds of taxes afresh with ante-dated effect viz. 1996-97 consequent upon passage of 80th constitutional amendment. On receipt of request from the Ministry, clarifications were sought by the office of the CAG followed by reminders, which were not provided. Certificates on net proceeds were issued by the office of CAG on 10 February 2016.

Further, the draft certificate of CAG on net proceeds of taxes, together with detailed calculations were made available on 14 December 2015, 31 December 2015 and 6 January 2016 to the Secretary, Department of Economic Affairs for their observation, if any. As such opportunity was provided to the Ministry before issuing the final certificate in terms of Article 279 of the Constitution.

3.2.5.6 Unpaid expenditure on subsidy

In Para 1.3.2 of CAG's Report No. 50 of 2015 on the accounts for FY 2014-15 of the Union Government, a mention was made with regard to unpaid subsidy claims of five Central Public Sector Undertakings[6], amounting to ₹ 44,941 crore (claims including past years unpaid bills, but excluding last quarter bills for FY 2014-15 remaining unpaid) in respect of food, petroleum and fertilizer subsidies.

The Ministry stated (May 2016) that the Government as a going concern makes payment for the arrears of the past and defers payment to next financial year on account of various reasons such as non-finalization of accounts by

[6] National Fertilizers Ltd., Fertilizers and Chemicals Travancore Ltd., Madras Fertilizers Ltd., Hindustan Petroleum Corporation Ltd., Food Corporation of India Ltd.

PSUs. Ministry, for example, stated that arrears of food subsidy is made only after audit of accounts is complete or Oil Marketing Companies being paid for last quarter of a financial year after audit of financial results, in the first quarter of next financial year. Ministry also added that accounts of the Union and State Governments are prepared on the cash basis and under cash basis system, expenditure and deficit get impacted at the time/year of discharge of liabilities.

Though the accounts of the Government is prepared on cash basis, yet the deferment of liabilities to subsequent year cyclically has a bearing in computation of fiscal indicators. In the case of outstanding subsidy claims of Food Corporation of India, the Report No.50 of 2015 of CAG points that it has continuously increased during the last five years, which is a pointer towards that this practice may offset the responsibility of the Government to ensure inter-generational equity in fiscal management as laid down in the Act.

3.3 Effective Revenue Deficit

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

14th FC in its Report commented that effective revenue deficit is not recognized in the standard Government accounting process. To quote the Commission, - the conventional rule, as understood, of financing current expenditure by current revenue was discarded and an artificial concept of effective revenue deficit was introduced in the statute in 2012. The Commission recommended that the Government should consider omitting the definition of effective revenue deficit from 1 April 2015. However, the FRBM Act continues to carry the targets for effective revenue deficit.

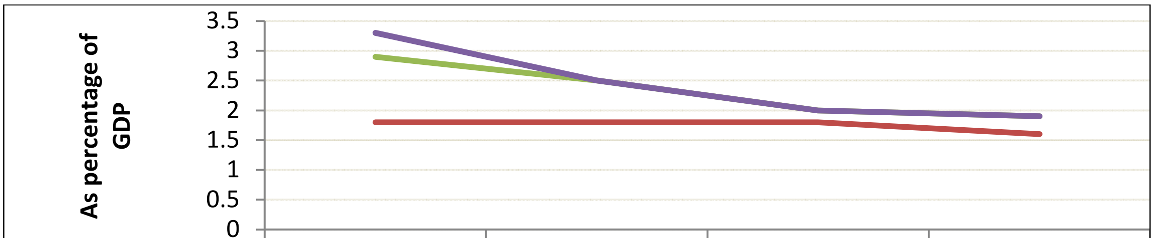
3.3.1 Effective Revenue Deficit target

The FRBM Rules notified in May 2013, stipulates that in order to achieve the target of elimination of effective revenue deficit by 31 March, 2015, the Central Government shall reduce such deficit by an amount equivalent to 0.8 *per cent* or more of the GDP at the end of each financial year, beginning with FY 2013–14. However, in the MTFP Statement placed along with the Union Budget 2013-14, the target was deferred to March 2016. By the Finance Act 2015, the target was further extended to March 2018.

3.3.2 Trend of Effective Revenue Deficit

The trend of effective revenue deficit as a percentage of GDP over the period from 2011-12 to 2014-15 is given in **Graph-4** below:

Graph-4: Trend of Effective Revenue Deficit: 2011-15



	2011-12	2012-13	2013-14	2014-15
BE/Target	1.8	1.8	1.8	1.6
Actuals(BAG)	2.9	2.5	2.0	1.9
Actuals(UGFA)	3.3	2.5	2.0	1.9

Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG) and Union Government Finance Accounts (UGFA). For calculation of Actuals (UGFA), GDP (old data series) upto 2013-14 has been adopted and for 2014-15, R_1 GDP figure (new series) released in February 2016 has been adopted.

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

During the last four years, ratio of effective revenue deficit to GDP had shown improvement and came down from 2.9 *per cent* in FY 2011-12 to 1.9 *per cent* in the FY 2014-15. However, despite the downward trend, the Government was not able to achieve its budgeted targets in any of the four financial years.

Elimination of effective revenue deficit implies that grants for creation of capital assets must equal the revenue deficit. In other words, the Government's revenue expenditure in excess of revenue receipts must be used for creation of capital assets. Achieving the target requires a correction in the composition of expenditure mix. In effect, this suggests structural change in design of schemes so that resources transferred from the Union Government is utilized for creation of capital assets, rather than funding operational costs. However, it was noticed that during FY 2011-12, expenditure on grants for creation of capital assets was 33.6 *per cent* of revenue deficit (as per Budget at a Glance) which were 31.8, 36.2 and 35.8 *per cent* during the next three financial years i.e. 2012-15 as detailed in **Annex-3.1**.

3.3.3 Effective Revenue Deficit during 2014-15

For the year 2014-15 (BE), the Government had set effective revenue deficit target of 1.6 *per cent* of GDP which showed 0.4 *per cent* reduction from the revised target of 2.0 *per cent* for the year 2013-14. However, in revised estimates for 2014-15, in February 2015, the target was raised to 1.8 *per cent* of GDP. **Table-5** below reflects that there was shortfall of more than 22 *per cent* in expenditure on grants for creation of capital assets, leading to around 12 *per cent* increase in effective revenue deficit over the budget estimates.

Table-5: Effective Revenue Deficit-Budget Estimate and Actuals: 2014-15

Component	Revenue Deficit (1)	Grant for creation of capital assets (2)	Effective Revenue Deficit (ERD) (1-2)	ERD as % of GDP
	(₹ in crore)			
Budget Estimates	3,78,348	1,68,104	**2,10,244**	**1.6**
Actuals	3,65,520	1,30,760	**2,34,760**	**1.9**
Variation with reference to BE	-12,828 (-3.39%)	-37,344 (-22.21%)	**24,516 (11.66%)**	**0.3**

Source: Budget at a Glance

Note: As per Union Government Finance Accounts, the effective revenue deficit works out at ₹2,35,468 crore (Difference between revenue deficit of ₹3,66,228 crore and expenditure on grants for creation of capital assets of ₹1,30,760 crore).

During FY 2014-15, the Government did not achieve the effective revenue deficit target of 1.6 *per cent* of GDP, which fell short by 0.3 *per cent* owing to reduction in expenditure on grants for creation of capital asset by 22.21 *per cent.* Further, the Government also could not achieve the mandated annual reduction target of 0.8 *per cent* in 2014-15, as the annual reduction was only 0.4 *per cent* with reference to revised target of 2.0 *per cent* of GDP for the year 2013-14 as discussed in para 2.2.

3.3.3.1 Inconsistency in expenditure on grants for creation of capital assets

In the Budget document, the figure of actual expenditure incurred on grants for creation of capital assets appear in Budget at a Glance. In Union Government Finance Accounts, prepared by the Controller General of Accounts under the Ministry of Finance, this figure appear in Appendix to Statement No. 9. On comparison, inconsistencies were noticed between the two sets of compilation in two financial years, as detailed in **Table-6** below:

Table- 6: Inconsistency in expenditure on grants for creation of capital assets

(₹ in crore)

Year	2011-12	2012-13	2013-14	2014-15
Actuals shown in Budget at a Glance*	1,32,582	1,15,710	1,29,418	1,30,760
Union Government Finance Accounts	1,01,231	1,15,710	1,29,838	1,30,760
Variation	31,351	-	420	-

*Figures of actuals for a particular FY are reflected in the Budget at a Glance of FY+2. For example, in respect of FY 2011-12, the actuals are reflected in the Budget at a Glance of FY 2013-14.

3.3.4 Incorrect estimation of Effective Revenue Deficit target

In order to estimate the effective revenue deficit target of the Government, every Ministry prepares information containing budget provision under the object head ‘grants for creation of capital assets’ under various schemes and programmes as contained in the Detailed Demands of Grants (DDG) of the respective Ministries and furnish the same to the Ministry of Finance. On the basis of this information, a statement containing the budget provision on the object head ‘grants for creation of capital assets’ is appended in the Expenditure Budget Volume-I.

As per this statement presented with the Budget for FY 2014-15, total budget provision on grants for creation of capital assets was ₹ 1,68,104.47 crore. Audit scrutiny of information contained in this statement in respect of some Ministries/Departments and its cross-verification with the concerned DDG revealed that the figures mismatched in the two sets of documents, viz. DDG and Statement appended with the Expenditure Budget Volume-I, with regard to budget provision under the head ‘grants for creation of capital assets’. Some instances of mismatches on the basis of test-checked cases are detailed in **Table-7** below, which resulted in incorrect estimation of effective revenue deficit:

Table-7: Mismatch in the Budget Estimates on grants for creation of capital assets

(₹ in crore)

Sl. No.	Ministry/ Department	Budget Estimates in Expenditure Budget Vol-I	Budget Estimates in the DDG	Difference	Remarks
	1	2	3	4=3-2	5
1.	Law and Justice	Nil	847.90	847.90	Provision in DDG was not included in the Statement appended with Expenditure Budget, Vol.I.
2.	Health Research	Nil	98.00	98.00	
3.	Revenue	Nil	30.00	30.00	

4.	AIDS Control	74.00	0.00	(-)74.00	No provision was found in DDG but was included in Expenditure Budget, Vol.I.
5.	Posts	322.01	0.00	(-)322.01	Budget provision was under capital major head of expenditure but wrongly included in Expenditure Budget, Vol.I.
6.	Petroleum and Natural Gas	42.00	0.00	(-)42.00	Provision in DDG was under 'grants-in-aid general' but wrongly included in Expenditure Budget, Vol.I.
7.	Development of North Eastern Region	1,666.00	1,827.30	161.30	Different figures were included in the Expenditure Budget, Vol.I. than those furnished by the Ministries concerned.
8.	Health and Family Welfare	4,122.47	4,045.04	(-)77.43	
9.	School Education and Literacy	10,383.77	10,473.39	89.62	

Note: Figures in minus represent overstatement of effective revenue deficit.

As a result of deficiency in the mechanism of estimating provision in respect of grants for creation of capital assets, effective revenue deficit was underestimated by ₹ 1,226.82 crore and overestimated by ₹ 515.44 crore for FY 2014-15. The net impact of test checked cases was underestimation of effective revenue deficit by ₹ 711.38 crore.

The Ministry stated (May 2016) that Annex-6 of Expenditure Budget Vol.-I is prepared on the basis of information provided by Ministry and the reasons for variation may be taken up with concerned Ministries by Audit.

Reply of the Ministry is not tenable as the Ministry of Finance, being the focal point for administration of the FRBM Act, should ensure that the information being disclosed under the Act is complete and accurate.

In respect of observation made at Sl. No. 5 of Table-7, Department of Posts stated (March 2016) that the expenditure was earmarked for the scheme 'IT Induction & Modernization' under capital segment and the information was incorporated in the statement as per prevailing trend.

Reply of Department of Posts is not tenable as the budget provision for the earmarked expenditure were obtained under the object head 52 below capital major heads 5201 and 4552 and wrongly included in the disclosure statement as grants for creation of capital assets under the object head 35.

In respect of observation made at Sl. No. 7 of Table-7, Ministry of Development of North Eastern Region stated (April 2016) that due to allocation of additional amount of ₹ 200 crore by Planning Commission (in June 2014) there was variation with the disclosure statement prepared earlier at the time of interim Budget 2014-15.

Reply of the Ministry confirms that it had failed to update its position in disclosure statement in the regular Budget placed before Parliament in July 2014, resulting in variation in two sets of documents.

3.3.5 Incorrect classification of certain expenditure as grants for creation of capital assets

In 2014-15, a provision of ₹ 1,68,104.47 crore was made for grants for creation of capital assets in 41 Ministries as reflected in the Statement appended with Expenditure Budget, Volume-I. Audit test checked the budget provision on grants for creation of capital assets in some selected schemes/projects across 13 Ministries/Departments involving provision of ₹ 78,271.23[7] crore. Observations in this regard are discussed in succeeding paras.

3.3.5.1 Expenditure on procurement and maintenance treated as 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. As per this definition, all expenditure classified as 'grants for creation of capital assets' by the respective Ministries to above entities would qualify as such under this definition of FRBM Act. The Government has not laid down

[7] Ministry of Development of North-Eastern Region - ₹ 948 crore, Ministry of Minority Affairs - ₹ 1,220.10 crore, Ministry of Panchayati Raj - ₹ 5,628 crore, Ministry of Rural Development - ₹ 49,365.02 crore, Ministry of Tribal Affairs - ₹ 1,054 crore, Department of Health and Family Welfare - ₹ 2,053.42 crore, Ministry of Information and Broadcasting - ₹ 543.65 crore, Ministry of Statistics and Programme Implementation - ₹ 3,950 crore, Ministry of Women and Child Development - ₹ 941.52 crore, Department of Agriculture Research and Education - ₹ 1,300.54 crore, Department of School Education and Literacy - ₹ 7,659.50 crore, Department of Higher Education - ₹ 3,504.50 crore, Department of Chemical and Petrochemicals - ₹ 102.98 crore

criteria/guidelines to decide which expenditure incurred by the grantee organisation will fall under the category 'capital creation'. In absence of any laid down criteria/guidelines, the following observations are made.

- In respect of flagship schemes, viz. Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) and Members of Parliament Local Area Development (MPLAD), expenditure to the extent of ₹ 32,463.40 crore and ₹ 3,350 crore respectively, transferred to State/district authorities, were treated as grants for creation of capital assets during FY 2014-15. It was noticed that some components of these schemes also included expenditure on certain activities which were either in the nature of maintenance of existing assets or procurement not resulting in creation of capital assets. Details of such components are mentioned in **Box-4** below:

Box-4: Works under the scheme not resulting in creation of capital assets

Scheme	Component of works
MNREGA	• 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 treatment as grants for creation of capital assets was not in order. In the absence of itemised expenditure incurred on above mentioned components of the two schemes, Audit could not quantify the amount of overstatement of expenditure on grants for creation of capital assets.

- Multi-Sectoral Development Programme (MsDP) is an area development initiative of the Ministry of Minority Affairs to address the development deficits of minority concentration areas by creating socio-economic infrastructure and providing basic amenities. During FY 2014-15, under MsDP ₹ 609.35 crore was allocated by the Ministry to the States as grants for creation of capital assets. Test check of these grants revealed that grant of ₹ 80.81 crore released by the Ministry included funds for 'skill development training programme' and 'purchase of bicycle, machine tools and equipment'. Since expenditure incurred on above components does not result in creation of capital assets, the classification would not be in order. This resulted in understatement of effective revenue deficit of the Government by ₹ 80.81 crore.

In respect of MNREGA and MPLAD observations, the Ministry stated (May 2016) that the components of work mentioned are either related to substantial up-gradation of assets or acquiring capital equipment, etc. and therefore qualify for booking under grants for creation of capital assets. The Ministry, further added that as the observations of audit relates to Ministry of Rural Development (in respect of MNREGA), Ministry of Statistics and Programme Implementation (in respect of MPLAD), and Ministry of Minority Affairs (in respect of MsDP), the same may be taken up with the concerned Ministry by the Audit.

The reply of the Ministry is contradictory to the practices followed across some Ministries[8], as scrutiny of sanction orders by Audit revealed that in these Ministries grants given for procurement of equipment, library books, organising training, etc. had been classified under the object head grants-in-aid general. Further, as the administration of FRBM Act, including preparation of Central Budget, monitoring of budgetary position, among other related business of the Government of India rests with the Ministry of Finance, the Ministry is required to appropriately follow up this issue with the concerned Ministries and address the audit concern.

Ministry of Statistics and Programme Implementation in respect of observation on components of works under MPLAD scheme stated (April 2016) that the scheme is essentially for development works and creation of durable community assets. It added that certain non-durable items (listed in Annexure-IIA of the scheme guideline and also pointed out by Audit) *have been permitted under the scheme with the approval of its Integrated Finance Division, keeping in view the locally felt needs. Further, item wise break up of expenditure under MPLAD scheme is centrally not maintained.*

[8] Ministry of Home Affairs, Ministry of Women and Child Development, Ministry of Tribal Affairs

Reply of the Ministry confirms that expenditure on certain non-durable items have been permitted under the scheme. Hence, inclusion of such expenditure under the scheme as grants for creation of capital assets was not in order.

Requirement for laying down criteria/guidelines:

On the issue of classification of expenditure as grants for creation of capital assets, it is pertinent to mention that the High Level Expert Committee on Efficient Management of Public Expenditure, headed by Dr. C. Rangarajan, in Para 5.38 of its Report had recommended (July 2011) setting up an expert group tasked to formulate the precise definition and criteria for classifying expenditure as "Government revenue expenditure for creation of tangible assets" to ensure a fairly rigid compliance to the requirements to prevent misclassification. Further, the requirement of maintaining assets records/registers and making them available in public domain was also emphasised. However, no such expert group has been set up by the Government.

Thus, due to absence of defined criteria for classification of expenditure as 'grants for creation of capital assets' there exists inconsistent and varying practices in the treatment of such expenditures.

Recommendation: *To facilitate correct identification and booking of expenditure as grants on creation of capital assets, the Government may consider defining the criteria for classification of expenditure as grants for creation of capital assets and its compliance by the Ministries/Departments.*

3.3.5.2 Incorrect classification of expenditure under IAY and RAY

Section 2(bb) of FRBM Act defines grants for creation of capital assets as grants 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. Indira Awas Yojana[9] (IAY), was a flagship scheme of the Ministry of Rural Development, providing assistance to Below Poverty Line (BPL) families, who are either houseless or having inadequate housing facilities for constructing a safe and durable shelter. During FY 2014-15, expenditure of ₹ 11,096.90 crore was incurred by the Ministry on the IAY

[9] IAY was subsumed in the Scheme Pradhan Mantri Awas Yojana from FY 2016-17.

scheme and categorised as grants for creation of capital assets. Under this scheme, the grants are released by the Ministry to various State Governments which in turn releases grants/assistance to the beneficiaries under the scheme.

We noticed that the funds under the scheme were utilised for providing housing facilities to BPL beneficiaries and the houses were owned by the beneficiaries and not by the grantee entities/organisations. Hence, categorising expenditure on IAY as grant for creation of capital assets was incorrect. This had resulted in understatement of effective revenue deficit by ₹ 11,096.90 crore.

Similarly, Rajiv Awas Yojana[10] (RAY) was a pioneering scheme of the Ministry of Housing & Urban Poverty Alleviation with the objectives of improving and provisioning of housing, basic civic infrastructure and social amenities in urban slums. During FY 2014-15, expenditure of ₹ 1,092.96 crore was incurred by the Ministry on the RAY and categorised as grants for creation of capital assets. Under this scheme, the grants are released by the Ministry to various State Governments which in turn releases grants to the beneficiaries under the scheme.

Since the expenditure under the scheme was utilised for providing housing in urban slums not owned by the grantee entities/organisations, categorising them as grants for creation of capital assets was incorrect. This, resulted in understatement of effective revenue deficit by ₹ 1,092.96 crore.

Ministry stated (May 2016) that these grants are for creation of assets for the beneficiaries and therefore appropriately classified. The Ministry further added that the matter regarding IAY and RAY pertains to Ministry of Rural Development and Ministry of Housing and Urban Poverty Alleviation respectively and Audit may take up this issue with the concerned Ministry / Department.

As per definition of grants for creation of capital assets, the assets being created out of grants would be owned by the grantee organisation. Since the beneficiaries under the schemes are not the scheme implementing entities/grantee organisation, the assets owned by them would not qualify to be classified as arising from grants for creation of capital assets.

[10] RAY was subsumed in the Mission 'Housing for All' in May 2015.

Recommendation: *The Government may exclude such grants, which does not lead to creation of assets owned by the grantee organisations, from categorising as grants for creation of capital assets.*

3.4 Liability of the Government

According to Section 2(f) of FRBM Act, total liabilities mean the liabilities under the CFI and the Public Account of India. Prudential debt management consistent with fiscal sustainability is one of the objectives of FRBM Act. The Government resorts to borrowing from internal and external sources, collectively known as Public Debt, to finance its deficit. The internal borrowings mainly comprise of market loans and special securities issued to the RBI. 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.

3.4.1 Liability target

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

Following **Table-8** shows achievement of target in respect of additional liabilities from 2004-05 to 2013-14.

Table-8: Additional Liability of the Government: 2004-14

(₹ in crore)

Financial year	Liability at the beginning of the year (1)	Liability at the end of the year (2)	Additional liability during the year (3= 2-1)	GDP (4)	Additional liability as %age of GDP (3/4)	FRBM target of additional liability as %age of GDP
2004-05	16,59,634	18,23,279	1,63,645	32,42,209	5.0	≤9
2005-06	18,23,279	19,68,799	1,45,520	36,93,369	3.9	≤8
2006-07	19,68,799	21,85,049	2,16,250	42,94,706	5.0	≤7
2007-08	21,85,049	24,76,357	2,91,308	49,87,090	5.8	≤6
2008-09	24,76,357	28,40,135	3,63,778	56,30,063	6.5	≤5
2009-10	28,40,135	31,60,924	3,20,789	64,77,827	5.0	≤4

Financial year	Liability at the beginning of the year (1)	Liability at the end of the year (2)	Additional liability during the year (3= 2-1)	GDP (4)	Additional liability as %age of GDP (3/4)	FRBM target of additional liability as %age of GDP
2010-11	31,60,924	35,32,450	3,71,526	77,84,115	4.8	≤3
2011-12	35,32,450	41,51,284	6,18,834	90,09,722	6.9	≤2
2012-13	41,51,284	47,06,586	5,55,302	1,01,13,281	5.5	≤1
2013-14	47,06,586	52,59,310	5,52,724	1,13,55,073	4.9	0

Source: Union Government Finance Accounts

As may be seen from **Table-8**, the Government did contain additional liabilities within the targets envisaged in the Act up to 2007-08. Thereafter, this target could not be achieved. Moreover, since no terminal year or terminal ceiling in terms of percentage is fixed for additional borrowing in the Act/Rules, after FY 2013-14 no additional borrowing would have been resorted to by the Government, though this scenario is not possible to visualise given the deficit budgeting of the Government. Thus, there appears to be inconsistency in the Act/Rules, which needs to be addressed, as pointed out in Para 2.4 of this Report.

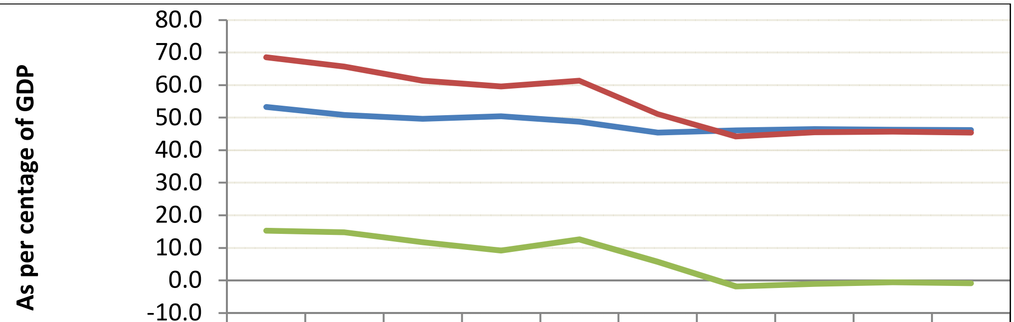
The Ministry stated (May 2016) that the slippage after 2007-08 was due to increase in fiscal deficit / borrowings of Government after global financial crisis. It added that the position has been explained in the FRBM statements of the respective years and the Government is committed to the path of fiscal consolidation as mandated under the FRBM Act. It further added that outstanding liabilities of the Government as a percentage of GDP are showing declining trend.

The explanation for deviation relating to assumption of additional liabilities is appreciable. However, post FRBM period, the trends as reflected in the **Table-8** above do not show much improvement in the containment of creation of additional liabilities as percentage of GDP, besides having inconsistency in the Act / Rules which needs to be addressed clearly as the additional liabilities cannot be completely eliminated.

3.4.2 Trend of Outstanding liability

Following **Graph-5** shows the trend of outstanding liability of the Government as a percentage of GDP as compared to estimates included in MTFP Statement over the period from 2005-06 to 2014-15:

Graph-5: Trend of Outstanding Liability: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Outstanding Liability	53.3	50.9	49.7	50.4	48.8	45.4	46.1	46.5	46.3	46.2
BE (MTFP)	68.6	65.7	61.4	59.6	61.4	51.1	44.2	45.5	45.7	45.4
Variation with BE (%)	15.3	14.8	11.7	9.2	12.6	5.7	-1.9	-1.0	-0.6	-0.8

Source: Union Government Finance Accounts and GDP (old data series) up to 2013-14. For 2014-15, R_1 GDP figure (new series) released in February 2016. The actual outstanding liability and budgeted outstanding liability in 2004-05 was 68.5 per cent and 56.2 per cent of GDP respectively.

As seen from **Graph-5**, the outstanding liability-GDP ratio had shown a declining trend and it dropped to 46.2 *per cent* in March 2015 from 53.3 *per cent* in March 2006. However, from FY 2011-12 onward the outstanding liability in terms of GDP outstripped the budgeted level as contained in the MTFP Statement.

3.4.3 Understatement of Public Account liability

In Para 1.5.1 of CAG's Report No. 50 of 2015 on the accounts for FY 2014-15 of the Union Government, a comment relating to understatement of Public Account liability has been included. The understatement of liability by ₹ 6,70,210 crore was on account of non-inclusion of investments out of NSSF collections in State Government Securities and India Infrastructure Finance Company Limited (IIFCL); investment of Post Office Insurance Fund with private fund managers; and accumulated deficit (loss) in the operation of NSSF. After adjusting these investments and loss, the net Public Account Liability was shown in Union Finance Accounts as ₹ 6,71,010 crore, as against the actual outstanding liabilities of ₹ 13,41,220 crore[11] in Public Account. Taking into account the actual liability in the Public Account, the total liability of the Union Government would be 51.6 *per cent* of GDP as against 46.2 *per cent* in 2014-15, as brought out in **Graph-5**.

The Ministry stated (May 2016) that depiction of Public Account liability in the present form is approved on the advice of office of the Comptroller and Auditor General of India and the understatement of Public Account as pointed out by Audit is due to difference in perception. The Ministry however brought out that in the Union Government Finance Accounts, the Public Account liability is shown net of investments made out of NSSF, accumulated deficit in NSSF, etc. and accordingly explained.

The reply of the Ministry is not in order. Office of the CAG approved the accounting procedure relating to creation of NSSF. Netting of liabilities mentioned in the observation is the decision of the Ministry. Thus, understatement of Public Account liabilities and its qualification by way of explanation through footnotes in the Union Government Finance Accounts does not reflect the true and fair liability position. The amount invested in IIFCL, investment of Post Office Insurance Fund with the private fund managers and accumulated loss in the operation of NSSF impacts the Union Government liabilities in the Public Account and the total liability as a percentage of GDP gets distorted as a result of the exclusions.

3.5 Guarantees

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

[11] Comprising ₹11,52,363 crore on account of Small Savings, Provident Funds, etc. and ₹1,88,857 crore as reserve funds and deposits. The outstanding liability of ₹11,52,363 crore on account of Small Savings, Provident Funds etc. has been brought down on account of investment by ₹5,43,499 crore in Special State Government Securities; ₹1,500 crore in India Infrastructure Finance Company Limited; ₹34,504 crore pertaining to Post Office Insurance Fund with private fund managers; besides adjusting ₹90,708 crore of accumulated deficit in the operation of NSSF.

eventuality of default, they have the potential of aggravating the debt position of the Government.

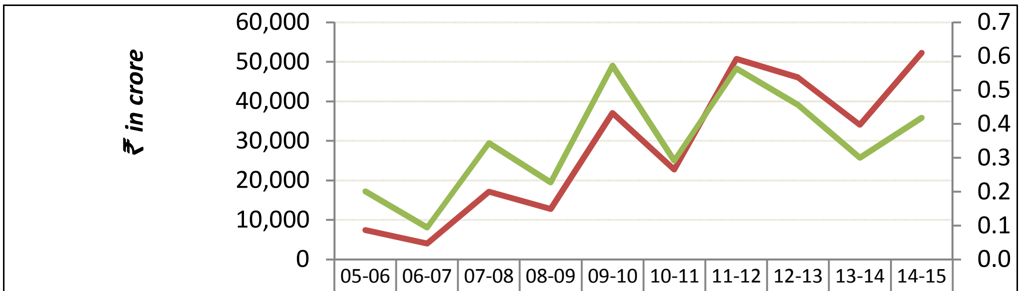
3.5.1 Guarantees target

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 2004-05.

3.5.2 Trend of additions in Guarantees

In Statement No.4 of Union Finance Accounts, details relating to guarantees given by Union Government are furnished. Following **Graph-6** shows the trend of additions in guarantees of the Government as a percentage of GDP over the period from 2005-06 to 2014-15:

Graph 6: Trends of additions in guarantees: 2005-15



	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Addition of guarantee	7,409	4,045	17,135	12,786	37,102	22,746	50,773	46,084	34,098	52,275
Addition as % of GDP (2nd axis)	0.2	0.1	0.3	0.2	0.6	0.3	0.6	0.5	0.3	0.4

Source: Union Government Finance Accounts and CSO GDP data (old series) for financial year up to 2013-14. For 2014-15, GDP figures released by CSO (New Series) in February 2016 has been used. In 2004-05, the addition of guarantee was ₹ 42,700 crore, which was 1.3 per cent of GDP.

Above graph shows that except for financial years 2009-10 and 2011-12, the addition of guarantee (as reflected in Union Government Finance Accounts of relevant years) remained within the target of 0.5 *per cent of GDP.*

Ministry stated (May 2016) that the ceiling of 0.5 per cent of GDP for any FY has been calculated at the beginning of the said year in order to provide guarantees. It added that the Government had ensured that Guarantees given during the year 2009-10 and 2011-12 were well within 0.5 per cent of GDP, i.e. budget/revised estimates of the respective financial years. However, subsequent revision of GDP of these two years in February 2016 by CSO was not anticipated at the time of finalization of said guarantees.

The reply of the Ministry is not in order. Only for FY 2014-15 the new series GDP released by CSO on 8 February 2016 has been adopted by Audit and the addition in guarantee was within the prescribed limit. In respect of earlier years, Audit has adopted the old series of GDP for measuring and analysing the trend of the relevant years. The ceiling breached in the two years referred to above was with reference to old series of GDP.

3.6 Borrowings from Reserve Bank of India

As per Section 5 of FRBM Act, the Central Government shall not borrow from the Reserve Bank except by way of advances to meet temporary excess of cash disbursement over cash receipts during any financial year in accordance with the agreements which may be entered into by the Government with the Reserve Bank of India (RBI). The Act, however, provides that the RBI may buy and sell the Central Government securities in the secondary market.

We observed that during the period under review Central Government did not borrow from RBI.

Conclusion

During the year 2014-15, the Government was able to achieve its budgeted revenue and fiscal deficit targets of 2.9 and 4.1 *per cent* respectively. However, the Government was unable to achieve the budgeted target of effective revenue deficit, which slipped to 1.9 *per cent* from budgeted level of 1.6 *per cent*.

In FY 2014-15 certain transactions, such as misclassification of expenditure, accruing of one time receipts, short transfer of levies/cess to the designated funds, non-recognition of losses in the operation of National Small Savings Fund (NSSF), short assignment of net proceeds to States, and unpaid expenditure on subsidies, had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder. Likewise, the liabilities of the Union Government had also been understated due to non-inclusion of investments made out of NSSF collections in State Government Securities and India Infrastructure Finance Company Limited; investment of Post Office Insurance Fund with private fund managers; and accumulated deficit (loss) in the operation of NSSF.

Financial indicators are the benchmark to review the compliance of fiscal consolidation process as envisaged under various provisions of the FRBM Act. Computation of financial indicators by not factoring in above transactions had a bearing on the accuracy, completeness, and transparency in the financial performance of the Government.