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.

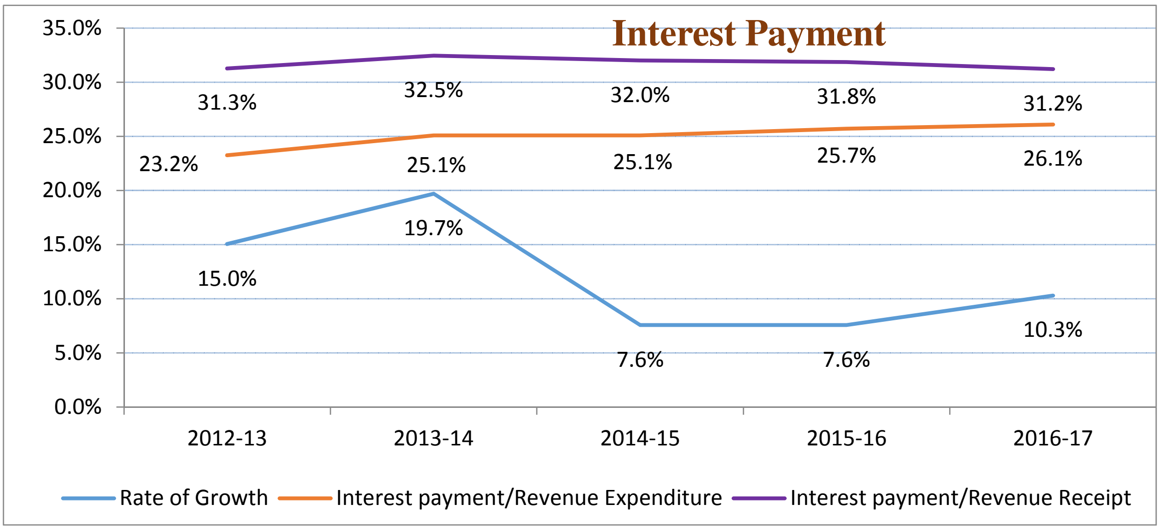
Further, subsidy reforms are underway and measures such as Direct Benefit Transfer of subsidy, decontrol of petrol/diesel etc. are being taken up.

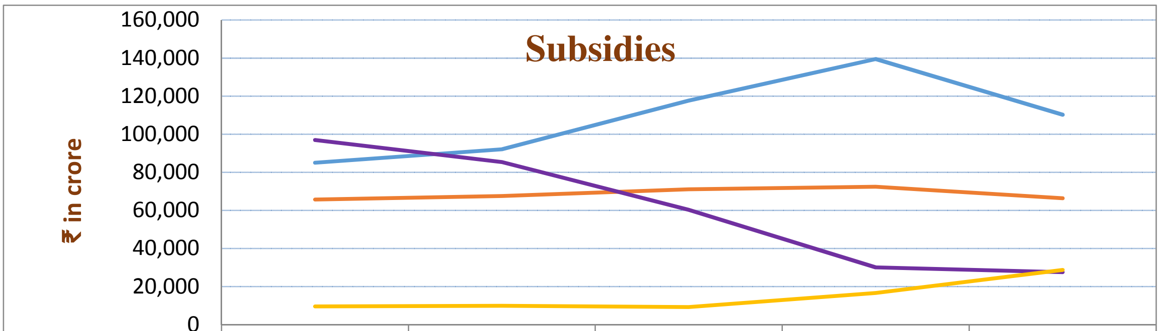
The Ministry also maintained that interest payment as a per cent of revenue receipts is on a downward trajectory showing the Government's sustained commitment towards fiscal discipline.

4.2.1 Trends of Major Revenue Expenditure

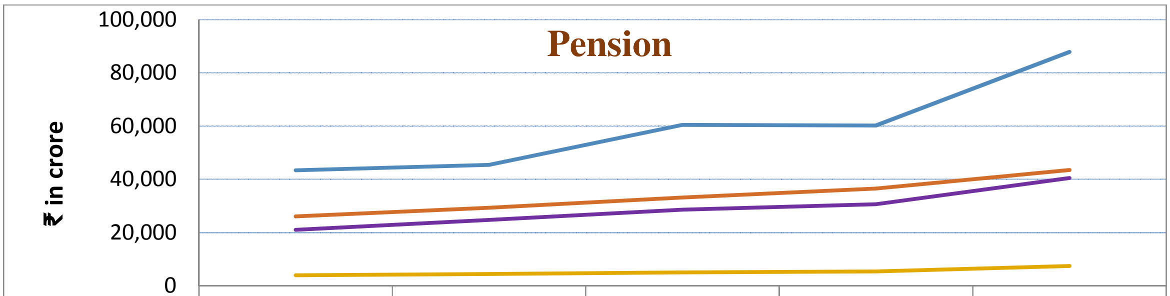
Graph 4.1 presents analysis of trends of interest payments, subsidies and pension expenditure of the Union Government. Graphical presentation of expenditure on pensions include pension expenditure incurred by Civil, Defence, Railways and Posts.

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



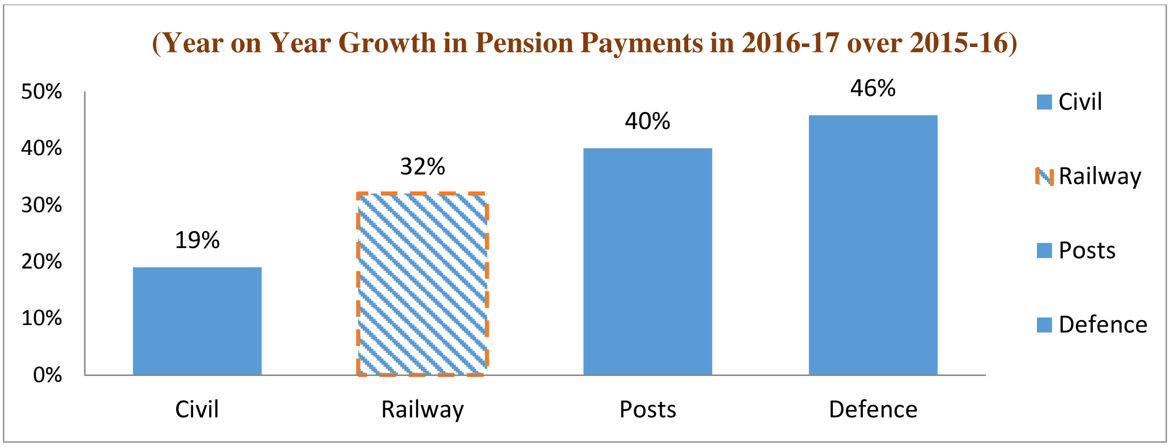


	2012-13	2013-14	2014-15	2015-16	2016-17
Food	85,000	92,000	117,671	139,419	110,173
Fertilizers	65,708	67,465	71,090	72,416	66,313
Petroleum	96,880	85,378	60,269	29,999	27,539
Others	9,591	9,902	9,269	16,637	28,777



	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.***