

# 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
<b>Target</b>	<b>2.1</b>	<b>3.3</b>	<b>0.9</b>
<b>Achievement</b>	<b>2.1</b>	<b>3.5</b>	<b>1.0</b>

## 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.*