

# CAG Audit Report Summary

## Compliance of the Fiscal Responsibility and Budget Management Act, 2003 for the year 2016-17

- The Comptroller and Auditor General (CAG) of India submitted its report on compliance of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 for the year 2016-17 on January 8, 2019. The FRBM Act requires the central government to ensure responsible fiscal management and long-term stability. The Act also requires the government to ensure prudential debt management through limits on borrowings, debt and deficits. Key observations and recommendations of the CAG include:
  - **Off-budget financing:** The CAG observed that the central government has increasingly resorted to off-budget methods of financing to meet its expenditure requirements. Off-budget financing refers to the government's finances which are not accounted for in the budget documents. These off-budget methods are outside the budgetary control and thus, parliamentary control. Such methods are used to finance capital investments, as well as revenue expenditure, such as payment of dues of subsidies. The CAG noted that the quantum of such off-budget borrowings is huge, and remains beyond calculation of fiscal indicators.
  - **Revenue expenditure:** Due to insufficient budgetary allocations, dues of some subsidies are carried over to the subsequent financial years. Doing so understates that particular year's expenditure by keeping deferred expenditure off the budget, and prevents transparent depiction of fiscal indicators. Such an arrangement defers committed liability or creates future liability, and increases the cost due to interest payments. For instance, the carryover liability due to deferment of payment of dues of fertilizer and food subsidies at the end of 2016-17 amounted to Rs 1.2 lakh crore. Also, carryover liability due to dues of food subsidy has increased by 350% during the period 2011-17.
  - **Capital expenditure:** The CAG observed that the government uses off-budget financing for capital expenditure as these methods provide flexibility in meeting requirement of capital intensive projects. For instance, off-budget borrowings undertaken by the Indian Railway Finance Corporation (to finance railway projects) and the Power Finance Corporation (to finance power projects) amounted to Rs 3.05 lakh crore at the end of 2016-17. The CAG noted that off-budget borrowings put major sources of funding of crucial government infrastructure projects outside parliamentary control. Such borrowings are given on the basis of the government's implicit or explicit guarantee, and pose a fiscal risk. It recommended that a policy framework should be formulated for deployment of such borrowed funds, considering the cost of borrowing and the potential of returns from investments, especially for off-budget borrowings.
- **Disclosure on off-budget financing:** The CAG noted the current policy framework lacks transparent disclosures and management strategy for off-budget financing. It recommended that the government should formulate a policy framework, which should include disclosure to Parliament, among other things. This disclosure should provide details of off-budget financing undertaken in the year by all organisations substantially owned by the government. Such details include: (i) rationale and objective of off-budget financing, (ii) quantum of such financing, (iii) budgetary support under the same programme or scheme, (iv) instruments and sources of financing, and (v) means and strategy for debt servicing.
- **Mid-year review:** The CAG observed that the Act requires the government to review the receipts and expenditure trends on half-yearly basis, take corrective measures for achievement of targets and appraise Parliament of such corrective measures. Accordingly, the government has fixed mid-year benchmarks for review of fiscal deficit and revenue deficit, which are given as a percentage of that year's budget estimates. The CAG observed that these mid-year benchmarks for review have been increased from 45% in 2004 to 60% in 2013, and to 70% in 2015. It noted that these revisions have been made over the years without giving specific reasons for the same.
- Further, in comparison with the 70% mid-year benchmark, fiscal deficit and revenue deficit at the end of the first half of 2016-17 were at 84% and 92% of the budget estimates, respectively. It noted that specific areas of expenditure and receipts responsible for these breaches, and specific corrective measures being taken were not specified in the government's statement to Parliament. The CAG recommended that (i) mid-year benchmarks should be realistic, (ii) mid-course corrections should enable achievement of year-end targets, and (iii) corrective steps being taken should be disclosed transparently to Parliament.
- **Cess:** The CAG observed that revenue from levy of cesses is collected in the Consolidated Fund, and then transferred to designated funds in the Public Account, where each fund is earmarked for utilisation towards specific purposes for which the cess is levied. The CAG noted that cess revenue of Rs 31,156 crore in 2016-17 was not moved to the designated funds in the Public Account. Since these funds were not spent for the specified purposes, this indicates that cesses are being levied without corresponding expenditure requirements or with no capacity to spend the funds. It recommended that such specific purpose or cess funds should not be kept in the Consolidated Fund.

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