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MINISTRY OF FINANCE

(DEPARTMENT OF ECONOMIC AFFAIRS)

STRUCTURAL CHANGES IN UNION BUDGET

COMMITTEE ON ESTIMATES

(2016-2017)

TWENTY FIRST REPORT

(SIXTEENTH LOK SABHA)

LOK SABHA SECRETARIAT

NEW DELHI

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COMMITTEE ON ESTIMATES

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STRUCTURAL CHANGES IN UNION BUDGET

Presented to Lok Sabha on 09.12.2016.

LOK SABHA SECRETARIAT

NEW DELHI

December, 2016/ Agrahayana, 1938(S)

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COMPOSITION OF THE COMMITTEE ON ESTIMATES (2016-17)

Dr. Murli Manohar Joshi – Chairperson

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4. Shri George Baker
5. Shri Kalyan Banerjee
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22. Shri Bhagirath Prasad*
23. Shri Konakalla Narayan Rao
24. Md. Salim
25. Shri Arvind Ganpat Sawant
26. Shri Jugal Kishore Sharma
27. Shri Gajendra Singh Shekhawat
28. Shri Anil Shirole
29. Shri Rajesh Verma
30. Shri Jai Prakash Narayan Yadav

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*Elected *vide* Lok Sabha Bulletin Part-II No. 3908 dated 28.07.2016 vice Shri Arjun Ram Meghwal appointed as Minister.

SECRETARIAT

1.	Shri Devender Singh	-	Additional Secretary
2.	Shri Vipin Kumar	-	Director
3.	Shri Srinivasulu Gunda	-	Additional Director
4.	Shri Vijay Bhaskar	-	Senior Committee Assistant

INTRODUCTION

I, the Chairperson of the Committee on Estimates (2016-17) having been authorized by the Committee to present the Report on their behalf, present this Twenty First Report on 'Structural Changes in Budget' pertaining to the Ministry of Finance (Department of Economic Affairs).

2. The Ministry of Finance (Department of Economic Affairs) vide their OMs dated 07.10.2016 and 10.10.2016 proposed certain structural changes in Union Budget from the ensuing Budget for 2017-18 including removal of Plan and Non-Plan classification and merger of Railway Budget and Union Budget. Ministry of Finance sought the approval of the Committee on Estimates for removal of Plan and Non-Plan classification in Budget. Keeping in view the wider ramification for general public and public finance, Committee on Estimates (2016-17) also deemed it fit to examine the issue of merger of Railway Budget and Union Budget. The proposed structural changes in Budget aim for efficient management of Public Expenditure as recommended by various Committees and 2nd Administrative Reforms Commission. The Committee on Estimates (2016-17) took oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs and Department of Expenditure) and Ministry of Railways (Railway Board) on 25th October, 2016.

3. The Report on the subject was considered and adopted by the Committee at their sitting held on 07 December, 2016.

4. The Committee wish to express their thanks to the representatives of the Ministry of Finance (Department of Economic Affairs and Department of Expenditure) and Ministry of Railways (Railway Board), who appeared before them and placed their considered views on the subject. The Committee also wish to thank them for furnishing the information required in connection with the examination of the subject.

NEW DELHI;
7th December, 2016
Agrahayana 16, 1938 (Saka)

Dr. MURLI MANOHAR JOSHI,
CHAIRPERSON,
COMMITTEE ON ESTIMATES.

PART-I

Report

Introduction

One of the principal functions of the Estimates Committee is to suggest the form in which the estimates shall be presented to Parliament. Article 112 casts an obligation on the President to cause to be laid before both the Houses of Parliament an Annual Financial Statement of the estimated receipts and expenditure of the Government of India for that year, popularly known as 'Budget'.

1.2. Rule 204 (2) of the Rules of Procedure and Conduct of Business in Lok Sabha stipulates that Budget shall be presented to the Lok Sabha in such form as the Finance Minister may, after considering the suggestions, if any, of the Estimates Committee, settle.

1.3. The Ministry of Finance (Department of Economic Affairs) *vide* their OM No. F.1(23) –B (AC) /2016 dated the 7th October, 2016 **(Annexure-1)** submitted that the cabinet had, at its meeting held on the 21st September, 2016, approved, *inter-alia,* the proposal of the Ministry for merger of Plan and Non Plan classification in Budget and Accounts from Budget for 2017-2018. The plan and non-plan distinction will accordingly be done away with from the Union Budget from Budget 2017-2018, as announced by the Finance Minister in the Budget Speech of 2016-2017 and accordingly sought the approval of the Estimates Committee for the Change in the Format of Statement of Budget Estimates/ Demands for Grants and Detailed Demands for Grants as per the dummy copy of Demands for Grants and Detailed Demands for Grants submitted to the Committee. The Ministry also sought the approval of the Committee on Estimates for the removal of Plan and Non Plan classification in Budget.

1.4. The Ministry of Finance (Department of Economic Affairs) *vide* their OM no. 8(7)-B(AC) /2016 dated the 10th October, 2016 **(Annexure-II)** intimated the Lok Sabha Secretariat that the Ministry of Finance proposes to make the following three **structural changes** in budget presentation from the ensuing budget for 2017-18:

(i) Merger of Railway Budget with Union Budget

(ii) Advancement of date of presentation of Union Budget in Parliament

(iii) Removal of Plan – Non Plan classification in Budget and Accounts.

1.4.1 The details of the presentation of first five General Budgets which includes Railways are as follows:

Sl.No	Budget for the year	Date of presentation in Legislative Assembly
01	1921-22	01.03.1921
02	1922-23	01.03.1922
03	1923-24	01.03.1923
04	1924-25	29.02.1924
05	1925-26	20.02.1925 (Railway Budget) 28.02.1925(Union Budgert)

1.5. The Ministry of Finance (Department of Economic Affairs) *vide* their above OM further informed that the Cabinet at its meeting held on the 21st September, 2016 approved the above proposals of the Ministry except the decision on the date of Budget presentation.

1.6 A scrutiny of the dummy Demand for Grants shows at length the manner in which both the Budgets will be merged and consolidated into a single Budget consisting of 100 Detailed Demands For Grants. The dummy Demands for Grants show that the 16 Demand for Grant of the Railway have been merged into one single Demand for Grant and numbered as DFG no. 80. Since, the issue of merger of Railway Budget and Union Budget is an issue having wider ramifications for the general public and Public finances, the Committee deem it fit to examine this subject also.

1.7 Article 112 & 113 of the Constitution prescribes the procedure with respect to the Annual Financial Statement and estimates to be submitted to the Parliament as under:

112. Annual financial statement

(1) The President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year, in this Part referred to as the annual financial statement

(2) The estimates of expenditure embodied in the annual financial statement shall show separately

(a) the sums required to meet expenditure described by the Condition as expenditure charged upon the Consolidated Fund of India; and
(b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund of India, and shall distinguish expenditure on revenue account from other expenditure

Art.113(1) So much of the estimates as relates to expenditure charged upon the Consolidated Fund of India shall not be submitted to the vote of Parliament, but nothing in this clause shall be construed as preventing the discussion in either House of Parliament of any of those estimates (2) So much of the said estimates as relates to other expenditure shall be submitted in the form of Demands for Grants to the House of the People, and the House of the People shall have power to assent, or to refuse to assent, to any demand, or to assent to any demand subject to a reduction of the amount specified therein (3) No demand for a grant shall be made except on the recommendation of the President."

Merger of Railway Budget with General Budget.

2.1 By 1920s, there were widespread and frequent complaints about inadequacy of the railway system to meet the needs of the country. To address these issues, when the renewal of the management contract of East India Railway Company became due in 1919, the then Secretary of State decided to appoint an expert Committee headed by Sir William Acworth to examine the entire Indian railway system and suggest measures for reforms and reconstruction of the railway administration in India.

2.2. The Acworth Committee submitted their findings in 1921. Among many suggestions to reorganize and reform Indian Railways, the Acworth Committee recommended separation of railway finances from general finances of the Government of India. The railway budget was separated from the Union budget of India after a resolution was passed by the Legislative Assembly on 20 September 1924. The passing of the resolution is known to Separation Convention. With the passing of Separation Convention, the first Railway budget was presented for the year 1925-26 on 20.02.1925.

2.3 The Ministry of Finance (Department of economic Affairs) *vide* their OM no. F.1 (23)-B(AC) /2016 dated 19th October, 2016 submitted a note on dispensing with the railway budget prepared by Shri Bibek Debroy and Shri Kishore Desai, Member and OSD respectively of NITI Aayog.

2.4.1 Why a separate Railway budget has not worked, the note states *inter-alia* as under:

"An indirect outcome of having an independent Railway Budget is that the Budget presentation getswidely followed, discussed and debated by media, analysts and critics, as well as the common public (read users). Precisely because ofthis visible national attention,the Railway Budget started becoming more a political platform to project a "populist", "pro common-man" image of the Government of the day, ratherthan as a tool to address the Railways' fundamental concerns. The Railways kept bearingfinancially unviable pressures from public representatives (Members of Parliament etc.)- new train routes, increasing stops of existing trains, granting sops, resistance to increasing faresand so on –and this has significantly eroded the financial situation over the years."

2.4.2 Maintaining that a Separate Railway Budget neither addressed Railways' Funding requirement, nor made it accountable for delivery, the note states that:

"Full financial autonomy through a separate Budget *per se* neither enabled Governments to adequately fund Railways' systemic requirements, nor made Governments accountable to implement the Budget commitments in a time-bound manner.

Let's look at the problem of under-investment first. The basic intent of separating the Railway Budget was to ensurethat Railways wereadequately empowered to fund capital investments and working expenditure requirements and were not dependent on the general finances for needs. It is therefore ironical that despite having a separate budget, the Railways remained under-invested. Let's look at some facts to understand the impact of this under-investment.

a) The White Paper on Indian Railways released in February 2015 states that since Independence, while Railway freight loading grew by 1344% and passenger kilometers by 1642%, route kilometers grew merely 23% and multiple route length grew by 289%.

b) Such growth patterns resulted in large scale congestion of the system, thereby severely impacting the quality of services and safety.The congestion of the system is such thataround40% of entire sections in the Railways and 65% of sectionson the High Density Network are running at 100% or above Line capacity.[1] This impairs the capability of Railways to deliver quality services that the public expects and also makes the Railway system prone to safety-related risks. The map below shows pictorially sections of Railways across the country running at 100% or above line capacity.

Announcements in Railway Budgets did not ensure time-bound implementation of Railway projects.Some observations submitted under Report No. 48 of 2015 by the Comptroller and Auditor General of India (CAG) are noteworthy[2]:

a) Out of 442 ongoing projects, targets for completion of projects were fixed for only 156 (35 per cent) projects. Even after fixation of targets, there was time overrun up to 16 years. Delay in completion of projects resulted in cost overrun of Rs 1.07 lakh crore and throw-forward of Rs 1.86 lakh crorewith respectto 442 ongoing projects. Audit observed that 75 projects were ongoing for more than 15 years and of these, three projects were 30 years old.

b) While the allotment of funds was not proportionate to the requirements, there were several instances of under-utilisation of funds, which had adverse impact on the physical progress of projects.

c) Out of 11 National Projects, three projects were ongoing for more than 17 years and the remaining eight projects were ongoing for periods ranging from 4 to 11 years. Physical progress of seven national projects ranged between 0 and 34 per cent and the original cost of these seven projects increased substantially from Rs. 7651.23 crore to Rs. 20313.75 crore (265 per cent).

Another much publicised case in point is that of the rolling stock manufacturing factory projects on PPP basis at Marhowra and Madhepura, which though they were announced in the Budget for 2006, could only be implemented in 2015.

Various factors may have contributed to the problems listed above, but it is reasonably clear that the system of having a separate Budget for the Railways has really not worked for the Railways in the manner it was intended to. In fact, quite to the contrary, it has ended up seriously impairing the Railways ecosystem.

2.5 Maintaining that the extant constitutional / legal provisions do not mandate a separate railway budget, the note states that:

> "The Constitution vests "the power over the purse in the hands of chosen representatives" by providing that "no tax shall be levied or collected except by authority of law, no expenditure can be incurred except with the authorization of the Legislature; and President shall, in respect of every financial year, cause to be laid before Parliament, "Annual Financial Statement".
>
> Article 112 of the Constitution mandates the Government of India to lay before the Parliament a statement of the estimated receipts and expenditure for a Financial Year, commencing on April 1st every year. This statement is known as the "Annual Financial Statement" and is alternatively referred to as the Union Budget of India or the General Budget. Article 266(1) of the Constitution requires "all revenues received by the Government of India, all loans raised by the Government by issue of treasury bills, loans or Ways and Means advances and all moneys received by the Government in repayment of loans to form one consolidated fund to be titled the "Consolidated Fund of India". No moneys out of this Fund can be appropriated except in accordance with the law and for the purposes and in the manner provided in the Constitution".
>
> While the Parliament processes and passes every financial act of all the Ministries of Government of India, the Constitution ***does not*** mandate or require separating the Railway Budget (with Ministry of Railway being a Department/Ministry of the Government of India) from that of other Ministries/Departments within the Government.
>
> Presently, the Union Budget is presented to the Parliament in two parts: a) *Railway* Budget pertaining to Railway Finances (typically presented two days before the General Budget); and b) *General Budget* which gives an overall picture of the financial position of the Government of India, including the effect of the Railway Budget. This means that though the Railway Budget is presented and dealt with separately in Parliament, the receipts and expenditure of the Railways are anyway part of the overall Consolidated Fund of India and hence included in the 'Annual Financial Statement'.
>
> **The Railways Act, 1989**
>
> The Railways Act 1989 grants a wide range of powers to the Government of India for efficient administration of the Railways, including the power to fix rates/tariffs for passengers and freight. The Government **does not** need an approval from Parliament to exercise the powers derived through various provisions of this Act."

2.6 As the Constitution does not mandate the Government to present a separate Railway Budget, this practice essentially creates an unnecessary political (legislative) and bureaucratic (executive) process. The note further states that

> "While there is no standard format or template, a Railway Budget generally contains the following:
>
> a) Past year's financial performance (revenue and expenditure accounts)
> b) Past year's operational performance (electrification, doubling, freight loading etc.)
> c) Budgeted year's financial estimates/targets (revenue and expenditure accounts)
> d) Budgeted year's operational targets (electrification, doubling, freight loading etc.)
> e) Passenger/Freight tariff announcements
> f) New train or new route announcements
> g) Policy/Strategic initiatives
> h) Investment announcements (new factories etc.)
> i) Vision statements
> j) Strategic targets/Missions
>
> Except for items a) and c) above, technically all other items can be announced through Annual Reports, Outcome Statements to the People, Vision documents or policy announcements, as is being done by other Ministries in the Government. On item e), the *Railway Act 1989*[3] empowers the Government to decide on tariff matters and the Government does not need an approval from Parliament for this. Items a) and c) are anyway included in the Union Budget as part of the Annual Financial Statement.
>
> Therefore from a bureaucratic and political process perspective, the Railway Budget has infact led to "more Government" without any increase in "Governance".

2.7 As mentioned elsewhere in the report that the Cabinet at its meeting held on 21st September, 2016 approved the Ministry of Finance‘s proposal for merger of railway budget with the general budget (Union)

2.8. The broad features of merger of railway Budget with general budget as provided by the Ministry of Finance are as follows:

(a) Merger of Railway Budget with General (Union) Budget:

(i) The merger of Railway Budget with General Budget is based on the recommendations of the Committee headed by Shri Bibek Debroy, Member, NITI Aayog and a separate paper on 'Dispensing with the Railway Budget' by Dr. Bibek Debroy along with Shri Kishore Desai;

(ii) A Committee with representatives from Ministry of Finance and Ministry of Railways examined the issues and worked out the procedural details;

Proposed arrangement

(iii) Ministry of Railways will continue to function as a departmentally run commercial undertaking;

(iv) Railway will meet all their revenue expenditure, including ordinary working expenses and pay and allowances, pensions payable to employees, from their revenue receipts;

(v) Railways will get exemption from payment of dividend to General Revenues and its capital-at-charge would stand wiped off;

(vi) Ministry of Finance will provide Gross Budgetary Support to Ministry of Railways towards meeting part of its capital expenditure;

(vii) Railways may continue to raise resources from market through Extra-Budgetary Resources as at present to finance its capital expenditure;

(viii)With the capital-at-charge wiped off and need for dividend payment by Railways to General Revenue being done away with, the subsidy payment to Railways (towards dividend relief and other concessions, including reimbursement of losses on operation of strategic lines) will be discontinued;

(ix) All consessional railway passes provided to various categories of concessionaires will required to be linked to Aadhar number;

(x) A separate Statement of Budget Estimates and Demands for Grants will be created for Railways;

(xi) A single Appropriation Bill, including the estimates of Railways, will be prepared and presented by Ministry of Finance to Parliament and all legislative work connected therewith be handled by Ministry of Finance.

2.9. Responding to a query of the Committee as to which ministry initiated the merger proposal, Secretary, Department of Economic Affairs (Ministry of Finance), replied that –

> "Finance Minister received a letter from Rail minister in this regard and we initiated action on it"

2.10. The practice of having separate railway budget which has been in vogue since 1925-26 is proposed to be reversed. In response to a query as to whether the Ministry of Finance think the time has come for the Railways to be put under the control of the Finance Ministry or do they think that autonomy and flexibility are not required for that, Secretary , DEA submitted that -

> "We can explain the rationale behind this decision. In that context, I will definitely address the point which you have mentioned. The functional autonomy of Railways will not be interfered with. The Railways will continue to exercise and enjoy its functional autonomy.".

2.11 In response to a further query whether such functional autonomy is possible without financial autonomy, Secretary, DEA replied-

> " I will come to that. The Chairman of the Railway Board, the individual Members, the General Managers, whatever delegation of financial powers they are having now, they will continue to enjoy those financial powers. Today they are presenting 16 Demands in the Railway Budget and those 16 Demands, from 1 to 15 they are basically revenue major heads and the 16th Demand is the capital major head. Now what will happen is that instead of 16 Demands, the entire Railway allocations will become a single Demand and that will form part of the General Budget,

> that is, with regard to the form of presentation of the Budget before the Parliament.''

2.12 . Responding to a query whether the overall allocation of funds will be made by the Ministry of Finance and the Railways will not be in a position to independently say that this is ours, , Secretary , DEA stated as under:

> "As the hon. Member has pointed out, the Railways earn revenues through passenger fares and freight tariff. So the details of the Railway Budget will continue to be prepared by the Railway Ministry. The details of the Railway Budget will be prepared. What will happen is that it will form part of the General Budget. In no way the functional autonomy or the financial autonomy or other powers exercised by the Railways will be interfered with."

2.13. Responding to the apprehension of the Committee that merger of railway budget with general budget might curtail the time available for discussion on the state of railways and undesirability of such result as it is a platform to put forward the expectations of the general public by Members of Parliament (MPs), Finance Secretary submitted as follows:

> "Sir, very respectfully, I would like to submit that in the decision to merge the Railway Budget with the General Budget, nothing more should be read except the merger of the Budget. I do not think that the Government has said anything more than the decision that it has been decided to merge the Railway Budget with the General Budget."

2.14. Replying to an apprehension of the Committee that such a merger might give an upper hand to the Ministry of Finance to deny /curtail the quantum of funds sought by the railways, Finance Secretary submitted as under :

"Sir, the Government of India has been always supporting the Railways. You would know that every year, there is a budgetary support, which is provided to the Railways for incurring expenditure on infrastructural development. This supplements whatever Railways can set apart, after incurring its expenditure whatever they can set apart as surplus for incurring on capital expenditure.

"Very rightly, Sir, you have raised the issue of dividend. If you look at the statistics, so far, the Government of India, through the General Budget, would have provided something like Rs. 2,66,000 crore to the Railways for development of infrastructure. The so-called dividend, which is talked about, the percentage of that dividend, which is actually an interest on the capital-at-charge, is decided by the Railway Convention Committee. Last year, it was four per cent. Even this capital-at-charge, which is Rs. 2,66,000 crore, the dividend is not paid on the entire capital. There is some part of this capital, which is free of dividend.

2.15 When reminded of the social and strategic role of the Railways in the national perspective, Finance Secretary deposed:-

"The Government has said that it will continue to provide whatever resources it can afford and which are required by the Railways for undertaking developmental works. The fact that Railways is a commercial organisation, the fact that it provides social services, that fact that it provides services for strategic operations, all those facts have been recognised and will continue to be so. Every year, whatever support is given to the Railways, the dividend which is paid by the Railways, more than half of it is ploughed back into the Railways by way of giving them relief on these social service obligations. In this decision, the Government has said that the way the Railways plan their operations, the way the Railways plan fares, how they undertake commercial operations, none of that is being affected by this decision. The functional autonomy of the Railways, the administrative independence of the Railways, project approval systems will continue to be the way it is so far. No decision has been taken by the Government pertaining to these areas."

2.16. Responding to Committees' apprehension of the likelihood of scenario where in, the lack of funds leading to failure of railways in providing efficient service to the public , may make finance ministry to disown the same and desirability or otherwise of such a possibility , the Secretary , DEA replied that-

"Sir, if I can submit? Both the Railways and the Finance Ministry are part of the Government. We are part of the same system. It is not as if the Finance Ministry is acting independently of the Government and the Railways is acting independently of the Government. Both of us are part of the Government. Ultimately, no Government can afford to ignore the requirements of the Railways. What the Railways will now do is that their entire Budget, the detailing will be done by the Railways. The Railways will prepare the projections of their fare revenue, freight revenues for the next year. They know how much revenues they are getting. They will plan their allocations. They will plan their allocations for capital expenditure, for revenue expenditure. For capital expenditure, as we have been giving year after year, the general revenues, that is, we will continue to give them grass budgetary support.

2.17. On the mention of the liability of the Railways to pay dividend to the Government of India, and the budgetary support being extended by the Union Government to the Railways, the Secretary, DEA , submitted further as follows:

"The Government has also agreed to give up the claim on dividends. From now on, Government is not going to ask for dividend payment by Railways. So, even the four per cent dividend, which the Railways were paying, now the Railways will not be required to pay that dividend which means to that extent more money will be available with Railways to spend on their requirements. The system of gross budgetary support for Railways' capital expenditure will continue. The entire detail planning of the Railways, the allocation of resources of the Railways, the Railways will prepare it. They will bring it to the Finance Ministry and all that the Finance Ministry will do is to insert that into the Demands for Grants of the General Government. There will be common Demands for Grants which is presented before the Parliament. It will be included in the Demands for Grants. The key highlights of that will be included in the expenditure budget volume II. The Railways will present the details of their allocation in their detailed Demands for Grants. Therefore, Railways will continue to take the gross budgetary support. Railways will not be required to pay any dividend, which means, they will get another Rs. 4,000 crore or Rs. 5,000 crore extra every year. Their functional autonomy, their budgeting autonomy, their financial autonomy, whatever powers they are enjoying today will continue."

2.18. In response to a query as to whether the merger would result in increasing the workload /burden of Ministry of Finance and impact on the efficiency and transparency of the Ministry, the Secretary, DEA submitted as follows:

"Sir, even in the present arrangement, the annual budget of the Railways comes to the Finance Minister for approval. Even now it used to come. Every year, it comes. A few days before the Budget, then in the Finance Ministry we examine the Railway Budget and then the Finance Minister sends it back with his approval and a series of observations conveyed to the Railway Ministry for future action. All that we are trying to achieve now is that we have to have rightly read out why this decision was taken. One of the reasons for taking this decision in 1924, two reasons in fact, one which you have read out is that Railway is need to be an independent commercial undertaking that status of Railways is not altered. That status continues. Another reason which was considered that time, Sir, at that time, the Railway Budget used to generate surplus and the Railway was contributing to the General Budget. The surplus money from the Railways was coming to the General Budget".

2.19. Explaining the volume and size of the General Budget vis-a- vis, the Railway Budget and the need for securing the financial autonomy of the Railways, The Secretary, DEA deposed:

“Today, over the last so many years, several decades later, the position has completely undergone a change because the General Budget is much larger. Our Budget is about Rs. 19,78,000 crore. It is about Rs. 20 lakh crore whereas the Railway budget is about Rs. 2 lakh crore. Today, we do not have that situation where the Railways can generate surplus which can be given to the General Budget and Railways have their own requirements for investing more in track development or in track widening and in other kinds of capital expenditure. So, the two basic considerations which were kept in the view by the Acworth Committee – one, a commercial undertaking and autonomous commercial wing of the Government that continues and the second objective has become irrelevant in today’s context. Therefore, there was no reason as to why a separate budget will remain. With regard to time allocation, etc., for discussion, that is for the Business Advisory Committee of the Parliament to decide as to how much time they want to allocate. From the Finance Ministry’s side, I will just complete by saying with all humility and respect to the hon. Committee that it is not our intention and I emphasis on the word ‘not’ to undermine the functioning and working of the Railways in any manner. Our role has always been and will continue to be not only supportive but also more supportive to the functioning of Railways. It is because we realise the multi-model transport development in the country whether it is road sector development or inland water development and more than these two, Railways have a bigger role to play, so we will continue to be supportive to the requirements of Railways.”

2.20. The Committee then took the evidence of representatives of Ministry of Railways on **25 October, 2016** on the subject merger of railway budget with General Budget.

2.21. Referring to the Ministry of Finance's submission that the proposed merger of Railway Budget with General Budget is at the initiative of the Ministry of Railway, the Committee sought the details of such a rationale and the advantages / disadvantages to railways and the efficiency , economy and transparency that it may bring, Chairman, Railway Board, submitted as under:

> "Whatever points you have raised about the merger of Union Budget and Rail Budget are important and valid. I want to give some clarification from my side. You have asked that whose initiative was it? I want to clarify that Bibek Debroy Committee spoke about the railway restructuring. There were 8 to 10 Members in the Committee and many of them were economists. They have recommended the restructuring of Railway Board and Railway Finances. Merger of Union Budget with Rail Budget was also one of the recommendations. We received this report last year. The Committee was formed in somewhere 2014 and recommendations were received last year. One of their recommendations was that a separate railway Budget has lost its relevance over a period of time and it is high time that it should be merged with the General Budget. This year a concept paper was prepared by Niti Aayog on this subject. This was not an initiative of the Railway Ministry. The concept paper was prepared by Bibek Debroy and Kishore Desai and they submitted it to Finance Ministry and PMO. Comments of the Railway Ministry were sought on that. We said that we have no objection to the merger of Railway Budget with Union Budget subject to certain conditions. The financial autonomy of railway should be kept intact. Railway has a duel role of commercial entity and social obligation. As on date our costing as inter mingled. We tried to work out that what is our public service social obligation but it's costing is not done very scientifically. We need to make

it scientific. We need to deal its commercial business as per our internal efficiency benchmark. Social obligation costing should be funded from the general exchequer. We had given our consent with these concerns. It is not proper to say that it was an initiative of the Railway Ministry. We were asked our views and we submitted that we have no objection to this.

2.22. Responding to a query as to whether the Ministry of Railways got an assurance on the concerns mentioned in para 2.21 above, Chairman, Railway Board, appearing before the Committee on 25 October, 2016 submitted that –

"Sir, I would like to inform the hon. Committee that 'the Union Cabinet while approving the Budget had stated following arrangements. First, the Railways will maintain distinct identity as a departmentally-run commercial undertaking, retaining functional autonomy'. So, the functional autonomy and financial autonomy was part of this."

2.23. Responding to a query that it does not speak about **financial autonomy** , Chairman Railway board submitted that functional autonomy basically takes care of it.

2.24. Adding further, Chairmen, Railway Board, submitted that –

" As per the Cabinet decision, the existing financial arrangements will continue. The Railways will meet its revenue expenditure, including ordinary working expenses, pay and allowances and pension etc. GBS will continue. Presently also, they do not fund full capital expenditure of Railways. They fund only a part of the capital expenditure. We raise certain part by loan through bonds. Now, we have gone in for institutional financing through LIC etc. Whatever little surplus we generate, that is also used for capital expenditure. They said that the existing arrangement, which means that arrangement, will continue.

The direct relief given out of this was that there will be no dividend liability as far as Railways is concerned. Today, on the capital-at-charge, I am required to pay a dividend. That goes away. That was a direct benefit that was accruing to the Railways. The Ministry of Finance was to present one single Appropriation Bill including the estimates of the Railways. That is what exactly the Cabinet's approval is.

Regarding functional financial autonomy part, the Cabinet note had also said that whatever is the appropriate delegation for the Railways, as far as project approval etc. are concerned, that will continue. That meant that functional and financial autonomy of the Railways remains. The GBS, as they were giving earlier, also continues. The dividend goes away.

Since next is the first such Budget, this real merger will evolve over a period of time and the finer points of exact merger will be worked out in consultation with the Finance Ministry".

2.25. Responding to the query on the doubts that the railways have and the types of problems they anticipate, Chairman, Railway Board stated that-

"On the first sight, I do not think that we are going to lose anything on this. In fact, the Finance Ministry today, I think, washes off its hands on most of the issues saying that it is Railways' business. Now, they will have to own the responsibility for that".

2.26. In response to a query as to whether Ministry of Finance will have overall control since they are going to own the responsibility, Chairman, Railway Board submitted that:

"Sir, even today they have control. GBS is decided by them only. The cabinet note about railway revenue and expenditure says that the financial arrangement continues. My dividend liability is over. This is an advantage to me. I do not see any disadvantage at this point of time in the whole thing."

2.27. Responding to a query as to the savings occurring to dividend waiver, Chairman submitted that :

"Sir, this year dividend liability was 9500 crores. After adjusting subsidy for strategic lines and uneconomic branch lines ultimately the dividend liability is approximately 4 - 5 thousand crore".

2.28 The Committee also raised the concern that the merger of the budget may deprive the Members of Parliament of their right to participate in the Railway Budget, for instance as shown in table 2.28. Responding to the concern of the Committee, the Secretary DEA submitted that the matter fell in the domain of the House and the Business advisory Committee can suitably make time allocation.

Table 2.28 Participation of the MPs in Lok Sabha in the Discussion on Rail Budget

Sl. No.	Budget Year	Date(s) of discussion	No. of MPs participated in the discussion	Time Taken
1.	**2012**	**20.03.2012** **21.03.2012** **22.03.2012** **25.04.2012** **26.04.2012**	**70** **146** **07** **39** **07**	**22hrs. 33 Min**
		Total	**269**	
2.	**2013**	**07.03.2013** **08.03.2013** **11.03.2013** **12.03.2013** **13.03.2013** **30.04.2013**	**27** **24** **138** **18** **07** **--**	**15hrs. 59 min**
		Total	**214**	
3.	**2014**	**12.12.2013** **17.02.2014**	**--** **27**	**31 min**

		Total	**27**	
4.	**2015**	**11.03.2015** **12.03.2015** **21.04.2015**	**67** **171** **60**	**18 hrs. 19 min**
		Total	**298**	
5.	**2016**	**03.03.2016** **08.03.2016** **09.03.2016**	**46** **121** **36**	**15 hrs. 24 min**
		Total	**203**	

Merger of Plan and Non plan classification

3.1 The Ministry of Finance *vide* their OM dated the 7th October, 2016 stated that In order to work out the modalities and the framework for the implementation of the plan and non-plan merger in pursuance of the Budget announcement 2016-17, a working Group was constituted by the Finance Ministry. The Working Group consisted of officials from Ministry of Finance, representatives from the offices of the Controller General of Accounts, Comptroller & Auditor General of India and Finance Secretaries of 7 State Governments. Based on detailed deliberations and consultations, the Working group prepared a 'Guidance Note on Plan and Non-Plan Merger' which has been already circulated to all the State Governments and the Central Government/ Ministries.

Rationale for merger of Plan – Non Plan Expenditure

3.2 The Ministry of Finance, furnishing the rationale for such a move , in their Guidance Note on the subject, submitted that the budgetary classification system in a nutshell, provides a normative framework for both policy formulation and accountability. The classification of government budget, for continued relevance, should therefore reflect the need of the time. The changes in public expenditure management often govern the organization of the expenditure classification system, as the paradigms change from time to time. *The decision to merge Plan and Non-plan expenditure~~s~~ in the budgetary classification needs to be seen in this light of increasing irrelevance of the Plan-Non-Plan distinction on account of several factors including the changed administrative structure where the earlier Planning system needs to be replaced with alternative mechanisms.* Since the Planning Commission has been replaced by the National Institution for Transforming India (NITI) and the allocative functions relating to schemes is being performed by the Ministry of Finance, there is a need for a revised framework of public expenditure budgeting.

<u>Plan and Non Plan Distinction:</u>

3.3 The Plan and Non-Plan budget put together comprise the expenditure budget of the Government. The natural corollary of this budgetary practice is that while the Non-Plan envelope is based broadly on the requirement of the departments depending on the expenditure items that are more or less committed, the plan envelope is broadly based on the availability of resources. Since 1st April 1951, India had adopted the path of planning (Five Year Plans) to achieve rapid economic development. This is the last year of the Twelfth Five Year Plan which is due to end in 2016-17. In accordance with these Five Year Plans, the government expenditure is classified into plan expenditure and non- plan expenditure on the basic distinction of ***'whether or not it arises due to plan proposals'***.

Plan Expenditure

3.4. The extant expenditure classification system, includes any expenditure that is incurred on schemes/programmes which are detailed under the current (Five Year) Plan of the Centre or Centre's transfers to the States for their plans. Expressed alternatively, plan expenditure is that public expenditure which represents current development and investment outlays (expenditure) that arise due to proposals in the current plan. **Non-Plan Expenditure** on the other hand refers to the estimated expenditure provided in the budget largely for spending during the year on routine functioning of the government. Non- Plan expenditure is all expenditure other than plan expenditure of the government. Non Plan expenditure needs arise from the expenditure requirements on public delivery of services or the expenditure on normal running of government departments. The major part of the Non-plan expenditure is accounted for towards interest payments, subsidies, salary and pension payments, grants to States and Union Territory governments, police, current expenditure needs on economic and social services in various sectors, other general services such as cost of tax collection, grants to foreign governments, defence, expenditure loans to public enterprises, loans to States and Union Territories.

Major Issues relating to Plan/Non-Plan Distinction:

3.5 The distinction between plan and non-plan expenditure in the budgetary system was brought in when the country adopted a plan model of economic growth. The Ministry of Finance in a written note submitted that 'relevance and efficacy of such classification today, is a big question mark'. The government control and micro-management of the plan model has led to excessive focus on so called ‘plan expenditure’ with an equivalent neglect of items such as maintenance which is classified as non-plan. Expenditure management policies and strategies should normally ensure that every rupee budgeted is well spent- in such a way that it captures efficiency in expenditure, provides incentives to rationalize expenditure and is driven by need rather than by the spirit of incremental increases in allocation with regard to programme year on year. The total expenditure irrespective of revenue or capital, or plan or non-plan must generate value for the public. The Ministry however said "*The impression that more plan expenditure means more development and wellbeing for the public has turned out to be a misplaced assumption, in practice today.*"

3.6 Plan expenditure was expected to result in creation of income-generation opportunities in the future. With non-plan constituting 70-75% of the gross expenditure at the centre and the state levels and the plan revenue expenditure accounting for around 70% of the expenditure under plan head; keeping plan expenditure, under a separate accounting classification, has lost its relevance in this scenario and there is no relevance of a separate plan and non-plan classification in the budgetary system. Further, the plan process normally should lead either to creation of capital assets and the posts to aid such creation. Once the plan is over, the posts are shifted to the non-plan side of the budget. On the other hand, assets created in the earlier plans require maintenance expenditure. Due to the insufficient provisions for maintenance, these assets deteriorate. This is because maintenance is considered to be non-developmental expenditure. On the other hand, many old plan schemes also tend to assume new avatars subsequently, only to further enhance the size of the annual plans.

3.7 **Ministry of Finance submitted that th*e Administrative Reforms Commission (ARC) Report has also pointed out that, the Plan and Non-Plan divide runs too deep to give a comprehensive idea about resource availability to the departments at an early stage of budget development.*** The dichotomy between plan and non-plan in expenditures has been commented upon as an unnecessary development that has adverse effects on the quality of public services. Moreover, in order to find funds for the plans, over the years, a tendency has developed to view non-plan expenditure as far less important and subject it to cuts and economy measures, although many of them are vital in nature.

Lack of clarify between the Plan and Non Plan expenditure

3.8 The Ministry of Finance further submitted that the policy regarding what should get classified as plan expenditure and what should get classified as Non-Plan expenditure has lost clarity. Besides, a notion has widely gained ground among the policy-makers and officials across all levels that Plan expenditure is good and Non-

Plan is bad. This bias in favour of Plan expenditure and against Non-Plan expenditure has led to a situation in which essential Non-Plan expenditure like maintenance of assets is neglected. This has also led to a motivation for showing higher plan expenditure and higher plan sizes both at Central and State levels. Further, several factors such as shift of focus of plan expenditure from capital to revenue expenditure and the process of transferring expenditure of old schemes to Non-Plan at the end of each Five Year Plan means, that a clear correspondence cannot be drawn between plan and developmental expenditures. The Plan/Non-Plan bifurcation of expenditure has further, contributed to a fragmented view of resource allocation to various programmes/schemes. With this fragmented distinction, it is difficult not only to ascertain cost of delivering a service but also to link outlays to outcomes. Outcomes and outputs of programmes depend on total expenditure, Plan and Non-Plan put together and not merely on Plan expenditure. Plan and Non-Plan distinction in the budget is therefore, neither able to provide a satisfactory classification of developmental and non-developmental dimensions of Government expenditure nor an appropriate budgetary framework.

Major recommendations of the HLEC (Rangarajan Committee):

3.9 A High Level Expert Committee (C.Rangarajan Committee) set up by the erstwhile Planning Commission suggested the following measures for the efficient management of public expenditures;

(i) The classification of expenditure into Plan and Non Plan, although not rooted in the Constitution, has evolved with planning process. Over a period of time, several issues have cropped up from the distinction between plan and non-plan, making it dysfunctional and an obstacle in outcome based budgeting. **Therefore, this distinction should go for both Union and State Budgets.**

(ii) On removal of Plan/Non-Plan distinction in the Budget, there should be a fundamental shift in the approach of public expenditure management- from a segmented view of Plan and Non-Plan to holistic view of expenditure; from a one year horizon to a multi-year horizon; and from input based budgeting to the budgeting linked to outputs and outcomes. This shift to holistic view of expenditure would require, inter-alia changes in organizational structure, mandates and processes.

(iii) *Continuance of the Revenue-Capital classification; of which capital expenditure should relate to creation of assets and be determined by ownership criterion. While all transfers should be treated as revenue expenditure in accounts, an "adjusted revenue deficit" (adjusting the revenue deficit to the extent of grants for creating assets) may be considered only for FRBM compliance."*

<u>Views of Administrative Reforms Commission (ARC):</u>

3.10.1 The Administrative Reforms Commission (ARC), in their 14th Report have mentioned that the "Irrational 'Plan – Non-Plan' Distinction Leads to Inefficiency in Resource Utilization". ARC further elaborated that this distinction undermines the budget formulation process of the departments by bringing in complexity. The Five Year Plans prepared by the Planning Commission are indicative in nature and are operationalized through Annual plans. The schemes/projects to be undertaken in the Plan are indicated in the Plan documents and resources are made available in the annual budgets. However, if any new scheme/project is proposed by any Department, it requires 'in principle' approval from the Planning Commission and then financial resources are tied up in consultation with the Planning Commission. This requires detailed analysis of resource requirements and availability of funds for the existing schemes and if fund requirement exceeds the availability reprioritization exercise needs to be undertaken. The procedures are elaborate and time consuming thus leaving the individual Department with less flexibility in proposing new schemes.

3.10.2 The ARC therefore recommended that the plan versus non-plan distinction in expenditures needs to be abolished keeping in view its impact on budget development and public service delivery. The Departments should have the flexibility in formulating their budgets with prior indication of resource availability***.*** Just as Public Undertakings, Autonomous Bodies, Societies etc. are required to consider their resources as a whole and plan accordingly, the Departments should also be allowed to work out the committed resources and plan within overall allocations. It has recommended categorically in Para 4.13.4 that "The Plan versus non-Plan distinction needs to be done away with". Finance Commissions in the past have also repeatedly observed that the plan, non-plan dichotomy of expenditures results in several inefficiencies. Twelfth Finance Commission had observed that "considering a larger plan size as more development oriented and ignoring maintenance is not desirable and provides at best an optical illusion of development.

Abolition of Planning Commision

3.11 The framework for merger of Plan and Non Plan is broadly proposed to be implemented on the lines of HLEC and the ARC recommendations. However, the scenario has changed subsequent to the submission of the HLEC and ARC Reports and the same will need to be factored in while drawing up the roadmap for the merger of Plan and Non-plan. The Planning Commission has been replaced with the National Institution for Transforming India (NITI Aayog), and the responsibility of budgetary allocation now lies entirely with the Finance Ministry. Since there is no Planning Commission and there will be no Plan post the Twelfth Plan that culminates in 2016-17, separate allocation for Plan will not arise from 2017-18.

Rational for revenue and capital expenditure separation.

3.12.1 The Constitution requires revenue and capital expenditure~~s~~ to be shown separately in the budget. Article 112 (2) requires that- the estimates of expenditure embodied in the annual financial statement shall show separately – (a) the sums required to meet expenditure described by this Constitution as expenditure charged upon the Consolidated Fund of India; and (b) the sums required to meet other expenditure proposed to be made from the Consolidated fund of India, and shall distinguish expenditure on revenue account from other expenditure." The same provision is repeated in Article 202 for the State Governments.

3.12.2 Total expenditure of the central government therefore, comprises of revenue and capital expenditure. Revenue expenditure is expenditure incurred for purposes other than creation of assets of the central government. On the other hand, those expenditures of the Government which pertain to payments on acquisition of assets and loans and advances given by it, fall under the category of capital expenditure. The Fiscal Responsibility and Budget Management Act, 2003 also indicates these two components of expenditure in the Government – (a) the revenue expenditure and (b) those which result into increase in assets of the Government. The Constitutional requirement is also elaborately reflected in the financial rules (GFR 46, 79and 90) and in Government Accounting Rules (Rule 30).

3.12.3 The Ministry of Finance apprised the Committee that the separation of budget into revenue and capital sections is appropriate on several other considerations. It provides greater control over utilization of public debt and facilitates pursuance of the 'Golden Rule' which requires current account expenditure to be balanced with current revenue over an economic cycle with Government borrowings restricted for investments and not to pay for current expenditure items. Debt in general, reduces inter-generational equity and therefore, debt financing in theory is justified only to the extent that it creates assets with future streams of income. Even though difficult in the federal structure of Indian economy where a large part of the expenditure is incurred in the form of revenue transfers, even if meant for creation of assets, nevertheless, the revenue and capital distinction enables keeping a close focus on the quality of expenditure. It provides a framework for the best use of borrowed resources through greater care in selection and execution of schemes and projects.

3.12.4 A clear distinction between capital and revenue expenditures is therefore essential. This distinction is necessary for analytical purposes, transparency, and efficient policy decision-making. The distinction is fundamentally, important for the assessment of the operating costs of government and the investments made by it along with measuring the efficiency of government activities. Finally, developing a performance-oriented approach requires separation between running costs and capital expenditure~~s~~. The distinction between revenue and capital expenditure~~s~~ is therefore, not only a constitutional requirement but also an essential ingredient for policy formulation and efficient resource allocation.

Lack of focus on capital expenditure in the past.

3.13 Responding to a query as to why more focus on capital expenditure could not be given in the past, Secretary, DEA stated that:

> "Sir, I will explain why it could not be done. Every Government whether it is the Central Government or the State Government, there was always that compulsion to show a higher plan size. If I am permitted to use the word, there was obsession with plan. Every Government wanted to show higher plan expenditure as if by showing higher plan expenditure you are bringing in greater growth or greater development. Actually, it was not so. Now, once we remove the plan, non-plan classification we will be able to take a

comprehensive view of allocation of resources. Sir, in the earlier approach the Finance Ministry would finalise the non-plan allocation, then would give the envelop to the Planning Commission to distribute the plan resources. So, we were taking a fragmented view of our fiscal policy. Non-plan Finance Ministry was taking a view. The Planning Commission was taking a view on plan.

Sir, you have asked this question, now the Finance Ministry will do it. Yes, Sir, the Ministry will be able to take a comprehensive view of the expenditure requirements of a particular Ministry."

3.13.1 Replying to a query whether there is any need to revisit the classification/ definition of Revenue and Capital expenditure In the light of the proposed merger plan and non plan expenditure , Secretary , DEA stated that :

"Sir, these definitions are included in the GFR. In fact, I would like to submit that this is a very important area which you have flagged. If there are any views or suggestions which are given by the hon. Committee, we will welcome them.

3.13.2 Adding further, the Secretary, DEA , submitted as follows:

"For example, in the case of revenue expenditure, we have already introduced a category called grants for creation of capital assets. Let us take the example of Rural Housing Scheme. Under this Scheme, when we transfer resources from Centre to the State Governments, in our books it is classified as revenue expenditure but the money is actually spent in the State Government budget and they spent it for construction of rural houses. So, the end use of that money is creation of capital assets. So, we have already introduced a classification called grants for creation of capital assets. (p.18)

3.13.3 In their post evidence replies submitted, the MoF (DEA) further stated that-

''The distinction between revenue and other expenditure of the Government emanates from the provisions enshrined in Article 112(2) of the Constitution of India. The criteria for determining the nature of the expenditure as revenue or capital in nature have been laid down in Rule 30 and 31 of Government Accounting Rules, 1990 and Rule 79 and 90 to 92 of General Financial Rules. Both the rules lay down the principle that the revenue expenditure, which are essential for running an establishment and consumption in nature, should be distinguished from capital expenditure, which results into asset creation.

(ii) Significant expenditure incurred with the object of acquiring tangible assets of a permanent nature (for use in the organisation and not for sale in the ordinary course of business) or enhancing the utility of existing assets, shall broadly be defined as Capital expenditure. Subsequent, charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order as also all other expenses incurred for the day to day running of the organisation, including establishment and administrative expenses, shall be classified as Revenue expenditure.

(iii) Extracts of these Rules are enclosed for ready reference. (GFR) rules. (**Annexure-V)"**

Format of Budget Documents

3.14 The removal of Plan/Non plan distinction will require changes in the Formats of Budget documents and Accounting statements. The exercise to review the required changes in the formats of budgetary documents/Statements is in progress in the Budget Division. The same will be formalized with due approvals and communicated. The suggestive formats is annexed **(Annexure - III**) to this report. The changes will be required in the following documents of Union Budget and the DDGs (which are prepared and presented separately by each Ministry/Department). DDGs are prepared based on the allocations in Demands for Grants/Expenditure Budget Vol.2.

- Demands for Grants;
- Expenditure Budget Vol.2;
- Expenditure Budget Volume 1;
- Budget at a Glance; and
- **Detailed Demands for Grants of each Ministry**

<u>Demands for Grants:</u>

3.15 Article 113 of the Constitution mandates that the estimates of expenditure from the Consolidated Fund of India included in the Annual Financial Statement and required to be voted by the Lok Sabha, be submitted in the form of Demands for Grants. Each Demand for Grant shows the totals of (i)'voted' and 'charged' expenditure; (ii) the 'revenue' and the 'capital' expenditure and (iii) the grand total on gross basis of the amount of expenditure for which the Demand is presented. This is followed by the estimates of expenditure under different major heads of account with the breakup of the expenditure under each major head between 'Plan' and 'Non-Plan'.

Change in the Format:

3.16 The format of the Demands for Grants will require the following minimum changes with only one column each for Budget Estimates (2016-17), Revised Estimates (2016-17) and the Budget Estimates (2017-18). The three sub-columns under each of Plan/Non-Plan/Total will not be required and these sub-columns may be merged. The existing format of Charged/Voted and Revenue/Capital; summary at the top of the Statement and detailed major head wise classification first for Revenue major heads followed by the Capital major heads will also continue as it exists now.

<u>Expenditure Budget Vol.2:</u>

3.17 In the Expenditure Budget Vol. 2, the estimates made for the schemes/programmes are brought together and shown on a net basis and Major Head-wise, at one place. The provisions made for a scheme or a programme may spread over a number of Major Heads in the Revenue and Capital sections in a Demand for Grants. This document also shows the allocations split between Plan and Non-Plan and Total in the sub-columns under the 4 main columns of Actual/BE/RE and BE for the budget year.

Change in the Format:

3.18 The Expenditure Budget Vol.2 will also require the merging of sub-columns of Plan, Non-Plan and Total under each of the 4 main columns of Actuals/BE/RE and BE. The line items of the schemes will show the schemes with Revenue and Capital allocations and Totals. An indicative snapshot of the revised format is suggested as under.Budget Division has prepared the dummy Expenditure Budget Vol.2 with Plan and Non Plan merged, in the following broad format.

FORMAT OF STATEMENT OF BUDGET ESTIMATES (SBEs)

Ministry/Department Demand No.												
Schemes/Projects	**Actuals 2015-16**			**BE 2016-17**			**RE 2016-17**			**BE 2017-18**		
	Rev	*Cap*	*Tot*	*Rev*	*Cap*	*Tot*	*Rev*	*Cap*	*Tot*	*Rev*	*Cap*	*Tot*
CENTRE'S EXPENDITURE												
I. Secretariat Exp.												
1.												
II. Central Sector Schemes												
1												
III Other Central Expenditure												
1.												
TRANSFERS TO STATES												
IV. Centrally Sponsored Schemes												
1												
V. FC Grants*												
1.												
VI. Other Transfers												
1.												

****This will be applicable for Demands for Grants relating to 'Transfers to States'.***

<u>Budget at a Glance:</u>

3.19 This document shows in brief, receipts and disbursements along with broad details of tax revenues and other receipts. This document also exhibits broad break-up of expenditure - Plan and Non-Plan, allocation of Plan outlays by sectors as well as by Ministries/Departments and details of resources transferred by the Central Government to State and Union Territory Governments. There are some specific Statements in the Budget at a Glance which gives details on Plan and Non-Plan expenditure, the formats of these Statements will need to be revised.

Change in the Format:

3.20 The format changes in the Budget at a Glance will be required for the following:

(i) **<u>Summary Statement(at the beginning of the document at pg.1)-</u>** This summary Statement gives details of total Plan and Non-Plan expenditure with revenue/capital break up. The details of Plan and Non-Plan will be omitted and only Total expenditure details with revenue and capital break up will be retained; The composition in the Pie Chart relating to **'Rupee Goes To'** will also have to be revised to cover details on 4 broad categories of Central government expenditure as mentioned in the following paragraph, apart from other major items of Defence, Interest payments, Subsidies and States' share of taxes;

(ii) **<u>Expenditure Statement</u>** The two page expenditure Statement shows details of Non-Plan and Plan expenditure with details of major items under Revenue and Capital heads. This Statement will be revised in terms of the 6 broad categories with revenue and capital break up under each category of expenditure

(iii) Resources Transferred to State/ UT Governments/Compositional Shift:

This Statement will show the resources transferred to States in the following categories- Devolution of States' share of taxes, Transfer to States under Central government schemes/projects, Transfers to States under centrally sponsored schemes and the investments made from NSSF.

(iv) **Statements on Central Plan Outlay and Statement on State/UT Plan:** These Statements will need to be renamed/replaced with ***Central government schemes/projects and Central government expenditure on centrally sponsored schemes.*** The Statement on Highlights of Plan (pg.21-25) can also be renamed as Highlights of Schemes/Projects.

Expenditure Budget Vol.1:

3.21 The Expenditure Budget Vol.1 will need a comprehensive review to meet the new requirements as well as to weed out certain old redundant statements for an improved analytical presentation of expenditures. The Budget Division will need to examine and revise the Statements and prepare a dummy Expenditure Budget Vol.1 with the purpose of making it simpler and to incorporate new and more relevant analytical statements.

Format of Outcome Budget Statement:

3.22 The broad format of the Outcome Budget Statement will be as follows-

Demand No. Department Name					
				(Amount in Rs. crore)	
S. No.	Name of Scheme	Budget Provision (2017-18)	Deliverables for 2017-18	Outcomes (Upto 2019-20 Medium Term)	
				Outcome	Timeline
Centrally Sponsored Schemes					
1	Scheme Name		a.		
			b.		
			c.		

	Total Budget Provision				
Central Sector Schemes					
2			a.		
			b.		
			c.		
	Total Budget Provision				
Note: Budget Provision should be distinctly shown against each deliverable/sub-scheme					

Impact of Plan – Non Plan merger in government accounts and related changes in the accounting heads

3.23 After merger of Plan and Non-plan expenditure, some of the existing Major head**s having distinctions on the basis of plan and non-plan at the Sub-Major Head and Minor Head levels** will need to be reviewed/revised, as these Major Heads will continue to be operational but the Sub-Major and Minor Heads will need to be plan/non-plan neutral (no distinction will be needed post the merger). Below the level of Major Head i.e. at Sub-major and Minor head-levels, changes in the List of Major and Minor Heads of Account (LMMHA) shall be required as e.g. the Transfers to the States/UT are (Grants-in-aid or Loans) are presently classified as Non-plan Assistance, Assistance for State Plan Schemes, Assistance for Loans for Central Plan Schemes, Assistance for Centrally Sponsored Plan Schemes, Assistance for Special Schemes. Keeping in view the revised classification of schemes into Central Sector Schemes and Transfers to States (including) Centrally Sponsored Schemes without plan and non-plan distinction, all transfers to States would be categorized under Transfers to States viz. Centrally Sponsored Schemes, Finance Commission Transfers and other Transfers. ***As an illustration, the Sub-major Heads of Accounts under Major Head 3601 Grants-in-aid to State Governments would undergo changes to reflect this (for Centrally Sponsored***

Schemes/Finance Commission Grants/Other Transfers-Loans and Grants).The Minor Heads below would also be redefined accordingly.

3.24 *The List of Major Heads in which revision/amendments at the sub-major and minor head levels will be needed in the List of Major and Minor Heads of Accounts (LMMHA), in consultation with the C&AG, are as follows-*

3601 Grants-in-aid to State Governments
3602 Grants-in-aid to Union Territory Governments
1601 Grants-in-aid from Central Government (in the books of States/UTs)
7601 Loans and Advances to State Governments
7602 Loans and Advances to Union Territory Governments
6004 Loans and Advances from the Central Government (in the books of States/UTs)
0049 Interest Receipts
2049 Interest Payments

Changes in the Finance Accounts:

3.25 Article 112 of the Constitution of India stipulates that Government should lay before the Parliament an Annual Financial Statement popularly referred to as 'Budget'. Budget Heads exhibited in estimates of receipts and expenditure framed by the Government or in any appropriation order shall conform to the prescribed rules of classification (GFR - Rule 74). In General Budget, at present, appropriation and Demand for Grants is shown as Charged, Voted, Plan and Non-Plan. While Monthly accounts shows segregation of Plan and No-Plan, the Finance Accounts depicts expenditures in four broad categories i.e. Plan Charged, Plan Voted, Non-Plan Charged and Non-Plan Voted. ***On removal of distinction between Plan and non-plan, following changes would occur in Finance Accounts.***

3.26 Finance Accounts is prepared on the basis of Statement of Central Transactions [SCT]. In SCTs, expenditure with Plan and Non-plan distinction are shown. On merger of Plan and Non-plan expenditure, the format of SCT will undergo a change. Henceforth, the expenditure in the SCT will be shown under columns - charged expenditure and voted expenditure and the total in the abstract as well as detailed statement. The changes required in the Finance Accounts format assessed by the sub-group are as under-

- Format of Statement No. 9 and Statement no. 15 of Finance Accounts will get changed as in the present format, plan and Non-plan distinction is shown;
- In the Statement No.9 of the Finance Accounts, the expenditure is shown up to Minor head level categorising the expenditure under Plan and Non – Plan. The Charged expenditure is shown in italics above the voted expenditure under both Plan/Non-Plan and Total expenditure is clubbed and shown in the last column. Henceforth, the expenditure will be separated into two columns i.e. Charged expenditure and Voted Expenditure. The Total expenditure will be shown in the third column;
- In the statement no.15 the Plan expenditure is shown in brackets under the total expenditure at major head and above levels. Henceforth, there will be no need to show Plan expenditure in the brackets;
- In the light of the proposed merger of Plan and Non-plan expenditures the related provisions of the Accounting Manuals would also need amendments.

3.27.1 The Office of the Comptroller & Auditor General has been requested to consider and convey the concurrence of C&AG under Article 150 of the Constitution of India on the proposed merger of Plan and Non Plan classification in Budget and Accounts in Union and States to be implemented form Budget 2017-2018.

3.27.2 The Cabinet also approved the merger of Railway Budget with General Budget from Budget for 2017-18. One separate Statement of Budget Estimates in Expenditure Budget with one corresponding Demand for Grants in respect of Ministry of Railways will be included in the Expenditure Budget of Union Government for 2017-18 for reflecting the estimates of Railways from Budget for 2017-18. The Detailed Demand for Grants will be presented to parliament by Ministry of Railways, like any other Ministry. Ministry of Railways will continue to follow the same accounting heads, as hitherto, after Budget with General Budget.

3.28 A list of Demands as proposed to be followed in budget for 2017-18 is at **Annexure-4.** A dummy copy of Demands for Grants and Detailed Demands for Grants &Expenditure Budget vol.2 in Budget for 2017-2018 is enclosed. **(Annexure-5**) .

Benefits of doing away with Plan and Non Plan Classification.

3.29 The Committee at their sitting held on the **25th October, 2016** heard the representatives of Ministry of Finance (Department of Economic Affairs) on the subject. Responding to a query as to how the Parliament and Parliamentary Committee's right of financial control over public purse will be affected and Government will be benefitted from the structural change viz. doing away with classification Plan and Non Plan expenditure, Finance Secretary, appearing before the Committee on 25 October, 2016 submitted that :

> ‘Government has taken important decision of merger of plan and non plan classification and moving towards capital and revenue accounts system, on the basis of recommendation of various Committees, decisions were announced by Finance Minister. To implement the decision, a Committee of officers was formed which deliberated upon the new format of Budget presentation. Officers from State Governments were also part of this

Committee. They prepared a dummy budget. It was concluded that we can present the Budget in new format from ensuring budget."

3.30. With regard to the focus of the merger, MoF (DEA) in their post evidence replies stated as under -

"The focus of merger of Plan and Non Plan classification will be on assessment of the operating costs of government and the investments made by it along with measuring the efficiency of government activities. Further, developing a performance-oriented approach requires separation of running costs from capital expenditures (investments and capital creation). With this objective in view, the emphasis after the proposed merger of Plan and Non Plan classification will be on Revenue and Capital expenditure. This would, not only comply with the constitutional requirement, but also help policy formulation and efficient resource allocation. "

3.31 On the issue of likely benefits/ advantages the Government expects to have with the move, the Ministry of Finance (DEA) in their post evidence replies submitted as under:

"Advantages in merging the Plan and Non Plan classification are single source of resource allocation, expeditious project/scheme appraisal/approval keeping in view the predicted outcomes, liberalized delegation of financial powers to Ministries/Departments and focus on outputs and outcomes of the schemes/projects implemented by the Ministries/Departments. With this proposed merger of Plan and Non Plan classification coupled with advancement of budget cycle, the delivery/implementation mechanism of projects/schemes is also expected to accelerate from next fiscal."

3.32 With regard to the extent of deliberations gone into examining the plan an Non plan classification of expenditure , Secretary, Department of Economic Affairs, stated as under:

> "...we have not proposed these changes only because the Committees (Second Administrative Reforms Committee and the High level Committee on Efficient management of Public Expenditure) have recommended it. We have examined them internally and you had also asked whether these were decisions with which we were agreeable. I would like to mention very clearly that at the official level all of us have examined these aspects for quite some time now and now finally we have found a situation where the Government has also approved our proposals or our recommendations. We have analysed the various committees' recommendations thoroughly as to why the committees have recommended this. If you permit, I will read out from page 89 of the 14th Report of Second Administrative Reforms Commission (ARC) presented in April, 2009. It says: "The dichotomy between Plan and Non-Plan expenditure has been commented upon as an unnecessary development that adversely affects the quality of public services." It goes on to say: "Moreover, in order to find funds for the Plan over the years a tendency has developed to view Non-Plan expenditure as far less important, subjected to cuts and economy measures although many of them are vital in nature."

Reduction in Non Plan expenditure

3.33 Asked as to whether the acceptance of the proposed merger of Plan and Non Plan classification of expenditure will lead to possible reduction in non plan expenditure, Finance Secretary stated:

"Reduction in non-plan expenditure by mere reclassification cannot be achieved. But certainly a great degree of transparency will be achieved." (p.5)

Economy, Efficiency and Transparency

3.34 Apprising the Committee as to how the proposed merger of plan and Non plan will result in economy , efficiency and transparency and why can efficiency not coexist in these two different categories , Secretary, DEA, added as follows:

"Sir, today we need to link the outcomes to the total expenditure that we are incurring. If we have to make an outcome related budget, that is, each allocation is linked to certain outcomes, then we can really measure the outcomes of budget allocations. Now, there is a fragmented view of the finances. The Planning Commission used to make allocation for plan and the Government and Finance Ministry used to make the allocation for non-plan. Now we will take a comprehensive view of the allocation which is made. While taking a comprehensive view, we will be able to co-relate the total allocation for a Ministry to the actual outcomes that the Ministry is able to achieve."

3.35 The Ministry of Finance (Department of Economic Affairs), in their post evidence relies furnished vide their OM No. F.1 (23) - B(AC) /2016 submitted further that –

"In the existing system of Plan and Non Plan classification, the allocation of resources on various schemes including expenditure on maintenance, construction of assets, implementation of the scheme, etc. is made on uneven basis with Plan allocations, treated as good expenditure, getting predominance over Non Plan allocations, considered as non-developmental expenditure. In other words, the expenditure is currently not receiving holistic approach and consolidated assessment in resource allocation. Outcome is dependent on total expenditure and not only on Plan expenditure. It may be noted that non-Plan expenditure incurred by the Government is also towards meeting certain obligatory expenditure such as interest payments, national security, subsidies, grants to State and UT Governments, grants and loans to sick PSUs, payment of salaries, pensions and other normal expenditure of the Government. Though these expenditures do get classified as non-Plan expenditure, the same cannot be treated as non-developmental expenditure.

With the merger of Plan and Non Plan classification, the focus of the resource allocation will be on weeding out duplication of schemes, consolidation of sub-schemes, detailed schemes under umbrella schemes, total outlay for any specific scheme or project (including maintenance and capital creation) and outcome based budgeting. Intended outcomes can be achieved only by a judicious interplay of capital and revenue expenditure and not through an artificial distinction between Plan and Non Plan, both of which contain capital and revenue expenditure. Delegation of more financial powers to Ministries/Departments for better management of resources is also being considered. Overall, the present exercise is intended towards betterment of efficiency and effectiveness of the budget resources. Moreover, the Planning Commission is not there to frame Plans beyond 12th Plan "

3.36 With regard to the Committee's query as to whether the existing system of allocation of resources not addressing the intended purposes envisaged in the proposed system earlier, the MOF (DEA) in a post evidence reply stated that

"With the proposed merger of Plan and Non Plan allocations, the requirement of funds for implementation of a scheme or programme will be considered as one 'block', including the requirements for payment of salaries, maintenance, construction (requirements under capital) and capital creation. This approach would allow allocation of resources scheme-wise and category-wise for better management and application. A conscious decision could be taken on incurring capital expenditure or revenue expenditure, the first of which ensures long lasting returns and latter of which is for sustenance of current assets and human capital. This, in turn, would impart transparency to type of expenditure. In a developing country such as India, there may be a need to go in for more capital expenditure than in advanced economy. This methodology of balanced application is not available in allocation of resources made for Plan and Non Plan expenditure separately earlier since this camouflages the capital and revenue expenditure."

3.37 In response to a specific query as to whether such a merger will result in **increase or decrease in availability of funds** for particular activities say creation of assets or for establishment expenditure , Secretary, Department of Economic Affairs (DEA) , submitted as follows:

> "I will explain that point. You are absolutely right. Earlier, we had the Planning Commission. There was what was called, **'envelope approach'**. Under that, Non-Plan Budget was prepared; after that, whatever money was left was given to the Planning Commission in what is called **'Plan envelope'**

3.38 Explaining the methodology of allocation of plan funds and classification of expenditure as Plan and Non Plan in the Planning regime, Secretary deposed;

> "Of course, there used to be a lot of discussion between Planning Commission, Finance Ministry and then finally some step up was done and an envelope of resources was given to the Planning Commission which it was distributing. To understand the main difficulty in the earlier system, where we had the Plan and Non-Plan, let us take an example of a school or a hospital. When a school is set up as a plan expenditure, the building is constructed, furniture is provided, laboratory equipments are provided, teachers' post and all other posts are sanctioned. So, for five years it gets full funding because that is treated as a plan. Once we move from that particular Five Year Plan to the next Plan that scheme becomes a part of the non-plan. Once it becomes a part of the non-plan, for provision of facilities in the laboratories of schools, or if over the years the furniture, the chairs, benches all got spoiled they had to be replaced. Furniture was treated as non-plan after five years. So, what was happening was the replacement expenditure for lab equipment or furniture for the school was not adequately provided as it was non plan. Similarly, in case of hospitals, the Five Year Plan in which it was set up, it is plan expenditure. Thereafter, in

the next Five Year Plan, it will move to non-plan. Then there will be inadequate funding for purchase of equipment, other kind of resources or infrastructure which the hospital would require. What was happening, over the years an environment had developed where all plan expenditures were considered as good and non-plan expenditure was considered as bad leading to situations where there was poor maintenance of assets. There was inadequate replacement and repair of assets and bringing in new assets.

Once the Five Year Plan ends, the same expenditure which is under plan goes to non-plan. We have seen over the years even in a plan regime, the maximum expenditure used to be on revenue expenditure. The major component of plan expenditure is revenue expenditure.”

3.39 Responding to an observation of the Committee the trend of revenue expenditure outgrowing the capital expenditure, Secretary , DEA testified;

‘’ Now , Sir, our effort is to change that. Give more focus on capital expenditure".

Excessive Concentration of financial powers

3.40.1 Apprising the Committee of the extant allocation of resources and the proposed assessment and allocation of resources, Finance Secretary, submitted that -

“The entire methodology of allocation of Plan and Non-Plan resources was based on the Government first making an assessment of what is the committed Non-Plan revenue and expenditure and thereafter setting apart what could be apportioned as gross budgetary support for developmental activities, which was determined by the Planning Commission. Now, that distinction will go away.”

3.40.2 Elaborating further on the issue, Finance Secretary stated :

> "the entire resources will now be assessed and allocated by the Ministry of Finance. It is not that the NITI Aayog had been given similar functions which the Planning Commission used to perform".

3.40.3 Replying to Committee's apprehension that the allocation of entire resources by a single Ministry i.e. Ministry of Finance, may lead to rigorous control by one Ministry of the Government and eliminating the role of others, which though might have been creating some delays but was giving a more critical eye to the distribution of funds and looking more comprehensively and attentively to the needs of the States and everything, the increase in work load on the Ministry which is already dealing with collection of revenues, FDI, financial services, etc, and thereby becoming perhaps the most powerful organ of the State, which defeats the purpose of democratic Government, the Secretary, DEA submitted that:

> "There are two points that I would like to submit for your consideration. One is the allocation of resources. This year's Budget meetings have already started -- the Revised Estimate of the current year and the BE for the next year. The meetings have already commenced. "

3.40.4 Responding to a query as to whether the Ministry of Finance do not inform them (erstwhile Planning Commission) of the funds allocated under Non Plan , Secretary, DEA replied that :

> " Sir, it was not happening earlier. Now this year the meetings have already started and it is chaired by the Secretary (Expenditure) who is also the Finance Secretary now. These meetings are being held. It is nothing new. It was being held earlier also. Now this year he is chairing the meetings and probably he is better placed to explain. This year, in these meetings where the Ministries also take part, the Secretary of the concerned Ministry, the Financial Advisor and other officers of the concerned Ministries come and

take part. Both the Ministry as well as the Finance Ministry are able to look at the entire thing.''(p.21)

3.41 When asked on the role of NITI Ayog, Finance Secretary submitted;

"Sir, as far as new schemes or projects are concerned, there the system of inter-Ministerial consultations continues including association of the NITI Ayog. In fact, in the current dispensation also no new scheme or project is even apprised if it is not commented upon and examined by the NITI Ayog. So, the role of NITI Ayog in providing expert input and objective assessment of any new scheme or project does continue."

3.42 Apprising the Committee of the Government's intention to take comprehensive view of the resource allocation for Ministries, Secretary, DEA , stated as under :

"Today what happens is, the same salary is either plan or non-plan, the same doctors' salary when it is a part of the Plan there is adequate provision of salary, equipment purchase, replacement of equipment in a hospital takes place. In another situation, if the hospital is more than five years old and it would be shifted to non-plan. There is inadequate provision for purchase of medicines. "

3.43 Conceding to the fact that the fault lies in the concept itself as mentioned above, not fault of plan and non plan classification. The representatives further stated that State Government prefer plan expenditure over non plan expenditure. Non plan expenditure is fixed. The pilferage is much more in plan expenditure, Stated as follows:

"Sir, you are absolutely right. We are trying to correct inadequate provision of expenditure for certain essential items which was not happening earlier simply because it was classified as Non Plan. You are absolutely right, Sir, particularly State Governments and to some extent the Central Government from time to time, not always, a higher plan size was the urge of every Government. In the process, these deficiencies in resource allocation were happening. Our sincere effort now is to correct this pattern and to allocate resources more efficiently, based on actual requirement and to see that the assets are properly maintained, salaries are paid, equipment are purchased and buildings are maintained. So our entire effort is to bring in greater efficiency into allocation for Government expenditure."

3.44 Asked about the impact of the proposed discussion on state grants, Secretary, DEA stated as under:

"Sir, as my colleague pointed out, we had formed a Working Group in the Finance Ministry where we had taken representatives from a few Ministries and we had included Finance Secretaries of about seven States. The State Finance Secretaries were also included in the Working Group which was constituted in the Finance Ministry to work on the modalities of this transition.

Therefore, the State Governments are fully on board. Guidelines for moving away from plan and non-plan expenditure to the new framework have been issued in August, 2016. We had circulated it to the State Governments also. I think almost all the State Governments are on board. They have also given their suggestions and they are also probably moving forward."

3.44 When the Committee expressed apprehension that the merger of plan and non plan expenditure may bring less transparency since it would be difficult to distinguish between expenditure on assets building and expenditure as maintenance, Finance Secretary submitted as follows:

"I spoke of transparency because plan expenditure also includes maintenance for any new scheme during the plan period maintenance is part of plan expenditure. However, as per classical definition it is maintenance expenditure. Even after the plan period the maintenance will continue and the salaries of staff have to be paid. Now, we are doing it from revenue and it does not make any difference. "

3.44.2 He further, stated;

"So, that distinction will now be very clear. If you take a hospital as an example, the expenditure which is incurred on doctors or on procurement of medicines or proper upkeep and maintenance of hospitals or improving its systems is as much desirable even though it was classified earlier as a non-plan expenditure as the construction of the hospital itself. While you are very right in saying that just by closing the distinction between plan and non-plan, it does not necessarily follow that there will be efficiency of expenditure. For that, some other steps will require to be taken. But certainly, there will be a greater deal of transparency in the way the expenditure is depicted".

PART-II

Observation and Recommendation

1. Merger of Railway Budget with the Union Budget: The Committee considered the proposal of the Government to merge the Railway Budget with the Union Budget and present a single budget starting with the budget of 2017-18. The Committee note that the need for a separate Railway Budget was felt as early as 1921 when the Railways appointed an Expert Committee known as Ackworth Committee. The Ackworth Committee recommended for separation of the railways finances from general finances of the Government of India. The recommendation was placed in the Legislative Assembly which passed a resolution on 24 Sept. 1924 for separation of the Railway Budget from the General Budget known as Separation Convention. The First Railway Budget was presented on 20th February 1925. The Committee take note of the submission of the Government that the Constitution provides for presentation of Annual Financial Statement showing the estimated receipts and expenditure of the GOI for the ensuing financial year known as the Budget. Notably, there is no constitutional provision for presenting a separate Railway Budget. The Ministry of Finance also testified that the practice of separate budget essentially creates an unnecessary legislative and bureaucratic exercise and therefore, submitted that presentation of a single budget would enhance good governance. Allaying the apprehension that the merger of the Railway Budget with General Budget will impinge on the autonomy of the Railways which is a departmental commercial undertaking of the Government, the

representative of the Ministry of Finance assured the Committee that the Ministry of Railways will continue to enjoy the same functional and operational autonomy without any external interference. The Committee were also assured that the Chairman Railway Board, Railway Board Members and the General Managers will continue to enjoy same financial powers. The Chairman Railway Board, in his independent testimony, submitted categorically that with the merger of Railway Budget with the General Budget, the financial autonomy of the railways will remain intact as per the decision of the Cabinet. The representatives of both the Ministries of Railways and Finance also assured the Committee that the railway component of the Budget including allocation of resources will continue to be prepared by the Railway Ministry which will be incorporated by the Ministry of Finance in the one consolidated Budget. Further, the Railways will present their detailed Demands for Grants and the key highlights of the Railways will form an integral part of the expenditure Budget vol.II. Besides, the Committee were apprised that with the presentation of a single consolidated Budget for the Union of India , there will be a single Appropriation Bill which will save the time of Legislature for passing separate Appropriation Bills.

Taking note of the assurance of the Ministry of Finance and the affirmation of the Railway Board that there will be no dilution of the operational, functional and financial autonomy of the Railways and the Railway Board will continue to prepare the railway components of the Union Budget based on their professional expertise, proven experience and the need for constant improvement in the Railways, the Committee accord their concurrence to the

proposed merger of the Railway Budget with the General Budget subject to the conditions contained in the subsequent recommendations.

2. Advantages to accrue to the Railways: The Committee note that the Rail Budget gave full opportunity to the Members Of Parliament to highlight the inadequacies of the Railways and make concrete suggestion for expansion, modernisation, safety and security of the Railways. The Committee also note that the Rail Budget is discussed threadbare in the Lok Sabha for at least 2/3 days. For instance, during 2015-16, the Rail budget was discussed thoroughly on 11&12 March and 21 April, 2015 and 298 Members participated in the discussions. Further, the Committee were assured by the representatives of the Ministry of Finance that after the merger of Railway Budget with General Budget (i) Ministry of Railways will continue to function as a departmentally run commercial undertaking, (ii) Railways will meet all their revenue expenditure including ordinary working expenses and pay and allowances, pensions payable to employees, from their revenue receipts, (iii) Railways will get exemption from payment of dividend to general revenues, and its capital at large would stand wiped off, (iv) Ministry of Finance will provide Gross Budgetary Support (GBS) to Ministry of Railways towards meeting part of capital expenditure; (v) Railways may continue to raise resources from the market through extra budgetary Resources at present to finance its capital expenditure, (vi) With capital-at-charge wiped off and the need for dividend payment by railways being done away with, the subsidy payment to Railways (towards dividend relief and other concessions, including reimbursement of losses on operation of stratregic lines) will be discontinued.

Considering the solemn assurance of the government that the Railways would continue to function as a departmentally run commercial undertaking; with its full functional and financial autonomy; that the Railways will get exemption from payment of dividend and that the Ministry of Finance will provide gross budgetary support to the Ministry of Railways for making part of capital expenditure, the Committee approve the proposal of the merger of Rail Budget with the General Budget with the fulfillment of these undertakings but subject to the rider that the Ministry of Finance will extend adequate budgetary support given the dire conditions of the Railways and its socio-economic and strategic contribution in nation building. Further, the Committee reiterate that the Railways shall continue to get reimbursement of losses on operation of strategic lines. The Committee are sanguine that the working and finances of the Railways would continue to be discussed in the House for adequate duration so that the rights of the Members to discuss the Railways Demands for Grants and to call the Railways to account are not infringed or diluted in any manner.

3. Merger of Plan and non-Plan classification: The Committee note that the Expenditure Budget of the Government comprises of Plan and Non-Plan expenditure. According to the General Financial Rules(Rule 78), plan expenditure representing expenditure on plan outlays approved for each scheme or organisation by the Planning Commission (erstwhile) and indicating the extent to which such outlays are met out of budgetary provisions shall be shown distinctly from the other (Non-Plan) expenditure in the accounts as well as in the budget documents. The Committee were apprised that following the decision of the Union Cabinet on 21 September,

2016, the Plan and Non-Plan distinct heads of accounts would be done away with from the Union Budget from the Budget 2017-18 as also announced by the Finance Minister in the Budget Speech of 2016-17. The Committee were further informed that the decision was taken after indepth examination of the recommendations of the high level expert Committee, (Dr. C. Rangarajan Committee), the Administrative Reforms Commission (Shri Veerappa Moily) as well as by the Expenditure Management Commission (EMC) (Shri Bimal Jalan Committee). The representative of the Ministry of Finance submitted that the bifurcation of expenditure as Plan and Non-Plan expenditure gave a fragmented view of the resource allocation creating difficulty in ascertaining the cost of delivery of services and the link between financial outlays and outcomes. Further, with the abolition of the Planning Commission and with the removal of plan and non-plan distinction, the focus of budgeting and expenditure classification will shift to a revenue and capital expenditure as envisaged in the Constitution. However, notably, with the abolition of Planning Commission and its replacement by NITI Ayog and doing away with the plan and non-plan expenditure, the Committee note that the entire resource allocation would be done by the Ministry of Finance. The Secretary, Deptt of Economic Affairs testified that the single financial control in the nodal Ministry of Finance would bring greater efficiency in resource allocation and lead to rigorous financial control.

Taking note of the testimony of the Secretary DEA, Ministry of Finance, that doing away with the plan and non-plan classification of expenditure will help bring a clear distinction between capital and revenue expenditure which is essential for analytical purposes, transparency and efficient policy decision

making, and help in better assessment of the operating cost of Government, the investments made and measuring the efficiency of governmental activities, the committee concur in the proposal of the Ministry of finance with respect to abolition of plan and non-plan expenditure classification. The Committee however would like to be apprised of the impact of the decision on developmental programmes and activities of the Government in course of time. Further, the Committee recommend that the expert advice of the NITI Ayog ought to be given full weightage and consideration in the matter of allocation of resources for developmental programmes so that there is more judicious allocation of resources despite concentration of excessive financial powers in a single Ministry. Further, and more importantly, suitable instructions/guidelines be issued to ensure that the classification of expenditure as revenue and capital is done with fidelity and rationally so as to overcome wrongful booking of expenditure and to promote transparency and efficiency.

4. Reorganization of the number of Demands for Grants: It may be recalled that based on the 12th report of the Committee on Estimates (16th Lok Sabha), the Ministry of Finance reduced the number of Demands for Grants from 109 to 98 (excluding the 16 DFGs of the Railways) starting with the fiscal year 2016-17. Notably , with the merger of both the Union Budget and Railways Budget, the Ministry of Finance also propose to merge the 16 DFGs of the Railways into one single DFG, with the result, the Ministry of Railways will have only one DFG instead of 16. Consequently, the total number of DFGs for Government of India will change. The Committee have no objection to the proposed reorganization of the Demands for Grants in the

context of merger of both the Budgets and abolition of Plan – Non-Plan classification in the budget documents provided the same is approved by the C&AG in terms of article 150 of the Constitution. Further, the Committee would like the Ministry of Finance to amend the GFR suitably so that, while doing away with the plan and non-plan expenditure classification, suitable amendments are effected to the GFR to facilitate booking of expenditure correctly under the revenue and capital heads based on intelligible rules.

NEW DELHI;	**Dr. MURLI MANOHAR JOSHI,**
7th December, 2016	**CHAIRPERSON,**
Agrahayana 16 ,1938 (Saka)	**COMMITTEE ON ESTIMATES.**