Subject: Guidance Note on merger of Plan and Non-Plan classification.

Sir,

I am directed to forward herewith O.M. No. 10/50/2016 – Bgt. I dated 2nd September, 2016 (copy enclosed) of Budget – I Section, MHA alongwith O.M. No. 1(16)-B(AC)/ 2011 dated 23rd August, 2016 of Budget Division, Department of Economic Affairs, Ministry of Finance on the subject cited above for information and necessary action.

Encl.: As Above

Yours faithfully,

(Binod B. Singh)
Section Officer
Tel.: 23093268
No. 10/50/2016-Bgt.1
Government of India / Bharat Sarkar
Ministry of Home Affairs / Grih Mantralaya
(Budget-I)
*****

New Delhi, dated the 29th September, 2016

OFFICE MEMORANDUM

Subject: Guidance Note on merger of Plan and Non Plan classification.

The undersigned is directed to forward herewith Office Memorandum No. F.1(16)-B(AC)/2011 dated 23.8.2016, received from Ministry of Finance, Department of Economic Affairs (Budget Division), containing Guidance Note on merger of Plan and Non Plan classification.

2. It is informed that internal working Group, after several meetings and deliberations, has drawn up Guidance Note on merger of Plan and Non Plan classification for the benefit of Ministries / Departments of Union Government / State Governments. The Guidance Note as received from Ministry of Finance is enclosed herewith for compliance while planning and preparing the next budget 2017-18.

3. All the Divisions as well as Attached / Subordinate / Autonomous Organizations etc. under the control of this Ministry are, hereby, requested to adhere to the Guidance note while drafting next budget. Further, points on which Clarity, if any, is required, all the budget controlling authorities under the control of this Ministry are hereby requested to refer to Ministry of Finance Budget Division latest by 10.9.2016.

Encl: As above

(A.K. Bawalia)
Under Secretary to the Govt. of India
Tele: 23092048

To,

1. AS&RG&CC of India
2. All the Joint Secretaries in the Ministry of Home Affairs
3. As per standard list enclosed
Copy for necessary to:

1. All Director General / Financial Adviser of CAPFs
2. All Directors / IFAs of CPOs
3. The Commissioner of Police, Police Headquarters (MSO Building), I.P. Estate, New Delhi
4. Shri S.L. Shah, Under Secretary (Cash-II), Ministry of Home Affairs, New Delhi
5. Shri Anil Kumar Madan, Section Officer & DDO, Cash-I, MHA, NDCC-II Building New Delhi
6. Shri A.K. Saxena, Section Officer, Parliamentary Committee on Official Language, 11, Teen Murti Lane, New Delhi.
8. Shri D.K. Dey, Joint Director (Budget), O/O the Registrar General of India, 2/A, Man Singh Road, New Delhi.
11. Shri Shamim, Director, National Fire Service College, Ministry of Home Affairs, Nagpur.
12. Shri Om Prakash, Section Officer (Budget), Deptt. of Official Language, 4th Floor, NDCC Building, Jai Singh Road, New Delhi.
13. Shri Sudhir Chopra, Senior Accounts Officer, National Human Rights Commission, Manav Adhikar Bhawan, INA, New Delhi.
14. Shri Sudeshanan Kumar, Deputy Secretary, Zonal Council Sectt, Jam Nagar House, New Delhi.
15. Shri Krishna Saluja, Section Officer (IIA Unit), President’s Sectt. New Delhi.
16. Shri A.K. Das, Under Secretary, Prime Minister’s Office, South Block, New Delhi.
17. Shri K.J. Sibichan, Under Secretary (Ad.-I) Cabinet Secretariat, Rashtrapati Bhawan, New Delhi.
18. Shri Yashpal, Deputy Secretary, O/o Principal Scientific Adviser to the Govt. of India, 310-A, Vigyan Bhavan Annex, New Delhi.
19. Shri R.K. Jain, Under Secretary, National Security Council Sectt, 3rd Floor, Sardar Patel Bhawan, Parti. Street, New Delhi. 110001P
20. Shri Y.S. Shahrawat, Chairman, Land Port Authority of India, Lok Nayak Bhawan, New Delhi
21. Shri Nikhil J. Gupta, Deputy Director (Admn.), Sardar Vallabhbhai Patel National Police Academy, Ministry of Home Affairs, Hyderabad-500052
22. Shri Nirmal Singh Gurung Joint Director, North Eastern Police Academy (NEPA), Umsaw, Ri-Bhoi District, Shillong, Meghalaya-793123
23. Shri N.N.D. Dubey, AIG (Admn.), National Investigation Agency, NDCC-II Building, New Delhi
25. Shri Rohit Katiyar, Deputy Director (Admn.), Narcotics Control Bureau, West Block No.1, Wing No. 5, R.K. Puram, New Delhi.
27. Shri Venkatesh K.M., Jt. Director (Admn.), Directorate of Co-ordination, Police Wireless, Block No.9, CGO Complex, New Delhi
28. Ms. Aarti Bhatnagar, Joint Secretary (Security), Cabinet Sectt, North Block, New Delhi
29. Dr. S. Karthikeyan, Assistant Director, (Admn.), BPR&D, CGO Complex, New Delhi
OFFICE MEMORANDUM

Subject: Guidance Note on merger of Plan and Non Plan classification.

While presenting the Budget for 2016-2017, Hon’ble Finance Minister had announced that Plan-Non Plan classification will be done away with from fiscal 2017-2018 and Government’s focus will be on Revenue and Capital classification.

2. An Internal Working Group comprising officers from office of the Controller General of Accounts, Comptroller & Auditor General of India, Budget Division, Department of Economic Affairs, Department of Expenditure, representatives from select State Governments was constituted to consider the issue of doing away with the Plan/Non Plan classification in Government budget and accounts. After several meetings and deliberations, a Guidance Note on merger of Plan and Non Plan classification has been drawn up for the benefit of Ministries/Departments of Union Government and State Governments.

3. A copy of the Guidance Note on merger of Plan and Non Plan classification is sent herewith for necessary action for planning and preparing the next budget (2017-2018). Points on which further clarity is required (if any) from Ministry of Finance may be referred to Ministry of Finance, Budget Division latest by 10th September, 2016.

4. I solicit kind co-operation of all Ministries/Departments of Union and State Governments to make this exercise successful.

 Secretary to the Government of India

1. All Secretaries of Union Government
2. Chief Secretaries of all State Governments
3. All Financial Advisers of Ministries/Departments
4. Controller General of Accounts
5. DG, Office of the Comptroller & Auditor General of India
6. All Additional Secretaries/Joint Secretaries in Department of Expenditure and
   Department of Economic Affairs.
DRAFT GUIDANCE NOTE
ON
PLAN & NON-PLAN MERGER

Ministry of Finance
Department of Economic Affairs
( Budget Division )
PART-I:

INTRODUCTION:

1. The Government Budget is designed for optimal allocation of scarce resources taking into account larger many socio-political considerations. It is a statement of estimated expenditure and the estimated sources for of financing these, during the ensuing a financial year. The budget is prepared keeping in view the general policy of the Government aimed at the welfare of the people and the development of the country. The size and focus of public expenditure in the budget has great relevance in the growth process and in the reduction of economic disparities. The main objectives of the budgetary policy are to provide effective administration, improve infrastructure facilities, provide and promote employment opportunities, ensure stability in prices, promote economic growth, reduce inequalities, while maintaining fiscal balances and economic sustainability.

2. The annual exercise of budgeting therefore, is a means for detailing the roadmap for efficient use of public resource taking into account the socio-economic and political priorities. Budgeting involves determination of what is to be done and achieved, the manner in which it is to be done and the resources required for the same. It requires the broad objectives of the Government to be broken down into detailed schemes/projects and work plans for each unit of the Government organization. In this context, the budgetary classification of government expenditure is of immense significance in policy formulation and sectoral allocations. This classification is intended to allow the Parliament and the public to appreciate the allocation of resources and purposes of Government expenditure. It also lays down the basis of accountability for budgetary compliance and the assessment of the overall economic impact of government policies.

3. 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 needs 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 expenditures 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.
Plan and Non Plan Distinction:

4. 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 \textit{whether or not it arises due to plan proposals}.

5. Plan Expenditure, in 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:

6. 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 relevance and efficacy of such classification today, is a big question mark. The government control and micromanagement 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.

7. 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 impression that more plan expenditure means more development and wellbeing for the public has turned out to be a misplaced assumption, in practice today.

8. 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.

9. There has also been broad dissatisfaction within the public sector about the functioning of the Planning system. The States resented the tied nature of funds made available by the Planning Commission. In the context of fiscal federalism, the Planning Commission was faulted by several states for encroaching upon the policy space of the States especially through the grants-in-aid that it has been dispensing with significant discretion. The Ministry of Finance felt that the Planning Commission had been demanding a larger and larger share of resources in the form of Gross Budgetary Support (GBS), thus, putting pressures on the management of the fiscal position. Union ministries also perceived that the Planning Commission’s excessive emphasis on developmental programmes and larger plan outlays for economic and social services has adversely affected allocations for the maintenance of assets, as well as allocations towards basic functions of the government in the general services category. The 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.

10. While the Ministry of Finance is charged with the responsibility of maintaining aggregate fiscal discipline, the allocation of resources was in accordance with strategic priorities determined largely by the erstwhile Planning Commission and the line departments were called upon to ensure efficient and effective use of resources in the implementation of strategic priorities and held accountable for the same. There was hardly any disincentive in that system to compel the departments to perform and deliver. The result is that the total amount of money that the government spends is not closely aligned to what is affordable over the medium term and, in turn, with the annual budget. Funds are not allocated to match policy priorities and often the spending does not produce the intended results due to incremental allocations and thin spread of resources.

11. The fault most often lies not with the budget systems but with the environment in which they operate. The choice lies between refitting the existing system ridden with artificial Plan and Non Plan distinction and adopting a new budgeting approach lock, stock and barrel. The focus of budgeting systems has shifted from the duality of plan and non-plan to a more holistic focus on objectives and fiscal discipline. Focus now must be on the need for policy change to reflect
changing macroeconomic conditions as well as changes in strategic priorities of the government and to provide line Ministries with a hard budget constraint with increased autonomy and incentives for efficient and effective use of funds. For that to happen, the artificial distinction between plan and non-plan expenditure must end. The classification of expenditure has an important bearing on the overall expenditure management and this distinction today is seen as a constraint in efficient management of public expenditure.

12. There is massive transfer of resources from the Centre to the States. Centre has numerous grants programs for States, with no single agency knowing the full picture. There were hundreds of centrally sponsored schemes/sub-schemes, numerous central plan schemes and schemes within schemes. Moreover, these have numerous sharing pattern in funding, with prescribed States' counter-part contributions prescribed. Grants for the same purposes are provided from several sources. The transfer of Central resources to States through various types of schemes and multiple modes of transfer have posed problems in obtaining a comprehensive overview of transfers to States as well as in effective monitoring of expenditure. A massive clean-up, therefore, is required to bring focus to the central grants to States in order to make them productive and at the same time make States' life better. There were also issues concerning accountability of funds directly transferred to implementing agencies in States, which have now been taken care of with routing of funds through State treasuries.

13. To sum up, 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.

14. 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.

Plan and Budget

15. The division between Plan and Non Plan in the budget originates from the budgeting exercise itself, where the Non-Plan expenditure is estimated first and Plan is taken as a 'residual' provision depending upon resource availability post the FRBM enactment. Since the Non-Plan expenditure is of a committed nature, it is mostly budgeted based on historic parameters. After estimation of the Non-Plan expenditure, the resources (both tax and non-tax) are estimated. The
amount of resources left after meeting the Non-Plan expenditure is captioned as the Balance from Current Revenue (BCR) and is a part of the non-debt resource that is available for plan expenditure. The second part of non-debt resources is the Miscellaneous Capital Receipts (MCR) taken on net basis. These non-debt resources added to the amount of net borrowing planned to be incurred would indicate the total amount of resources available for plan expenditure [Gross Budgery Support for Plan]. The Gross Budgery Support is then allocated into sectors, down to development heads and finally to plan schemes. These allocations are then formatted into budgery classification. The Plan and Non-Plan budget put together comprise the expenditure budget of the Government. The natural corollary of this budgery practice is that while the Non-Plan envelope is based broadly on the expenditure items that are more or less committed, the plan envelope is broadly based on the availability of resources.

16. Expenditure classified as Plan expenditure in the Government, generally, was supposed to signify expenditure taken up under development schemes during a particular Five Year Plan. However, some of these schemes can be continued from a previous plan or some may be ‘spillovers’. At the initial stages of the exercise of preparation of a Five Year Plan, Planning Commission issues detailed instructions directing what should be classified as ‘Plan Expenditure’. The plan schemes are mostly expected to be limited to a Five Year Plan period. But they may have implications that extend beyond the plan period. It is rarely seen that a Department/Ministry shelves a scheme after a particular Plan.

**Major recommendations of the HLEC (Rangarajan Committee):**

17. The Eleventh Plan document has referred to innovative methods of financing of projects such as public private partnerships and new administrative mechanisms of implementation and the need, in this context, to clarify the scope of the public sector plan. In response to these issues, Planning Commission set up a High Level Expert Committee (C. Rangarajan Committee) to suggest measures for the efficient management of public expenditures.

18. The HLEC Report brought out that due to the complex nature of the classification of government expenditure, the policy regarding what should get classified as plan expenditure and what should get classified as Non-Plan expenditure has been losing clarity. This it mentioned had led to a motivation for showing higher plan expenditure and higher plan sizes both at Central and State levels. While pointing out the several problems that have emerged over the period, the HLEC observed that the plan and non-plan distinction in the budget is neither able to provide a satisfactory classification of developmental and non-developmental dimensions of Government expenditure nor an appropriate budgery framework, and therefore, has become dysfunctional.

19. The Rangarajan Committee while recommending that Plan and Non-Plan distinction in the budget should be removed, added that at the Central Government level Planning Commission may be responsible, for the sake of convenience and domain knowledge, for guiding the overall development priorities of the Government, setting of outcome targets and review of performance of Ministries/Departments. Ministry of Finance may be responsible for guiding the fiscal policy, preparation of budget and financial decisions. The annual budgery process it recommended, may need to be revised to facilitate output and outcome-based budgery within a multi-year framework.
20. The High Level Expert Committee noted and recommended as follows on the issue of removal of plan and non-plan distinction:

(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) The Committee was in favour of continuing 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.

Views of Administrative Reforms Commission (ARC):

21. 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.

22. The ARC 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 it suggested 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.

23. 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.

24. This major shift in expenditure budgeting also provides an opportunity to simultaneously make a shift fully to multi-year budgeting and output/outcome oriented budgeting. A framework has been suggested in this Guidance Note, in consultation with Ministries and other stakeholders. The focus of the framework is on the fundamental issue of merger of Plan and Non Plan in budget and accounts starting with Budget 2017-18.

25. In the above context, the Government is looking to do away with the practice of classifying expenditure as 'plan and non-plan' in the Budget. With the removal of this artificial distinction it is expected that the link between spending and outcomes will improve and become more focused as well as holistic. The reclassification of expenditure under accounting heads will happen from Budget 2017-18 and after the 12th Plan period (2012-17) comes to an end. The State Governments too are expected to make a similar shift from the Budget 2017-18.
PART-II:

MAIN CONSTITUTIONAL PROVISIONS AND THE BUDGET CLASSIFICATION SYSTEM:

26. The legal foundation of Parliamentary control over government expenditure is based on the Constitutional requirement that all revenues and receipts of Government go to a 'Consolidated Fund' and moneys can be withdrawn from the 'Fund' only in accordance with the laws passed by the Parliament. Financial business in Parliament consists of the Budget comprising of General Budget and Railway Budget, Demands for Grant, Vote on Account, Supplementary Demands for Grant, Appropriation Bill and the Finance Bill. The salient Constitutional provisions that shape and guide the budgeting systems and process are outlined in brief in the following paragraphs.

27. Article 112 of the Constitution provides that in respect of every financial year a statement of the estimated receipts and expenditure of the Government of India for that year, referred to as the "annual financial statement" shall be laid in the Parliament, showing separately, expenditure charged upon the Consolidated Fund of India and other expenditure (voted). The statement shall also distinguish expenditure on revenue account from other (capital) expenditure. Article 113 provide that estimates relating to expenditure charged upon the Consolidated Fund of India shall not be submitted to the vote of Parliament, while the estimates relating to the 'voted' portion shall be submitted in the form of Demands For Grants. Article 114 mentions about the Appropriation Bill while Article 115 makes provisions relating to the Supplementary, Additional or Excess Grants. Article 116 makes provisions relating to Vote on account, Vote of credit and Exceptional Grant. Article 117 has laid down the Special provisions relating to the Financial Bills. Some other important Constitutional provisions relating to budget are Article 265, which states that Taxes are not to be imposed save by authority of law, Article 266 that has provisions relating to Consolidated Funds and Public Accounts of India and of the States and Article 267 that makes similar provision for the Contingency Fund.

28. There are in addition, certain other Constitutional provisions which have a direct bearing on budgetary allocations and resource sharing between Centre and the States. These include Article 275 which provides for Grants from the Union to the States based on the recommendations of the Finance Commission, Article 280 which lays down provisions relating to the constituting of the Finance Commission along their duties and Article 281 which states that recommendations made by the Finance Commission together with an explanatory memorandum as to the action taken thereon should be laid before each House of Parliament. The provisions in Article 292 relating to borrowing powers of the Government of India and Article 150 relating to the Form of accounts of the Union and of the States are also important from budgetary aspect.

Rationale for Revenue Capital Separation:

29. In the Indian context, the Constitution requires revenue and capital expenditures 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.
30. 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, 79 and 90) and in Government Accounting Rules (Rule 30).

31. 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.

32. 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 expenditures. The distinction between revenue and capital expenditures is therefore, not only a constitutional requirement but also an essential ingredient for policy formulation and efficient resource allocation.

33. Regarding revenue and capital expenditure, the HLEC noted that the criteria for economic returns should be applied to all expenditures and not just to capital expenditures. From the stabilization point of view it mentioned, it is the size of the overall deficit and the pattern of its financing that is far more important. Capital budgets may contribute to a shift in emphasis toward ‘brick-and-mortar’ projects. This may systematically cause bias in allocation of resources towards capital expenditures without adequate provisioning for essential maintenance and operating costs. Investment proposals, however, need to consider both capital and operating costs together for a holistic view of the costs involved and the benefits. Budget policy and planning therefore, requires a unified consideration of all budgetary proposals. Since spending through borrowings can be far more expansionary than spending from revenues (taxation or otherwise), the HLEC recommended that the need for separation of revenue and capital budgets should be seen not merely as a rationalization of borrowing but in the wider context of the formulation of fiscal policy, in terms of overall expenditures and the appropriate mix of taxation and borrowings.
34. While there is no unanimity of opinion on this issue and no uniformity in the inter-country practices, there seems to be general agreement that planning and budget formulation needs to take an integrated holistic view of capital and current expenditure proposals. In general, the shift to program budgets in developed countries in the 1960s and 70s led to some dilution of the need for separate capital budgets, as unified presentation of capital expenditures alongside related current expenditures and outputs became the norm in these countries. However, the need for distinguishing capital and current budgets seems to have been strengthened in the last decades or so with the introduction of accrual-based accounting and budgeting techniques, particularly in the OECD countries. A clear distinction between capital and current expenditures facilitates a more meaningful budget execution and analysis. The literature on public expenditure management, therefore, recommends a unified presentation of budget with a clear distinction between capital and current expenditures.

**Economic and Functional Classification of the Budget:**

**Economic Classification:**

35. The most distinctive and the basic feature of the system of Government Accounts in India is the minute elaboration of the financial transactions of Government. Both receipts and payments are differentiated and classified in detail. Further, the uniform classification of transactions under the functional classification system enables financial comparisons between Union and State Governments as well as the compilation of General Government accounts.

36. Economic classification of Budget is a separate system of classification used for categorizing Government expenditure service wise into (i) General Services, (ii) Social Services, (iii) Economic Services, and (iv) Transfers to States. This is important to reveal an accurate position of the economy, apart from the distinction between Revenue and Capital accounts. This classification system is necessary to make it useful for economic analysis and to determine how these transactions influence the behavior of other sectors of the economy as a whole.

37. The IMF-GFS manual requires information based on Functional and Economic classification for making cross-country comparisons. Within the country also it is important for making inter-State comparisons on sectoral performance as well as qualitative assessment of expenditure components in the General Government expenditure. The Finance Commissions also rely heavily on this classification in assessing the expenditure profile and resource needs of each State. In the Centre’s case, the Budget documents indicate the Sectoral / Economic Classification by prefixing figures (1,2,3 and 4) to the concerned Major Heads (coded on Functional classification basis), for distinguishing between General, Social, Economic and Transfers to States. This system enables an easy co-relation between the two systems of classification and for this purpose, Government transactions should continue to be arranged under these significant economic categories, even after the merger of Plan and Non-Plan.
Functional Classification:

38. Each Division in the Consolidated Fund and the Public Accounts is divided into sectors, which may in some cases be further divided into sub-sectors and then into the six tiers of functional classification. The classification in the Detailed Demands for Grants is based on the standard six tiers indicated as under: Tier 1. Major Head- 4 digits (Function); Tier 2. Sub-Major Head- 2 digits (Sub-Function); Tier 3. Minor Head- 3 digits (Programme); Tier 4. Sub-Head- 2 digits (Scheme); Tier 5. Detailed Head- 2 digits (Sub-Scheme); and Tier 6. Object Head- 2 digits (Object Head or Primary Units of Appropriation which are standardized).

39. The functional classification signifies broadly the function of the Government for which the expenditure has been incurred and the activity on which the expenditure has been incurred. The functional classification system comprises of a six tier structure with the hierarchy of major, sub-major, minor, sub-head, detailed head and object head. The first tier of the functional classification, called the major head denotes the functions of the Government that are discharged through the expenditure. The second tier of functional classification provides the description of sub functions. The third tier, denoted by the minor head, indicates the objective of the Government being achieved through that particular expenditure. Below the minor head are the two tiers of sub heads (fourth tier) and detailed heads (fifth tier). The Sub head indicates specific schemes or activities of the Government under which the expenditure has been incurred and the detailed head indicates various components of the schemes or sub schemes. The sixth tier of object head provides details about the object of expenditure. Thus, this forms a two dimensional classification where the expenditure is classified into object heads for each functional head. [The Plan / Non-Plan classification is superimposed over the functional and object classification and can be eliminated without disrupting the existing system of function based allocation].

40. The above mentioned functional classification system forms the base on which budget estimates are presented. All expenditure provisions are appropriately classified at the relevant levels in the 6 tier classification. The distinction between Revenue and Capital expenditure/receipts also, as mentioned above is based on the functional basis with the first digit denoting whether it is revenue/expenditure and whether it is a revenue/capital expenditure or even loans. The robustness of the above classification system has withstood the needs of the government budgeting and accounting and the same is proposed to be continued as the base even while the distinction between Plan and Non-Plan is recommended to be dispensed with.

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PART-III:  

The Way Forward

41. There is a shift in government thinking in favour of doing away with the plan and non-plan distinction at the Centre. The States, all these years have talked about the need for greater flexibility to the states in scheme design and implementation. The expenditure reforms however must not be restricted to the issues of changes in the mechanisms of fund transfers and budgetary classification. The Government needs to review all related issues of scheme and programme implementation to assess the needs of the changed times and take appropriate decisions on several fronts to usher the beginning of a new system of budgeting and budget implementation. The Government has already taken a few initiatives to bring about improvements in its fiscal management and to enhance fiscal-federal co-operation.

Recent Reform Initiatives:

42. In a major initiative towards improving the efficacy of schemes, the Planning Commission had earlier carried out the restructuring of centrally sponsored schemes. As a part of streamlining, 126 CSS were restructured into 66 schemes which included 17 Flagship programmes. The Plan and non-plan rationalization carried out during the current year by the Ministry of Finance along with the implementation of the Shivaraj Committee recommendations on reducing number of schemes (core of core- 6, core -20 and optional-2 ) to 28, shall further add to more effective application of central resources and make scheme/programme allocations more focused and outcome-oriented. It is also expected to lead to an improved monitoring and implementation of schemes by the administrative ministries and the State governments.

43. In a fundamental shift from the multiple modes of transfers to the States, central assistance is now directly provided to State Governments, in the form of scheme funds placed with the Administrative Ministries for transfer to the States through the Consolidated Fund of the States. The routing of money through State Treasury has infused greater ownership of schemes to State governments and greater accountability on their part to make timely releases to local Implementing Agencies (IEs) and to monitor the implementation of schemes more closely. While these measures have already started showing results, the Government needs to move now on other fronts, most important of which relates to elimination of plan and non-plan distinction.

Merger of Plan and Non-Plan and Other Budgetary Reforms:

44. The plan and non-plan distinction is to go from the central and state budgets from Budget 2017-18, as announced by the Finance Minister in the Budget Speech of 2016-17. It is largely proposed to be implemented on the lines recommended by the Rangarajan Committee and the ARC. Consequently, there will be no Five year plan post 12th Plan. However, in place of earlier plan resource estimation; the Ministry of Finance will need to carry out resource estimation for funding of various Central schemes and programmes as well as central funding for the State/UT schemes/programmes. The Ministry of Finance will be guided by the Vision document being prepared by the NITI Aayog, as this will help in setting out the resource priorities of the Government.
45. Further, in keeping with the spirit of holistic budgeting suggested in the earlier section, the focus should on top down budgeting where the resource priorities are guided by a short/medium and long term strategies. The yearly sectoral priorities and allocations would also accordingly be set. Based on the allocations the Ministries would set a rolling outcome/output framework. They would then accordingly carry out the scheme wise allocations and the endeavor would be to move towards and enabling maximum flexibility to re-appropriate amongst schemes and components of expenditure within a scheme, required to maximize the achievement of the agreed objectives.

46. To achieve the allocative objectives, the Ministry of Finance will need to prepare projections of budgetary resources of Centre including central support to the States (outside the Finance Commission recommendations) through various schemes and programmes. This will need to follow the resource estimation of tax, non-tax and other receipts of the Centre in the budget and the projection period in the medium term as per the FRBM Act. The Ministry of Finance will be required to prepare the projected total budgetary resources for the budget year and in the projection period of the Medium Term Expenditure Framework. In the envisaged system post the 12th Plan, the MoF will finalize allocations based upon the estimated requirement of allocation for schemes/projects of Ministries as well as the committed items of current expenditure.

47. A clear framework will also be needed for a comprehensive view of the total transfers to States and accounting and reporting issues linked to these transfers. In this regard there is a need for the Public Financial Management System (PFMS) to be further expanded and extended to interface with State treasuries and AG offices as well as Core Banking Solution (CBS) of banks to enable tracking of expenditure down to the last level of implementation. The Controller General of Accounts is already seized of the issue and complete expansion of PFMS for all schemes and in all the States has already been undertaken and is expected to be implemented fully by 2017-18.

48. Along with the merger of Plan and Non-plan, the other related reforms particularly relating to the outcome based budgeting and a more refined and useful medium term expenditure framework are other areas, that needs be looked into and implemented simultaneously.

49. With the elimination of Plan and non-plan distinction there will also be need for revision of formats of various budget documents to distinguish allocation in terms of revenue and capital expenditure and not in terms of plan and non-plan as is being shown currently in the expenditure related budget documents. Revision in the format and contents of various budgetary documents will be essential to conform to the changes proposed to be brought in as well as to make them more relevant and useful for the users. Certain changes in processes and procedures relating to appraisal and approval of schemes/programmes, re-appropriations etc. and utilization certificate requirements will also be essential. These issues will also need to be looked into for the required changes well in advance so that all preparatory work is completed before the next budget cycle kicks in.
PART-IV:
Implementation Framework of Merger of Plan and Non-Plan and other related Reforms

Resource/Expenditure Planning:

50. The Ministry of Finance, Budget Division does resource planning for the fiscal/financial year as well as the projection for the medium term rolling period. On the basis of the detailed resource planning the rolling targets for receipts as well as expenditure of the Centre is prepared. The same is indicated in the Medium Term Fiscal Policy Statement placed before Parliament, with the General Budget documents, as part of the FRBM Statements. These projections include estimates for Gross tax revenues/tax revenues net to Centre, estimated non-tax revenues as well as the non-debt capital receipts and the fiscal deficit for the year/s in the projection period. Similarly, for expenditure projections, estimates on all major parameters of Plan/Non-plan/Revenue/Capital expenditures with major components of expenditures are also projected. The Medium Term Expenditure Framework (MTEF) Statement which is placed in the Monsoon Session of Parliament, reflects expenditure on major sectors/items. However, there is a constraint in the extant MTEF format, as it does not indicate Ministry/Department/Demand wise projections of expenditure. As a result, Ministries/Departments till now did not have any indication of their medium term budgetary allocations, to plan and prepare for the coming years.

51. The Medium Term Fiscal Targets and MTEF Statement would continue to be prepared by the Budget Division. However, with the merger of Plan and Non-Plan from Budget 2017-18, the MTEF Statement needs to have an additional Statement indicating Demand wise revenue and capital expenditure targets for the projection years. This will provide assistance to Ministries in planning for their expenditures/deliverables within the medium term. In keeping with the above idea, a new Statement has been laid in Parliament as part of the MTEF Statement 2016-17, in the recent Monsoon session. The Statement contains Demand wise revenue and Capital projections for the current year as well as the two year rolling period. This will provide a basis for medium term planning by the Ministries/Departments as well as become the basis of final budgetary allocation by the Finance Ministry.
Table 1: Format of MTEF Statement:

<table>
<thead>
<tr>
<th>Demand No.</th>
<th>Demand Name</th>
<th>RE 2015-16</th>
<th>BE 2016-17</th>
<th>Projections 2017-18</th>
<th>Projections 2018-19</th>
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<tr>
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<td>Department of Agriculture, Cooperation and Farmers Welfare</td>
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<td>2</td>
<td>Department of Agricultural Research and Education</td>
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<td>3</td>
<td>Department of Animal Husbandry, Dairying and Fisheries</td>
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(Note: This Statement will include all Demands)

Decisions on Schemes/Programmes to be funded by Centre:

52. The HLEC had recommended that on removal of Plan and 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 multi-year horizon and from input-based budgeting to the budgeting linked to outputs and outcomes. While doing this, with main the focus on outcomes, the distinction on revenue/capital will be required for greater fiscal discipline/intergenerational equity. The idea is that with budgetary outlays primarily linked with outputs/outcomes while there should be a clear focus on review of capital component of government expenditure, it should not be pushed blindly, which would otherwise bring back the earlier deficiencies noted on account of excessive focus on plan. The following methods may be adopted for expenditure management after plan and non-plan merger:
Classification of Schemes:

53. The Central government expenditure may be classified into six broad categories of:
A. Centre's Expenditure:
(i) Establishment expenditures of the Centre;
(ii) Central Sector Schemes;
(iii) Other Central expenditure including those on CPSEs and Autonomous Bodies;
B. Transfers:
(iv) Centrally sponsored schemes;
(v) Finance Commission Transfers*; and
(vi) Other transfers to States.
* (The demand titled "Transfers—to States" in the Department of Expenditure, Ministry of Finance alone will have the category of 'Finance Commission Transfers')

The Central sector schemes will include all those schemes/projects where the Centre is providing 100% budgetary support. These central schemes/projects will include the existing major schemes/projects on the plan side as well as those on the non-plan side. These schemes/projects will continue to be implemented mostly by Centre/Central agencies or wherever so approved, through the State/UT Governments/their agencies.

54. The Establishment expenditures of the Centre will include all the establishment related expenditure of the Ministries/Departments. The budgetary proposals for this section will include establishment expenditure on attached and subordinate offices, on various heads related to establishment viz. salaries, medical expenses, wages, overtime allowances, foreign travel expenses, domestic travel expenses, office expenses, materials and supplies, publications, advertising and publicity, training (if new object head is opened) other administrative expenses, POL, cost of ration, clothing and tentage, professional services, rent rates and taxes, royalty, pensionary charges, rewards and minor works, motor vehicles, information technology etc.

55. The Central sector schemes will include all those schemes which are entirely funded and implemented by the Central Agencies viz. Ministries/Departments or its various agencies like the autonomous bodies and other special purpose vehicles. In some cases as an exception, and with the prior consent of Finance Ministry (Department of Expenditure) the central sector schemes may be allowed to be implemented through the concerned State implementing agencies. The transfer of funds in such cases will be done through the implementing agencies and not the State treasuries. The 'Other Central Expenditure' will include provisions made for the Central expenditure on PSUs, autonomous bodies etc. and other projects not covered in the category of schemes. In certain cases like ICAR, CSIR and Atomic Energy etc. which also implement some Central sector schemes, the provision will be shown in the category of the central sector schemes.

56. The Centrally sponsored schemes on the other hand will include the schemes so decided by the Report of the Sub-Group of Chief Ministers on Rationalization of Centrally Sponsored Schemes as approved by the Cabinet on 3.8.2016. These schemes will be implemented by the State/UT governments with the sharing pattern as approved by the Government, based on the recommendations of the sub-group of Chief Ministers. The central share for the schemes will be routed entirely through the State treasuries as grants in aid under various object heads, except in
the case of Direct Benefit Transfers where the functional heads could be used. In such cases, a mapping of the allocations under centrally sponsored schemes not routed through State treasuries will be required to work out the total quantum of resource transfers to the States within the centrally sponsored schemes.

57. However, before a final decision on all schemes/projects of the Centre or towards assistance to the States are firmed up, it is suggested that a thorough review of all the existing schemes/projects be taken for de-duplication and weeding out the overlapping/ redundant schemes. This exercise is being undertaken by the Department of Expenditure in consultation with the Ministries/Departments. Once the exercise is completed now, this can be subsequently repeated every five years through a specific Terms of Reference to either the NITI Aayog or the Finance Commission. The effort should be to ensure that all wasteful, unnecessary and poorly run programmes are subject to review and overhaul or even elimination.

Pre-Budget Meetings:

58. In order to enable Ministries/Departments to submit their budgetary allocation proposals to Budget Division, the Budget Circular will call for the expenditure estimates in a revised format under the above six categories of expenditure. The pre-budget meetings may continue to be held from the last week of October to early December as is being done. The Ministries/Departments will be asked to furnish their requirements for budgetary support in the above 6 separate categories of classifications. In the pre-budget meeting, the decisions on Revised Estimates for all 6 categories of expenditure will be firmed up.

59. For the Budget estimates of the next financial year, the ceilings will be finalized for the Establishment and Other Central government expenditures (non-scheme related) as well as the Finance Commission related transfers which are already projected in the report and agreed to by the Centre. For the Central Sector Schemes and Centrally Sponsored Schemes, tentative ceilings can be discussed during the pre-budget meetings. This initial ceiling for CSS would be based on the projections made in MTEF allocation for each Ministry/Department (discussed earlier), subject to changes if any in sharing pattern, merger and de-merger, etc. The final ceilings for the schemes will be decided separately by the Ministry of Finance towards the end of January/early February, taking into account the resource assessment of the Government and the fiscal deficit commitments. The Outcome Budgets, with scheme wise outputs/deliverables will also need to be revised if there are changes in budgetary allocations from the MTEF projections. The Ministries will be required to finalize their Stage I SBEs before the pre-Budget meeting and complete data entry of Statement of Budget Estimates as soon as the final scheme allocations are communicated.

Budgeting for schemes/projects on Revenue and Capital basis:

60. With the merger of plan and non-plan the budgetary ceilings for schemes/projects etc. will be decided on the basis of capital and revenue allocations. The Ministries/Departments will submit their proposals in the revised format (to be included in Budget Circular) showing actual expenditure and the estimates for RE/BE in the form of Revenue and Capital budget requirements. In order to bring the focus on enhancing capital expenditure of the Government, Budget Division will look into the existing revenue/capital share of budgetary allocation for each Ministry/Department (Demands for Grants), for assessing and expanding the existing avenues for capital expenditure.
Changes In the Medium Term Expenditure Framework Statement:

61. HLEC had also recommended that the budgetary resources need to be estimated and indicated to Ministries on a three-year rolling basis. For the budget year, ceiling in the form of hard budget constraint should be communicated to the Ministries well in advance to enable the Ministries to prepare their detailed budget proposals. EMC has also recommended on similar lines. In keeping with the above recommendations, it is suggested that the MTEF Statement placed before Parliament in the Monsoon Session, should, apart from the existing Statement on major/sectoral estimates of expenditure on rolling basis, indicate the Revenue/Capital budget projection for the rolling period, for each Ministry/Department demand-wise. The detailed scheme/project-wise allocation and the deliverables against each can be planned in advance by the Ministries/Departments, with ample headroom before budget discussions take off in the month of October/November.

62. The MTEF projections will become the basis for pre-budget discussions on allocations for schemes. It must be ensured by the Ministry of Finance, Budget Division that deviations from the MTEF projections are minimized to the extent possible, when the final ceilings for budgetary allocations for schemes/projects are communicated after resource and fiscal space assessments, by January end/early February. To achieve this, as mentioned earlier, the MTEF projections will become the basis of budget discussions and preparation of Stage-I Statement of Budget Estimates, changes in allocations can be made after considering the final resource position and needs of enhanced allocations in certain schemes/Ministries. The final Statement of Budget Estimates (Stage-II) will be submitted once the assessment of resource/fiscal space is completed and the allocations for schemes are finalized and communicated to Ministries/Departments by the Ministry of Finance.

Agreement for Outputs/Deliverables and Outcomes:

63. After the ceilings for budgetary allocation on Revenue/Capital basis is finalized for the MTEF Statement, each Ministry/Department will be asked to prepare an output/outcome statement against each scheme/project allocation. The outputs/deliverables should be given in measurable/quantitative terms on an annual basis e.g. for Sarva ShikshaAbhiyaan the outputs/deliverables will mention the amounts proposed to be spent on salaries (number of schools/teachers), construction of schools/classes (numbers) etc. Outcomes shall be given over the period of the MTEF viz. 3 years. The PF-II Division of the Department of Expenditure may assist the Ministries/Departments in deciding on deliverables/outputs/outcomes for each scheme in partnership with the NITI. The statement of deliverables/outputs/outcomes shown along with budgetary allocation for each scheme can be signed off by concerned Financial Advisers with NITI as MoU, before the pre-budget meetings.

64. The Outcome Statement can also include the results/achievements of the previous year and will need to be updated on the basis of the Revised Estimates in the month of November. The Financial Advisers of the Department/Ministry concerned shall sign the final output/outcome framework with the NITI in the month of January soon after the data entry of the Statement of Budget Estimates. These Demand wise outcome frameworks can form a separate document to be presented along with the other budget documents. NITI in that case shall be assigned the responsibility of finalizing the consolidated Demand wise Outcome Budget Framework and sending it to Budget Division within the given timelines.
65. At the end of the year, the NITI Aayog can review the performance of each Ministry/Department against the agreement of budget allocation. The Ministries/Departments shall be required to explain the deviations in performance on deliverables, if any. The deviations in deliverables will need to be examined seriously and should have a bearing on the budgetary allocation in the revised estimates/next year's budgetary allocations. In short, every allocation for scheme/project will be against a firm set of deliverables which will need to be adhered to and changes in deliverables can be permitted only with the approval of Secretary (Expenditure), in the recommendations of the NITI Aayog.

**Earmarking of Funds for Scheduled Caste Sub Plan (SCSP) and Tribal Sub Plan (TSP)**

66. The present system of earmarking of funds for the Scheduled Castes and the Scheduled Tribes viz. Tribal Sub-Plan (TSP) and Scheduled Castes Sub-Plan (SCSP) is done on the basis of allocation of a certain percentage of Plan allocation of Ministries/Departments. **The percentage allocation by different Ministries/Departments for TSP/SCSP is as per earmarking decided by the erstwhile Planning Commission and is further distributed amongst the various plan schemes implemented by the Ministry.** The percentage earmarking for SCSP/TSP so allocated varies from Ministry to Ministry keeping in view the scope of their schemes and their role in such social interventions. Certain Departments, such as Department of Space, were expenditure can’t be attributed to an individual were totally excluded from SC/ST provisions. With the removal of distinction between plan and non-plan, the allocation for SCSP/TSP will need to be based as a percentage of total schemes allocations, including both plan and non-plan provisions (for both central sector and centrally sponsored schemes in the case of the Centre and similarly for both centrally sponsored schemes and state government schemes at the level of the State Governments). The present percentage allocation to different Ministries/Departments was done by the erstwhile Planning Commission in a manner that ensured earmarking in proportion to the ratio of the Scheduled Caste and Scheduled tribe populations, while ensuring overall 22.5 percent of the plan allocations (15% for Scheduled Castes and 7.5% for Scheduled Tribes).

67. In this regard, doubts have been raised by some State Governments and Financial Advisers that with the merger of plan and non-plan allocations, the quantum of allocation for schemes will be higher in those cases where non-plan provisions also form part of a scheme or in cases where separate non-plan schemes are in existence. To take care of such potential imbalance and ameliorate the problem of unrealistic earmarking of funds for SCSP/TSP, the following are suggested:

(i) SCSP/ TSP is the key instrumentality for ensuring adequate public outlays for SCs/STs. Hence, while giving flexibility Ministries/Departments to classify scheme outlays as Scheduled Caste component/Tribal component, it would also be clearly mandated that the percentage share of SC/ST components of scheme allocations in the Ministry/Department's budgetary outlay should not be lower than the level provisioned in Budget estimates of 2015-16 and 2016-17 (average of absolute level of expenditures on SC/ST to the total Plan allocation at BE stage) would be considered;

(ii) The exclusion of demands related to complete Ministry/Department, or specific schemes therein from such mandatory provision would be specifically spelt out by Ministry of Finance. A suggested list of such excluded Ministries/Departments based on nature of their
operations and the scope of their interventions for SC and STs could be Atomic Energy, Civil Aviation, Coal, Communications & IT, Corporate Affairs, Defence, Earth Sciences, External Affairs, Finance, Heavy Industry & Public Enterprises, Information & Broadcasting, Mines, New & Renewable Energy, Personnel, Petroleum & Natural Gas, Power, Road Transport & Highways, Science & Technology, Shipping, Space, Statistics & Programme Implementation, Steel, Urban Development, Water Resources, Railways, etc. Certain expenditures such as Establishment (earmarking taken care at recruitment stage itself), equity support, Finance Commission grants to States, etc. would also be excluded from SC/ST earmarking;

(iii) For the existing schemes the concerned Governments may review the percentage allocation for each Ministry/Department. The percentage earmarking for the Ministry/Department may be worked out considering the scope of each of their schemes for such earmarking. For the Centre, the existing arrangement of Ministry/Department wise SC/ST allocations along with the specific percentage allocations as well as those exempted from such mandatory earmarking will be reviewed keeping in view the trends/changes in allocations post the winding up of the Planning Commission.

(iv) The SC/ST allocation would be essentially confined to Central sector and CSS. With the removal of distinction between Plan and N. Plan, the allocation for SCSP/TSP will need to be based as a certain % of scheme allocations in the identified Demands for Grants. With non-plan component inflating the denominator, the actual SC/ST earmarking would need to equal at least average of absolute level of expenditures on SC/ST to the total Plan allocation at BE stage in those years;

(v) After deciding the list of exclusions allocations for SC/ST components will be earmarked from the eligible provisions on central sector schemes and centrally sponsored schemes. The 2016-17 ratio of expenditure for SC/ST as % total Scheme expenditure would be maintained, if not increased further on immediate basis to make it at least 22.5% of the total provisions.

State Governments will, as per their practice, be free, subject to NITI advice in para 68 below, to devise their own norms for earmarking the fund for SC and ST components, subject to compliance with Centre’s directives/allocations in case of centrally sponsored schemes.

68. NITI has further suggested to take note of the following while finalizing the guidelines on earmarking of funds for the SC/ST:

While finalizing the guidelines for earmarking of funds for the SC/ST, NITI has suggested that the following may be taken into account by both Centre and the States:

(i) Need to create a facilitation mechanism/administrative structure for the identified nodal Ministry/Department which would be entrusted with the task of monitoring the SCSP and TSP;

(ii) Either the Finance Department or the Departments dealing with the welfare of the scheduled castes and scheduled tribes may be the nodal agency for monitoring of SCSP/TSP at the State/UT level;

(iii) Appropriate instructions be issued to States/UTs to reflect budgetary provisions in the State budgets of various Departments with provision for collating such provisions as an aggregate;

(iv) Instructions be issued to Central Ministries/States to follow the prescribed reporting systems and collation of such information from all sources at one single
control/responsibility point. Instructions should also include following of the guidelines issued by the erstwhile Planning Commission/ NITI Aayog regarding formulation and implementation of sub-plans.

(v) An e-Governance system be in place for reporting and monitoring system (both in terms of financial expenditure and outcomes)

Statement on Resource Transfers to States for CSS/Central schemes and projects:

69. During the time of Planning Commission, the plan resource finalization of each State was done by the Planning Commission in consultation with the State Governments. This included resources met from State’s Own Revenues, Central Assistance and the borrowings. However, with the winding up of Planning Commission and with the proposed merger of Plan and Non-Plan, there has arisen a communication gap in communicating the flow of resources from the Centre to the States. The States need to include expenditure/receipt provisions in their own budgets for the scheme/project related flow of funds from the Centre. In the absence of any mechanism for this, the States are finding it difficult to finalize their own budgets with lack of clarity on central flows.

70. The new statement in MTEF will be useful to States to get an idea of the approximate fund flow by extrapolating the allocation for CSS in the same ratio. It will be useful if each Ministry/Department, in consultation with NITI, works out its norms for apportionment of funds to each State for the schemes/projects which are implemented by the State Governments. This will have to be made mandatory for all, currently 28, Centrally Sponsored Schemes. It is proposed that along with the preparation of the Statement of Deliverables, the Ministries/Departments will also indicate the total funding for each of the centrally sponsored schemes viz. State’s Share and the Central share on the basis/ norms followed for the purpose. This Statement will be prepared State wise to enable each State to get a clear idea on the flow of funds under various schemes for making appropriate provisions in the respective State Budgets. The Ministries may endeavor to do the same in their DDG before 31st March. The allocation shown for CSS would be provisional and could be updated by 31st May based on actual performance of States and closing funds available with each State.
PART-V

FORMAT OF BUDGET DOCUMENTS

71. 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 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

Demands for Grants:

72. 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:

73. 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.

Expenditure Budget Vol.2:

74. 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:
75. 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)

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<tr>
<th>Ministry/Department Demand No.</th>
<th>Schemes/Projects</th>
<th>Actuals 2015-16</th>
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*This will be applicable for Demands for Grants relating to 'Transfers to States'.

Budget at a Glance:

76. 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:
77. The format changes in the Budget at a Glance will be required for the following:
   (i) **Summary Statement (at the beginning of the document at pg.1)** - 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 'Ruppee Goes To' (pg.3) 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) Expenditure Statement (pg.6-7 of Budget 2016-17): 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 (pg.10-11): 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 (pg.13-17) and Statement on State/UT Plan (pg.18-20): 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:

78. 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.

Action Already Completed:

- Budget Division with the aid of NIC has prepared dummy SEB/Expenditure Budget Vol.2 with Revenue/Capital allocation in place of Plan and Non Plan;
- The revised Demands for Grants has been prepared, eliminating plan and non-plan distinction;
- Detailed Demands for Grants (with plan and non-plan merged) has been prepared by all Ministries/Departments for all the Demands for Grants;

Further Action required to be taken by Budget Division:

- Detailed review/revision of Expenditure Budget Vol.1 should be completed and a dummy document prepared before the issue of Budget Circular in September, 2016;
- Dummy Budget at a Glance should be made ready with changes as indicated above after the issue of Budget Circular for budget 2017-18.

Format of Outcome Budget Statement:

79. As stated earlier, after the ceilings for budgetary allocation on Revenue and Capital basis is finalized for the MTEF Statement, each Ministry/Department will prepare a tentative output/outcome budget statement. However, since the MTEF Statement will carry only Revenue and Capital aggregate allocations, the disaggregation of the allocations into schemes etc. will be done by the concerned Ministries/Departments. The outputs/deliverables will mandatorily be required to be given in measurable/quantitative terms. The MTEF Statement with Demand wise projection has also been prepared and laid in Parliament in the just concluded Monsoon session of the Parliament. NITI has also been already entrusted with this responsibility of finalizing the Outcome Budgets of each Ministry/Department in consultation with the concerned Ministries/Departments, including deciding on the quantifiable deliverables/outputs/outcomes for each scheme, in relation to the budgetary outlays.
80. Keeping in view the time constraints between the allocation for schemes to Ministries/Departments by the Ministry of Finance and the presentation of Budget, this would require substantial advance planning. It is recommended that the Outcome Statements may be finalized by the Ministries/Departments in consultation with the NITI, based on the indicative Revenue/Capital allocations made in the MTEF Statement. This would imply, Ministries/Departments will make tentative assessment of requirements under various schemes (within the MTEF allocation) and finalize the deliverables on that basis. Once the final scheme allocations are decided/conveyed by the Budget Division, the requisite changes in the Outcome Budget Statement will be made by the Ministries/Departments and signed off with NITI. This will ensure that while the broad parameters and deliverables will be decided much in advance based on the MTEF projections, only fine tuning required against final budgetary allocations will need to be made at the time of budget presentation. In short, every allocation for scheme/project will be against a firm set of deliverables which will need to be adhered to and changes in deliverables can be permitted only with the approval of Secretary (Expenditure).

81. The broad format of the Outcome Budget Statement will be as follows:

<table>
<thead>
<tr>
<th>Demand No.</th>
<th>Department Name</th>
<th>(Amount in Rs. crore)</th>
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<td>S. No.</td>
<td>Name of Scheme</td>
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</tbody>
</table>

**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

82. This Statement on Deliverables must ideally be presented on the Budget day itself as part of the budget documents. However, it must be presented within the budget session itself if it is found difficult to be finalized and presented along with other budget documents on the budget day. The NITI shall also ensure a mandatory third party review of each scheme once in five years.
PART VI

IMPACT OF PLAN AND NON-PLAN MERGER IN GOVERNMENT ACCOUNTS AND RELATED CHANGES IN THE ACCOUNTING HEADS:

83. The Working Group of the Apex Committee on Banking Business and Government Accounts comprises of Additional Controller General of Accounts (Chair), Advisor Railways, Joint Controller General of Defence Accounts, Deputy Director General (Postal Accounts & Finance), and Deputy Director General (Accounts) Telecommunication. In its meeting on 25th April, 2016, while discussing the implementation of the Government decision of merger of Plan and Non-plan expenditure from the financial year 2017-18, the Members agreed to constitute a Sub-group to study the required changes in the accounting framework. The Sub-Group has since finalized its Report which may be put in the public domain/circulated along with the Guidance Note to all Ministries/Departments and the State Governments. The main recommendations of the sub-Group are as follows:

84. After merger of Plan and Non-plan expenditure, some of the existing Major Heads 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 (LMIMHA) 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.

85. 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 (LMIMHA), 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

86. The sub-Group has recommended retaining of the earlier heads of account for legacy data and for time series comparison purposes as also other administrative needs in future. The sub-Group has also made certain recommendations relating to the need for opening of some new Object heads based on present day needs as well as to enhance the focus on Revenue and Capital expenditure classifications. The same may be examined separately since they are not directly linked to the plan and non-plan merger.
Changes in the Finance Accounts:

87. 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 Non-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.

88. 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.

89. The Working Group has examined the Report of the Sub-Group on the Required Changes in the Accounting Framework including the recommendations relating to the opening of some new 'object' heads of account. It is recommended that a detailed proposal in this regard may be made by the CGA to the C&AG, in consultation with the Budget Division. This may be done at the earliest, for expediting the necessary concurrence and approvals before the budget circulars are issued. The State Governments will also need to review their relevant accounting and financial rules to carry out necessary modifications/amendments as a consequence of plan and non-plan merger.
PART-VII
REVIEW OF FINANCIAL RULES AND MANUALS AND THE APPROVAL/APPRaisal PROCESSES FOR SCHEMES/PROJECTS

90. The proposed removal of plan/non-plan distinction while easeing certain expenditure controls in the form of less needs of re-appropriations etc. will nevertheless also require certain changes in the rules relating to delegation of financial powers, submission of utilization certificates etc. and the related appraisal and approval processes. The Department of Expenditure in the Ministry of Finance will be required therefore to:

- Review the delegation of powers and the procedure for sanction of expenditure.
- Review of financial and budget manuals such as DFPRs, GFRs, in a time bound manner to issue orders for changes wherever required on account of plan/non-plan merger for re-appropriations etc.
- Review/Revision of the Approval/Appraisal process in the context of merger of plan and non-plan (as against separate approval/appraisal processes).

Changes in the Appraisal and Approval Processes:

91. The guidelines for Formulation, Appraisal and Approval of Government Plan/and Non-plan funded schemes and projects have been prescribed from time to time. The guidelines include procedures/mechanisms for Project formulation, Institutional structure for appraisal, time frame for appraisal and approval and other miscellaneous issues.

92. The appraisal/approval processes were earlier laid down separately for Plan and Non-plan schemes. With the merger of plan and non-plan from budget 2017-18, these would need to be reviewed and revised. **Department of Expenditure has in this regard has already issued the revised consolidated guidelines for appraisal/approval of schemes/projects etc. which will be applicable henceforth in view of the merger of plan and non-plan.**

Review and amendments in the GFRs and the DFPRs:

93. The General Financial Rules (GFR) and the Delegation of Financial Powers Rules (DFPR) are the principle documents laying down the financial rules of the Government. The existing provisions in these financial having been framed in the light of existing plan and non-plan distinction, have several provisions having reference to plan and non-plan. The provisions/Rules having reference to plan and non-plan will need to be comprehensively reviewed and suitably modified/deleted, keeping in view the requirements in the new regime with no plan/non-plan distinction from 2017-18.

94. An assessment of the provisions having specific reference to plan and non-plan in the GFRs has been done by the sub-Group. These provisions will need to be specifically looked into for necessary amendments/deletions. **Ministry of Finance, Department of Expenditure has set up a Task Force for revision of GFRs with the Additional Secretary and Financial Adviser, Ministry of Health &Family Welfare as the Chairperson of the Task Force. The Task Force has been given time till 15th September, 2016 to submit their report. Similarly, for the plan and non-plan related provisions in the DFPR, Department of Expenditure in Ministry of Finance will carry**
out the review and requisite amendments by the end of September, 2016 well before the commencement of the new financial year. The State Governments will also need to review their relevant Financial and Accounting rules to carry out necessary modifications/amendments as a consequence of plan and non-plan merger, in consultation with their Accountant Generals (AGs).

96. The entire work including finalization of Format of documents and changes in rules procedures etc. should be completed well in advance so as to provide adequate time for the revision of the Budget Circular which will need to be issued by the middle of September, 2016.
The details are as follow:

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