INTRODUCTORY NOTES

This volume serves as an explanatory memorandum to the Budget of the Central Government in so far as the expenditure provisions are concerned. It is divided into three parts, viz, Part I-General, Part II - Non-Plan Expenditure and Part III - Plan Outlay. The Statements and Annexes which form part of this volume are self-explanatory and have been referred to in the write-up at appropriate places. The expenditure provisions included in the various Statements are net of recoveries and receipts in the case of Departmental Commercial Undertakings, so as not to inflate the figures of expenditure and receipts. Similarly, short-term loans and advances given to the States and recovered during the same year have also been netted.

2. The estimates of expenditure in this document exclude detailed analysis of transactions of Ministry of Railways. The Annual Financial Statement presented separately under Article 112 of the Constitution, however, incorporates the expenditure of all the Central Government Ministries/ Departments including that of the Ministry of Railways.

3. The Demands for Grants presented separately under Article 113 of the Constitution seek the approval of Parliament for "gross" amounts of expenditure without taking into account "recoveries" taken in reduction of expenditure in the accounts. Amounts of these recoveries are also shown in the respective Demands for Grants. The expenditure under each major head of account is shown in the Annual Financial Statement net of these recoveries. A further netting of some non-debt receipts is done in this document, as explained above, to facilitate proper appreciation of various items of expenditure. Annex 1 to this document shows expenditure under each major head of account after such adjustments. Annex 2 reconciles the totals of Annex 1 and the expenditure totals in the Annual Financial Statement, as well as in the Demands for Grants.

4. There is a significant change which the Expenditure estimates of the Union Government reflect.

5. There has been a longstanding demand of the States that there should be a greater devolution of Centre's tax receipts to them. Several States have also expressed difficulties with the one-size-fits-all approach of the Centrally Sponsored Schemes (CSS) and have therefore often asked alternatively, for greater flow of untied Central Assistance (NCA).

6. The 14th Finance Commission has now, in fact, recommended substantially larger devolution of Centre's tax receipts to the States. The recommended devolution is 42% of the divisible pool, as against the 32% recommended by the 13th Finance Commission. The total devolution *(not counting grants to local bodies and revenue deficit grants to some States, which are over and above the 42% devolution)* in the year 2015-16 would be significantly higher than 2014-15.

7. In reckoning the expenditure of the States, the Finance Commission took into account the expenditure incurred by the Centre on Central assistance to State Plans. Para 7.43 of the 14th Finance Commission Report reads as Follows:

"Plan revenue expenditure of States is financed by States' own resources, borrowing and Plan grants from the Union. The Plan grants include normal Central assistance, which is untied,

additional Central assistance for specific-purpose schemes and transfers, special Plan assistance, special Central assistance, Central Plan schemes and CSS. For the purpose of our assessment of Plan revenue expenditure of States, we have included expenditure incurred on State Plans and States' contribution to CSS. This excludes Union expenditure on CSS, Central Plan schemes and North Eastern Council Plan schemes and externally aided projects financed through grants from the Union. We have estimated the 2014-15 base year Plan revenue expenditure (as defined above) for each State, applying an annual growth rate of 13.5 per cent over 2012-13 and 2013-14. For the purpose of our projection period, we have assumed an annual growth rate of 13.5 per cent over base year estimates for all the States, implying that the Plan revenue expenditure will increase at the same rate as the GDP growth rate."

8. Union Government has envisioned giving greater and real meaning to cooperative federalism, based on the belief that only stronger States will make India stronger. In keeping with the spirit that led to the replacement of a central planning body, the Planning Commission, by NITI, which is a joint body of the Centre and the State Governments, the Central Government has also decided to accept the 14th FC recommendation of 42% devolution to the States.

9. However, keeping in mind that some of these schemes represent national priorities, specially schemes aimed at providing assistance to the poor, the Government has also decided that it will continue to contribute to some of these schemes.

10. Based on the above, over 30 Centrally Sponsored Schemes have been identified which ought to have been transferred to the States because expenditure on them has already been taken into account as State expenditure, in arriving at the greater devolution of 42% to the States. However, keeping in mind that many of these schemes are national priorities, and some are legal obligations (such as MGNREGA) and in order to underline the Central Government's continued support to national priorities, especially with regard to schemes meant for the poor, most of these are proposed to be continued. It is proposed that only 8 Centrally Sponsored Schemes be delinked from support from the Centre. The list of such schemes is given in **Annexure-'8'.**

11. Certain programmes of the Government will have to continue unaltered as they are either legal/constitutional obligations, or are privileges available to the elected representatives for welfare of their constituents. Further, and more importantly it is proposed that the Union Government may continue to support certain programmes which are for the benefit of socially disadvantaged in an unaltered manner from its own resources. **The indicative list of such programmes is at Annexure '8A'.**

12. In respect of various Centrally sponsored schemes, the sharing pattern will have to undergo a change with States sharing a higher fiscal responsibility in terms of scheme implementation. Details of changes in sharing pattern will have to be worked out by the administrative Ministry/Department on the basis of available resources from Union Finances. **Indicative list of schemes, in which sharing pattern will undergo a change is at Annexure '8B'.**

13. From FY 2015-16 Statement No. 16A depicting major schemes under the Central Plan of Ministries/Departments is introduced.

14. Actual for 2013-14 in Expenditure Budget, Volume 1 and 2 are provisional.