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Restructuring of Centrally Sponsored Schemes: Implications for Madhya Pradesh

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Abstract

The Union Budget 2015-16 provided a list of centrally sponsored schemes/programmes recommending a change in the funding pattern for these schemes. This paper tries to capture the implications of such recommendations for the state of Madhya Pradesh by analysing the data on the plan budget for the state for 2014-15 (RE) and 2015-16 (BE). The paper finds that if the funding pattern for the enlisted schemes were followed as per the recommendations provided in Union Budget 2015-16, the state of M.P would have to bear around 16 per cent of the plan expenditure, whereas it currently bears only about 11 per cent of the plan expenditure. This would imply an additional expenditure burden for the state.

Keywords: public welfare, centrally-sponsored schemes, Madhya Pradesh, India

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Introduction

The states have often not only requested the centre for greater financial resources but also for adequate autonomy regarding deciding the spending pattern of these resources. In the light of such demands, the 14th Finance Commission recommended a higher vertical devolution ratio of 42 per cent (from 32 per cent recommended by the 13th Finance Commission), with a view to provide more "untied funds" to the state. However, soon after these recommendations, the Union Budget 2015-16 provided a list of 24 centrally sponsored schemes/programmes wherein the state would require to bear the revenues expenditure while the centre would provide for the capital expenditure. The change in the sharing pattern between the state and the centre for these schemes (which is expected to create greater expenditure burden on the state) was recommended keeping in view the greater financial resources that would be available to the state due to the higher amounts of tax devolution recommended by the 14th Finance Commission. The Union budget 2015-16 also recommended a set of 31 centrally sponsored schemes/programmes which would be entirely supported by the centre, and a set of 8 schemes which would be delinked from any central support. It has also been provided that the state would have the power to take a decision regarding the continuation of these 8 schemes.

This paper attempts to focus on the recommendations of the Union Budget 2015-16 regarding the change in the funding pattern for the above mentioned 63 centrally sponsored schemes. It tries to estimate the impact of these recommendations on the finances for the state of Madhya Pradesh. The budgetary figures from the Finance Department (Government of Madhya Pradesh) have been considered and the likely extra expenditure burden for the state has been estimated in the following sections. Section 2 of the paper describes the methodology adopted for the current analysis, while section 3 provides the analysis and the results. Section 4 summaries the findings of the paper.

Methodology

The total plan budget for M.P. for 2014-15 (RE) and 2015-16 (BE) has been considered for the analysis, aggregated at the level of the schemes. Out of the total plan budget, the allocations budgeted for the schemes/programmes in questions have been separated out. Hence, the total plan budget for the state has been split into four parts.

Group-1: This part consists of the budgeted planned expenditure for the 24 listed schemes/programmes in Annex 8B of the Union Expenditure Budget Vol.1 (2015-16), for which it has been prescribed that the state would bear the revenue expenditures while the centre would bear the capital expenditure.

Group-2: This part consists of the budgeted planned expenditures of 31 listed schemes/programmes in Annex 8A of Union Expenditure Budget Vol.1 (2015-16), for which it has been mandated that the centre would fund the entire allocations for these schemes.

Group-3: This part consists of budgeted planned expenditures of 8 listed schemes/programmes in Annex 8 of Union Expenditure Budget Vol.1 (2015-16), for which it has been mandated that these would be delinked from any centre support and the state would bear the entire allocations for these schemes (if it decides to continue with these schemes). For the present analysis, it has been assumed that the state would continue with these schemes.

Group 4: This part consists of the expenditures for the remainder of the plan budget for the state. There would be no changes for this part of the budget.
Hence, out of the total planned budget of Rs.52,792 crores as per 2014-15 RE and Rs.60,349 crores as per 2015-16 BE, budgeted plan expenditure under group-4 is Rs.30,630 crores for 2014-15 (RE) and Rs.36,589 crores for 2015-16 (BE). Therefore, allocations considered under group-1, group-2 and group-3 (i.e. schemes where the funding pattern would change due to the recommendations stated in the Union Budget 2015-16) only account for about 40-42 per cent of the plan budget for M.P.

After segregating the total plan budget into various parts as mentioned above, the centre-state components of the plan expenditure for each scheme (and for the overall plan budget) has been examined in the existing framework and also in the recommended framework (i.e. under the framework specified in Union Budget 2015-16) . After such an analysis, the share of the state in the expenditures in both the scenarios have been compared so that the likely additional expenditure burden on the state can be calculated due the recently recommended changes in the funding pattern for the listed schemes.

Analysis and Results

In order to assess the overall impact of the recommendations regarding the sharing patterns of the above discussed schemes on the state, the sub categories of schemes mentioned above (i.e. schemes under group-1, group-2 and group-3) have been discussed in details below.

Schemes Considered in Group-1

The schemes considered in Group-1 account for Rs. 7,249 crores as per 2014-15 RE and Rs.7,561 crores as per 2015-16 BE figures. As given in Table 1 below, the state would have to bear more than 85 per cent of the expenditure for schemes under this category under the recommended framework, whereby the state would have to bear all the revenue expenditures for these schemes while the centre would bear the capital expenditures. Considering that most of the expenditure incurred in these schemes are revenue expenditures, the burden of the state would rise significantly for these schemes, under the newly recommended framework.

Table 1: Expenditure Sharing Pattern for Schemes in group-1

Expenditure Contributions	2014-15 RE	2015-16 BE
Total Budget under Group-1 schemes (in Rs. crores)	7,249	7,561
Existing State Share (in Rs. Crores)	1,716	1,747
State Share Under Recommended Framework (in Rs. Crores)	5,933	6,575
Existing State Share (in per cent)	24	23
State Share Under Recommended Framework (in per cent)	82	87

Source: Finance Department, GoMP

Schemes Considered in Group-2

The schemes under group-2 would account for Rs.13,909 crores according to 2014-15 RE and Rs.15,080 crores in 2015-16 BE. In the present scenario, the state bears about 16 per cent of this expenditure (see Table 2). However, under the recommended framework, where the centre is expected to bear all the allocations for these schemes, the burden for the state is expected to decline significantly (i.e for this part of the plan budget).

Table 2: Expenditure Sharing Pattern for Schemes in group-2

Expenditure Contributions	2014-15 RE	2015-16 BE
Total Budget under Group-2 schemes (in Rs. Crores)	13,909	15,080
Existing State Share (in Rs. Crores)	2,198	2,339
State Share Under Recommended Framework (in Rs. Crores)	0	0
Existing State Share (in per cent)	16	16
State Share Under Recommended Framework (in per cent)	0	0

Source: Finance Department, GoMP

Schemes Considered in Group-3

As has been mentioned above, these schemes would be delinked from any central assistance and the entire allocation for these schemes under this category would be funded by the state. Hence, instead of having to share only 8 per cent of the expenditure for these schemes in the present scenario (see Table-3) the state would require to fund the entire allocation for these schemes, in the recommended scenario.

Table 3: Expenditure Sharing Pattern for Schemes in group-3

Expenditure Contributions	2014-15 RE	2015-16 BE
Total Budget under Group-3 schemes (in Rs. Crores)	1,003	1,119
Existing State Share (in Rs. Crores)	76	95
State Share Under Recommended Framework (in Rs. Crores)	1,003	1,119
Existing State Share (in per cent)	8	8
State Share Under Recommended Framework (in per cent)	100	100

Source: Finance Department, GoMP

Overall Impact of the Scheme Restructuring Process for the State

Table 4 below captures the existing scenario with respect to the funding pattern of the total plan expenditure in M.P. According to the present scenario, the state is only responsible for funding about 11 per cent of the total plan expenditure. The remaining 89 per cent of the total plan expenditure is funded by other sources with the majority of the funds being contributed by the central government (through the centre sector schemes, centrally sponsored schemes and the additional central assistance). Apart from the contributions from the centre, the other sources include funds routed through the externally aided projects (EAPs), funds routed as per provisions of certain acts, grants from the Finance Commission etc.

In table 5, the burden of the state has been shown if the newly recommended norms in Union Budget 2015-16 were to be applied on the plan budget for 2014-15 RE and 2015-16 BE for M.P. The segment in Table 5 (see below) called the "Unaltered Plan Budget" deals with that part of the plan budget which are covered by the schemes under group-4. The "Altered Plan Budget" deals with that part of the plan budget covered by the schemes classified under group-1, group-2 and group-3.

From table 4 and table 5 it is clear that if the norms recommended in Union Budget 2015-16 are followed, the state would have to bear about 16 per cent to 17 per cent of the total plan expenditure whereas it only contributes around 11 per cent of the plan expenditure in the current scenario. Hence, the state would have to bear an extra burden of around 5 per cent of the total plan expenditure under the recommended scenario. This would imply an extra burden of Rs.3,514 crores if the 2015-16 BE figures are considered.

Table 4: Expenditure Classified According to Funding Sources (Existing Scenario)

Item	2014-15 (RE)	2015-16 (BE)
Total Plan Exp. (in Rs.Crores)	52,792	60,349
Expenditure Funded by State (in Rs. Crores)	5,957	6,360
Expenditures Funded from Other Sources (in Rs. Crores)	46,834	53,989
State Share (in per cent)	11	11
Share of Other Sources (in per cent)	89	89

Source: Finance Department, GoMP

Table 5: Expenditure Classified According to Funding Sources (Recommended Scenario)

Item		2014 (RE)	2015 (BE)
Unaltered Plan Budget (Schemes in Group-4)	Expenditure to be Funded from Other Sources (in Rs. Crores)	28,664	34,410
	Expenditure to be Funded by State (in Rs. Crores)	1,966	2,179
	Total Plan Expenditure in this category (in Rs. Crores)	30,630	36,589
Altered Plan Budget (Schemes in Group-1,Group-2 and Group-3)	Expenditure to be Funded from Other Sources (in Rs. Crores)	15,225	16,066
	Expenditure to be Funded by	6,93	7,69

Item		2014 (RE)	2015 (BE)
	State (in Rs. Crores)	6	4
	Total Plan Expenditure in this category (in Rs. Crores)	22,161	23,760
Overall Plan Exp.	Expenditure to be Funded from Other Sources (in Rs. Crores)	43,889	50,476
	Expenditure to be Funded by State (in Rs. Crores)	8,903	9,873
	Total Plan Expenditure (in Rs. Crores)	52,792	60,349
Share of State in Overall Plan Budget (%)		17	16
Share of Center in Overall Plan Budget (%)		83	84

Source: Finance Department, GoMP

Summary and Conclusions

The Union Budget 2015-16 provided a list of 63 centrally sponsored schemes/programmes, whereby it recommended a change in the funding pattern for these schemes. This paper has attempted to capture the financial implications of these recommendations for the state of M.P. It is observed that if the recommended funding pattern is followed for the above mentioned schemes, the state would have to bear about 16 per cent to 17 per cent of the total plan expenditure. Under the existing scenario, the state only bears about 11 per cent of the plan budget while the remaining 89 per cent of the plan budget gets funded from other sources. Hence, under the newly recommended structure, the state would have to bear an additional burden of about 5 per cent of the total plan expenditure.

Hence, while on one hand the state of M.P. is expected to gain on account of the higher vertical and horizontal devolution shares suggested by the 14th Finance Commission, it is also expected to bear an additional expenditure burden due to the changes in funding pattern as suggested in the Union Budget 2015-16. Therefore, while on one hand the state has been provided more untied funds through higher tax devolutions (something that has been desired by many states), it has also been entrusted upon greater expenditure burden. Apart from this, it should also be noted that the dissolving of the planning commission would also have an impact on the finances of the state. The net gain or loss for the state can be gauged once the budgetary figures for the next financial year are released.

References

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