CHAPTER 2

INDIAN UNION BUDGET

This chapter explains Budgeting System in India, its principals and details of different kinds of budgets. The structure of government accounts in India and weaknesses of the budgetary process have also been discussed.

"In the most general definition, budgeting is concerned with the translation of financial resources into human purposes."

Aaron Wildavsky, 1984[8]

MEANING AND DEFINITION OF THE BUDGET

Throughout the world, the processes for determining how to raise, allocate and spend public resources constitute one of the foundations of government. The way public resources are used is a major determinant of the achievement of public policy objectives. The annual budget is a key policy document, setting out a government's intentions for raising revenues and using resources during the year.

According to Aaron Wildavsky (1975[9]), Budget is:

- A record of the past,
- A plan, a statement about the future,
- A mechanism for allocating resources,
- An instrument for pursuing efficiency,
- A means for securing economic growth,
- An engine of income distribution,
- A precedent,
- The result of political bargaining,
- The most operational expression of national policies in the public sector.

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[8] Wildavsky, Aaron B. "*The Politics of the Budgetary Process*", Boston, Little Brown & Co. (1984).

[9] Wlidavsky, A. *Budgeting: A Comparative Theory of Budgetary Process*", Bostan/Toranto, Little, Brown & Comapany, (1975): 7-10.

The word budget originated from bougette or 'small bag' in middle French. The use of the word spread to England, where it came to designate the leather bag in which ministers of the crown carried financial plans to parliament, and eventually it became synonymous with its contents. The use of the word in the United Kingdom now refers to the spring financial statement, which focuses on taxation measures. In most countries, the term refers to the annual expenditure and revenue plans tabled in the legislature.

The first traceable legal definition of the budget is contained in a French decree of 1862:

'The budget is a document which forecasts and authorizes the annual receipts and expenditures of the State…' (Stourm 1917: p. 2[10]). In most countries, the government budget is drafted at regular intervals by the executive and tabled in the legislature for review and approval before the beginning of the fiscal year to which it applies.

The budget is the life-blood of the government; the financial reflection of what the government does or intends to do. A theory which contains criteria for determining what ought to be in the budget is nothing less than a theory stating what the government ought to do.

BUDGETING IN INDIA

Budgeting in ancient and medieval India was known not only in its essentials but in fairly great detail, modern budgetary practices started taking shape with the governance of the country being taken over directly by the British Crown. Broadly, the evolution of budgeting has passed through three stages. Firstly, the budgeting system was a sub-system of the British administration. The financial objectives were subordinate to the limited objectives of the colonial power. Control of expenditure and accountability were the hallmarks of this period. Secondly, with the attainment of Independence, the developmental priorities of the nation superseded the limited objectives of the British Raj. In the third phase, a

[10] Stourm, R. "*The Budget.*" New York: D Appleton and The Institute for Government Research, (1917): 2

planning orientation has been sought to be imparted to the budgetary exercises. These three phases correspond to the systems known as incremental budgeting, performance budgeting and zero base budgeting respectively.

EVOLUTION OF BUDGETING SYSTEM IN INDIA

"Kautilya's Arthashastra, which describes the administration during Mauryan period makes reference to an excellent budget system with very detailed, minute rules about the maintenance, preparation, submission and scrutiny of accounts. Every year, the Finance Minister made a note of the opening balance in the Treasury, of all current expenditure, including capital projects in hand (Karaniya) as well as those which had been completed (Siddham). Along with this there was a detailed statement of receipts from all sources; and also a statement of the closing balance anticipated at the end of the year. Full and precise accounts were kept of all receipts and outgoings, on Revenue and Capital accounts; plans were also prepared and included in the budget of all proposed new and profitable expenditure for investment.

The accounts included estimates for the coming year, and the actual results of the year just ended. The entire Cabinet sat in a conclave, so to say, to scrutinize them and to pronounce upon their accuracy, fullness and satisfactory nature in all respects. And their business was not only to verify the actual figures, to tally expenditure with outlay by vouchers and receipts, they also had to see that full value was received for every pie spent; that the clerks, officers and departmental heads has done their duty honestly and efficiently. A system of fines or rewards helped to make the system very effective. The rewards as well as punishments fell as much upon clerks as upon the superior officers, inspectors or even the Auditor-General.

The rulers of the Delhi Sultanate and the Mughal Empire also continued a financial system not very different from the Mauryan system.

With the advent of the British rule, the Indian Financial Administration came effectively under the control of the East India Company. Till 1833, the presidencies of Bengal, Bombay and Madras were quite independent in finance and there was hardly any centralized financial system. This position changed with the Charter Act of 1833 which vested the superintendence, direction and control of all the revenues in the Governor General of India-in-Council.

The main activity of the East India Company being territorial expansion, expenditure on costly wars mounted. Huge sums were remitted to England on account of interest payable on Indian debt, interest on investment on Railways, civil and military charges supposed to have been incurred in England on behalf of India, including the expenses on the maintenance of the Office of East India Company in India. That the Governors of the three presidencies hardly had any powers can be seen from the fact that no governor could create a permanent post carrying a princely salary of more than Rs. ten per month.

Following the first war of Independence, in 1857, there was chaos in financial administration. With the takeover of the Indian administration by the Crown, the financial system came to be fashioned on the lines of the system prevailing in England. Imperial objectives dictated a highly centralised system of financial and administrative control. The first budget was formally introduced in India in 1860 by Sir James Wilson, the then Finance Member of the Governor-General-in-Council. There was at that time no elected legislature in India. The budget was also not presented to the British Parliament. The budget, however, made the **Viceroy/Governor-General-in-Council** accountable to the Secretary-of-State-in-Council in London who, as a member of the British Cabinet, looked after Indian affairs. The Secretary of State became the fountainhead of all authority. He delegated powers to the Governor-General of India. The powers had to be exercised within the ambit of rules and regulations which had to be strictly followed.

The basic features of the financial system in India during the period 1858- 1935 were:

i) The Secretary-of-State-in-Council was the chief regulator of the financial system;
ii) Governor-General-in-Council exercised delegated financial authority;
iii) Finance Department was the custodian of Indian finance and

iv) Controller General had combined responsibility for Indian Audit and Accounts.

The Secretary of State controlled Indian finances through:

a. Acceptance of the Indian budget;
b. Regulation and control of expenditure through voluminous rules, regulations and codes; and
c. Through numerous executive orders.

The budgetary system, more or less, retained these features in spite of the reforms introduced by Lord Mayo in 1870, Lord Lytton in 1877, Lord Rippon's Quinquennial Settlements of 1882 and Lord Curzon's Reforms, 1904. The scene, however, changed significantly following Montague-Chelmsford Reforms of 1919. From 1921 onwards, the Central Legislative Assembly, with a non-official majority, was for the first time given the right to discuss and pass the annual budget of the Government of India in respect of 'non-reserved' subjects, as also to pass the Finance Bill embodying taxation proposals. The Governor-General was, however, empowered to "certify" the financial proposals in the event of their rejection by the legislature.

Before these reforms were introduced, the provincial governments had to seek the Approval of the Central Government for every rupee spent. The Montague-Chelmsford Reforms for the first time introduced realistic provincial autonomy. Central and provincial heads of revenue were clearly demarcated. Consequently, the importance of the supervisory role of Finance Member over the provincial finance departments declined considerably and vanished altogether after 1935. The Secretary of State, however, did not suffer any diminution in his supreme authority after the 1919 reforms. Nothing of significance could happen without his knowledge. But he intervened only when the imperial interests were in jeopardy.

The Government of India Act, 1935, delivered a body blow to his powers. Except for the control over the services, the Secretary of State gave up direct exercise of most of his powers. The Governor General and the Governors exercised special powers and prerogatives over what were called reserved subjects which together with charged items were outside the purview of legislative financial control. They could also restore a demand rejected or reduced by the legislatures. Again, no expenditure could be incurred even if it was duly authorized by the legislature unless it was included in a schedule of expenditure authenticated by the Governor-General or the Governor.

Thus the system of financial control, both at the time of budget formulation and approval for incurring expenditure, turned out to be very rigid, rule-oriented and complex. This system naturally inhibited and suppressed any popular initiative towards change and development. Understandably, the control over financial administration was a necessary adjunct of the fundamental imperial objectives. It was never meant to facilitating solutions to national problems. It was this system, with all its distortions and rigidities, which India inherited from the British."

PRINCIPLES OF BUDGETING

The essential principles generally observed in government budgeting in India are:

i) Principle of **annuality**. The budget should be on an annual basis; this leads to another rule "the rule of lapse". The operation of this rule leads to a rush of expenditure towards the end of the year. However it has the merit of enforcing parliamentary sanction-which is always for an amount for a specific period after which it must be obtained again. This implies that if the funds voted are not used by the end of the financial year, the unspent balance lapses.

ii) The government budgets are **on cash basis**.

iii) There should be **one budget** for all financial transactions of the government. In the absence of one common budget it would be difficult to assess the true financial position of the government. Railways and other public enterprises, however, have separate budgets. In the case of railways, total receipts and expenditure are incorporated in the Central Government Budget. The estimates of capital and loan disbursement and also the extra budgetary resources for financing the plans of public enterprises are also shown in the Central Budget.

iv) The budgeting should be **gross** and not net. Gross transactions, both in the case of receipts and expenditure of each department, should be shown. It is not permissible to deduct any receipt accruing to the department from the charges of collection or any other expenditure. This is intended to ensure that the parliamentary control over expenditure is meaningful. In the absence of this provision, the budget coming up before the Parliament would be reduced only to the net deficit, if any.

v) Budgeting should be **close.** It should not be guess work or guess estimates which result in wide fluctuations and can lead to improper allocation of funds, supplementary grants.

vi) The form of estimates should correspond to the **accounting heads** since the system-I estimates eventually get converted into actual accounts of receipts and expenditure.

FINANCIAL YEAR

In early budgeting, there was a clear link to the crop cycle. Once the harvest was in, one could make plans for the next year. Many developing countries have maintained this connection by clinging to the broken budget year. In India, the revenue for the subsequent year can only be assessed after the Monsoon season in May, June and July. But agriculture is not the only source of income to be taken into account in the Third World. Papua New Guinea changed its budget year to fit that of the donor countries, since their contributions were so decisive for the government's economic planning. In other parts of Asia, governments hesitate between the lunar and the solar calendars. Over time, there has been a tendency to converge on the calendar year as the most convenient basis for budgeting. While the United Kingdom has held out with a budget year beginning in April, Sweden gave up the broken budget year to adopt the calendar year model in 1995. In the long discussion preceding this decision, it was claimed that a harmonization both upwards (towards the European Union) and downwards (towards private enterprises, communes and regions which had long practiced calendar year budgeting) would bring about greater transparency and facilitate coordination between different levels.

When the first modern budget was presented in 1860 in India, the financial year adopted by the government was from 1st May to 30th April. Beginning with the year 1866, however, the financial year was changed to April-March, in conformity with the practice in England. This practice has been the subject of debate and various committees and commissions which examined the issue have been critical of it. The Administrative Reforms Commission in its Report on Finance, Accounts and Audit observed:

"The financial year starting from the 1st of April is not based on custom and needs of our nation. Our economy is still predominantly agricultural and is dependent on the behaviour of the principal monsoon. A realistic financial year should enable a correct assessment of revenue, should also synchronise with a maximum continuous spell of working season and facilitate an even spread of expenditure. For centuries, people in India have become accustomed to commence their financial year on the Diwali day. This practice has its roots in their way of life. The business community and other sections of society start the Diwali day with the feeling that they have finished with the old period of activity and have embarked upon a new one. It is, therefore, appropriate that the commencement of the financial year should be related to Diwali and in order to prescribe it in terms of a date, we have recommended that the 1st November should be the beginning of financial year."

The commission also thought that a budget year commencing on the 1st November would be better suited for the transaction of Parliamentary business. It is normally argued that the effect of south-west monsoon, which is responsible for over 90 per cent of the total annual rainfall in India, would be known by September, and the likely agricultural production during the year can be estimated fairly accurately. The commercial and industrial activities are also largely dependent on the performance in the agricultural sector. Besides, the monsoon months can be utilised for budget formulation and the critical fiscal parameters can be decided upon in the light of anticipated level of economic activity in the ensuing year.

Under the present arrangements, soon after the expenditure sanctions reach the executing agencies, the onset of monsoon renders it difficult to start construction of the budgeted works. These works have to wait till the rains are over. The speed of works is affected because of the intervention of monsoons when barely the preparatory work of projects has been completed. The delayed execution of works results in the rush of expenditure towards the end of the year leading to surrender of funds at the close of the financial year.

Essentially a budget year should help in performing the following functions:

i) Making a fairly accurate estimate of revenue;
ii) Making a fairly accurate estimate of expenditure;
iii) It should facilitate an efficient execution of projects; and
iv) The budget calendar should be convenient to the legislators and administrators.

Different dates have been suggested by the various experts who have examined the question of financial year. These are 1st July, 1st October, 1st November or 1st January. While there is a merit in each one of these suggestions, none of these can reconcile the conflicting criteria proposed. Considering only the criterion of better predictability of revenues, no single budget year provides enough scope for the various states to make a realistic assessment for both Kharif and Rabi crops. Rabi crops are very important for some of the states. The estimation of total agricultural production would, therefore, remain a guess work.

It has, therefore, been argued that the balance of advantage lies in not disturbing the present fiscal year. The database of the economy relates to the existing financial year and any dislocation in this year will lead to statistical, accounting and **Indian Budgetary System** administrative problems. One has to weigh the advantages of changing over to a different fiscal year against the disadvantages inherent in such a switchover. And one has to remember that there is no general agreement on the alternative fiscal year. The only practical approach, therefore, is to continue with the present financial year.

KINDS OF BUDGET

In modern times public budget occupies a very significant place in the economic and financial system of the country. Public Budgets have been of different types, varying in form, manner of presentation of information and data, objectives, their impact on the economy and so on. Following can be different types of budget:

Multiple and Unified Budget: In USA the Government budget used to be divided into parts in such a way that each part would enable to highlight the specialized functions of the Government. Subsequently it was felt that a unified Budget would be more useful for knowing the total effect on the economy which is more important. So the need for a unified budget arose.

Functional and Cash Budget: In USA, distinction made between the functional and cash budgets. The main difference between them is the mentioning of revenue and expenditure figures on accrual basis and excluding those receipts and expenditure which do not belong to the government. Functional Budget always presents an inadequate picture of the government activities. On the other hand, in the Cash Budget, all the flow of funds to and from the government of actual basis is shown, inclusive of funds which are not owned by the government. Therefore, cash budget is invariably larger than the functional budget and a better representative of reality.

Legislative and Executive Budget: A legislative budget is one which is prepared and adopted by the legislature directly or with the help of committees. An executive budget is also passed by the legislature but it is prepared by the executive branch of the government. It is generally believed that an executive budget is more preferable than a legislative budget.

Revenue and Capital Budget: The general practice adopted by many countries is to divide the public budget into Revenue and Capital Accounts; the former covering those items which are of recurring nature while the latter includes items which are of non-recurring nature i.e., which are concerned with the acquisition and sale of capital assets.

Indian Situation: According to the constitution of India, the Budget must distinguish between expenditure on Revenue Account from other expenditures. Hence the budgets of the central and state governments are divided into two parts, namely, Revenue Budget and Capital Budget; the former comprising revenue receipts and the expenditure met out of these receipts. Revenue receipts such as collected from Taxes – Direct and Indirect Tax and Non Tax receipts, collected from currency, coinage and mint, interest payments, dividends, profits, revenue from general services, revenue from social and community services and revenue from economic services. On the other hand, capital receipts include market loans, borrowing from the Reserve Bank of India, receipts of the sale of treasury bills and loans from foreign governments and others to the central government. Disbursement of capital accounts include expenditure on acquisition of physical assets like land, buildings, machinery and equipment, shares and debentures and loans to state Governments and other organizations.

Till mid -1980s the Plan Budget was also prepared along with the main budget. The Plan Budget showed the budgetary provisions for important projects and schemes included in the Central Plan. Now this practice has been changed. The budget of the Government of India is now first divided into two parts: Plan and Non-plan and then each part are further divided into Revenue and Capital Accounts.

Economic and Functional Classification: Economic classification of the budget implies the classification of expenditure and the manner of its financing in terms of economic categories. By doing so, one is able to gather valuable information about the generation of savings, investment, consumption, financial assets and liabilities etc. on the other hand, functional classification refers to the types of functions, which the government undertakes, or the services which it provides.

Balanced and Unbalanced Budget: A budget can be balanced and unbalanced. A government Budget is said to be balanced when its tax revenue and its expenditure are equal. And when Government income and expenditure are not equal, it is said to be unbalanced budget. The imbalances may be due to an excess of expenditure over income or an excess of income over expenditure. In the former case, it is called a deficit budget and in the latter, a surplus budget.

Performance and Programmed Budget: Performance and programmed budgeting is the most recent technique of the formation and execution of government budgets. In this system, government budget is first divided into the major functions of the government, then each major function is further divided into specific programmes, activities and projects and then funds are allocated according to the achievement expected from a department or ministry over a specific period from the proposed expenditure. The emphasis is, therefore, on the size of the programme, its implementation, and the cost involved.

The performance budgeting involves the sequence of steps to be taken for executing a programme along with the expenditure required at each stage and results expected to be achieved. The emphasis of performance budgeting is on efficient internal management in the light of results to be achieved and their cost.

Indian situation: In India the suggestion for adopting the PPB system was made by twentieth estimates committee. It considered this technique ideal for a proper appreciation of the schemes and outlays included in the budget. But, it preferred its use for "large development activities". Subsequently, the Study Team of the Administrative Reforms Commission on financial administration recommended the use of performance budgeting for linking the financial and fiscal aspects of economic development. The Study Team observed that the prevailing budgetary system was good from the point of view of financial and legal accountability but from the viewpoint of effectiveness of expenditure it did not give adequate information and did not help the people and the parliament to have a complete knowledge of the operation and activities of the government. According to the Study Team the use of performance budgeting in India will confer the following advantages:

i) The presentation of the purpose and objectives of seeking fund would be clearer and the progress and accomplishments would be expressed in financial terms.

ii) It would help the legislature to have a better understanding of the budget and to review it more effectively.
iii) It will improve budget formation and the decision making process at all levels in the government.
iv) It will increase the accountability of the executive for the control of financial operations.
v) It will make performance audit more effective and meaningful.

The Study Team recommended the introduction of PPB system in India in a phased manner with priority assigned to those departments and organizations, which handle programmes which involved large expenditure. In India, all the ministries and departments had started preparing performance budget from the year 1975-76. These budgets contain main projects, programmes and activities with reference to the specific objectives, an assessment of the previous year's budget and achievements.

SIGNIFICANCE OF PUBLIC BUDGET

In olden days, Public Budget was considered only as a simple statement of receipts and expenditures of the Government. Then it had only two objectives: Firstly, how little money a government can take out of the pockets of the tax-payers, which is just inadequate to maintain its essential activities at a proper level of efficiency; and secondly, since parliament had to vote funds it was necessary for it to know the plan of expenditure of the government. That was the position of the public budget in a laissez-faire economy but, since the development of the concept of welfare state the activities of the government have expanded at a very rapid rate and now they encompass almost every aspect of the socio-economic life of the community. As compared to the olden days-

1) The size of the Budget has swollen enormously. Its capacity to affect the national economy has greatly increased.
2) The government activities are reflected through public budgets and they affect the production and distribution of national income and the utilization of the resources of the country.

3) The government with the help of the budget can produce a powerful impact on the level of economic activity through its policies on taxation, expenditure and borrowing.
4) The borrowing policy of the government may lead to an increase in the rate of savings and mobilization of resources for economic development of the country.

That is why Van Philips remarked, “The superiority of the Budget is due to its more firm and direct hold on the economy, the results of the budgetary policies are more direct.”

STRUCTURE OF GOVERNMENT ACCOUNTS

Annual Financial Statement

“With the attainment of Independence, the objectives, the policy framework and the environment of financial administration underwent a radical change. The conflict between popular will and aspirations and the policy and procedures which had characterized financial administration in the country disappeared overnight. Even though the basic features of the Government of India Act, 1935, with regard to financial administration, were retained, there was no fundamental disharmony between these instruments and the national priorities. These instruments could be and were refashioned according to the changed objectives.

The budgetary processes in India follow the procedure laid down in Articles **112 to 117** of the Constitution. Accordingly, Annual Budget of the Union, called the Annual Financial Statement of estimated receipts and expenditure, is to be laid before both Houses of the Parliament in respect of every financial year.

The Budget shows the receipts and payments of government under three parts in which government accounts are kept:

i) Consolidated Fund,
ii) Contingency Fund, and
iii) Public Account

Consolidated Fund of India

All revenues received by government, loans raised by it, and also its receipts from recoveries of loans granted by it form the Consolidated Fund. All expenditure of government is incurred from the Consolidated Fund and no amount 'can be withdrawn from the fund without authorisation from the Parliament.

Contingency Fund

Occasions may arise when government may have to meet urgent unforeseen expenditure pending authorization from the Parliament. The Contingency Fund is an Imprest placed at the disposal of the President to incur such expenditure. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency Fund is recouped to the fund."

Public Account

Besides the normal receipts and expenditure of government which relate to the Consolidated Fund, certain other transactions enter government accounts, in respect of which government acts more as a banker; for example, transactions relating to Provident Funds, Small Savings Collections, other deposits etc. The money thus received is kept in the Public Account and the connected disbursements are also made there from. Generally speaking, Public Account funds do not belong to government and have to be paid back some time or the other to the persons and authorities who deposited them. Parliamentary authorization for payments from the Public Account is, therefore, not required.

Charged Expenditure

Under the Constitution, certain items of expenditure like emoluments of the President, salaries and allowances of the Chairman and the Deputy Chairman of the Rajya Sabha and the Speaker and Deputy Speaker of the Lok Sabha, salaries, allowances and pensions of Judges of the Supreme Court and the Comptroller and Auditor-General of India, interest on and repayment of loans raised by government and payments made to satisfy decrees of courts etc; are charged on the Consolidated Fund. These are not subject to the vote of Parliament. The budget shows the charged expenditure separately in the Consolidated Fund.

Government budget comprises:

- Revenue budget; and
- Capital budget

Revenue Budget

It consists of the revenue receipts of government (tax and non-tax revenues) and the expenditure met from these revenues. The estimates of revenue receipts shown in the budget take into account the effect of the taxation proposals made in the Finance Bill. Other receipts of government mainly consist of interest and dividend on investments made by government, fees, and other receipts for services rendered by government.

Capital Budget

It consists of capital receipts and payments. The main items of capital receipts are loans raised by government from public which are called Market Loans, borrowings by government from Reserve Bank and other parties through sale of Treasury Bills, Loans received from Foreign Governments and Bodies and Recoveries of loans granted by Central Government to State and Union Territory Governments and other parties. Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares etc. and loans and advances granted by Central government to State and Union Territory governments, government companies, corporations and other parties. Capital budget also incorporates transactions in the Public Account.

Demands for Grants

"The estimates of expenditure from the Consolidated Fund included in the budget and required to be voted by the Lok Sabha are submitted in the form of Demands for Grants. Generally, one Demand for Grant is presented in respect of each ministry or department. However, in respect of large ministries or departments, more than one demand is presented. Each demand normally includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, grants to State and Union Territory governments and also loans and advances relating to the service. Where the provision for a service is entirely for expenditure charged on the Consolidated Fund, for example, interest payments, a separate appropriation, as distinct from a demand is presented for that expenditure and it is not required to be voted by Parliament. Where, however, expenditure on a service includes both 'voted' and 'charged' items of expenditure, the latter are also included in the demand presented for that service but the 'voted' and 'charged' provisions are shown separately in that demand.

Plan expenditure forms a sizeable proportion of the total expenditure of the central government. The Demands for Grants of the various ministries show the plan expenditure under each head separately from the non-plan expenditure. The document also gives the total plan provisions for each of the ministries arranged under the various heads of development and highlights the budget provisions for the more important plan programmes and schemes.

A large part of the plan expenditure incurred by the central government is through public sector enterprises. Budgetary support for financing outlays of these enterprises is provided by government either through investment in sharecapital or through loans. The budget shows the estimates of capital and loan disbursements to public sector enterprises in the current and the budget years for plan and non-plan purposes and also the extra-budgetary resources available for financing their plans.

The Railways and Telecommunication services are the principal departmentally-run commercial undertakings of government. The budget of the Railways and the demands for grants relating to Railway expenditure are presented to parliament separately. However, the total receipts and expenditure of the Railways are incorporated in the Central Budget. The demands for grants of the Department of Telecommunications are presented along with other demands of the central government."

THE BUDGETARY PROCESS

Functions

The national budget is a document that, once approved by the legislature, authorises the government to raise revenues, incur debts and effect expenditures in order to achieve certain goals. Since the budget determines the origin and application of public financial resources, it plays a central role in the process of government, fulfilling economic, political, social, legal and administrative functions:

- **Economic**

The budget is the state's financial plan. As a tool of economic policy, the budget is the means by which the government seeks to achieve three key economic policy goals: firstly, fiscal discipline, by controlling aggregate expenditure in line with macroeconomic constraints; secondly, the allocation of resources in line with the government's policy priorities; and thirdly, the economic, efficient and effective use of resources in achieving its policy goals.

- **Political**

The budget process ensures the people's representatives scrutinise and approve the raising of taxes, the contracting of debts and the application of public funds by government. This is achieved through a formal separation of powers: government proposes the budget, which is approved by parliament, then executed by government, and finally subject to monitoring and appraisal by parliament to ensure compliance.

- **Legal**

Enactment of the budget in law by parliament limits the powers of government, since the government may not raise taxes that have not been approved by parliament and may not exceed parliament's expenditure appropriations. An auditor, usually accountable to parliament, scrutinises the budget to ensure compliance with parliamentary authorisations. Institutions and individual managers, who fail to comply by, for instance, spending in excess of parliamentary appropriations, are accountable before the law.

- **Managerial**

The budget communicates government policy to public institutions by informing them how much may be spent for what purpose, thereby guiding policy implementation. In some budgeting systems, this function may be reinforced by the inclusion of specific service performance targets within the budget document.

These functions are interdependent: the government is unlikely to implement successful economic policies (economic function) as approved by parliament (political function) if the budget does not effectively communicate its policies to public agencies (managerial function) and compliance with approved policy is not verified (legal function).

BUDGETARY CYCLE

In order to allow time for the executive and legislative processes to go through, budgeting is geared to a cycle. The process of approval is very significant in a responsible form of government. The cycle consists of four phases:

Preparation and submission;

Approval;

Execution; and

Audit

At any given point of time, several cycles would be in operation and would be **overlapping. 'Nevertheless,** various segments of a cycle have different operational life.

Budget Preparation

In India, budget preparation formally begins on the receipt of a circular from the Ministry of Finance sometime during September/October, that is, about six months before the budget presentation. The circular prescribes the time-schedule for sending final estimates separately for plan and non-plan, and the guidelines to be followed in the examination of budget estimates to be prepared by the department concerned. The general rule is that the person who spends money should also prepare the budget estimates. Budget proposals normally contain the following information:

i) Accounts classification
ii) Budget estimates of the current year
iii) Revised estimates of the current year
iv) Actuals for the previous year; and
v) Proposed estimates for the next financial year (which is the budget proper).

Budget estimates normally involve:

a) Standing charges or committed expenditure on the existing level of service. This is can easily be provided for in the budget, as it is more or less based on a projection of the existing trends.
b) New expenditure which may be due to:
    i) Expansion of programmes involving expenditure in addition to an existing service or facility; and
    ii) New service for which provision has not been previously included in the grants.

While (b) (i) can be estimated with reference to progress made and the likely expenditure during the next financial year, budget provision for (b) (i) and (ii) cannot be made unless the scheme relating to it is finally approved.

The budget estimates prepared by the ministries/departments according to budget and accounts classification are scrutinized by the Financial Advisors concerned. The plan items of the Central Budget are finalized in consultation with the Planning Commission and are based on the Annual Plan.

Parliamentary Approval

"The estimates of expenditure prepared by ministries/departments are transmitted to the Ministry of Finance by December where these are scrutinized, modified where necessary and consolidated. The estimates of revenue are also prepared by the Finance Ministry and thus the budget is finalized. The budget is presented to the Parliament generally on the last working day of February. In the first stage, there is a general discussion on the broad economic and fiscal policies of the government as reflected in the budget and the Finance Minister's speech. This lasts about ***20-25*** hours.

In the second stage, there is a detailed discussion on the demands for grants, usually in respect of specific ministries or departments. Each demand for grant is voted separately. At this stage members of parliament may move motions of various kinds. Generally these are policy cuts, economy cuts, and token cuts. The policy cut motion seeks to reduce the demand to rupee one and is indicative of the disapproval of general or specific policy underlying the service to which the demand pertains. The motion for economy cut is to reduce the proposed expenditure by a specified amount. A token cut in a demand is moved to reduce it by a nominal amount say Rs. 100 and may be used as an occasion to ventilate a specific grievance. Since it is never possible to accommodate a detailed discussion on each demand for grant separately, the demands that cannot be so discussed are clubbed together and put to the vote of the Parliament at the end of the period allotted for discussion.

Though the budget is presented before both Houses of Parliament, the demands for grants are submitted only to the lower house. Demands for grants, are the executive's requisitions for sanction to spend, and only the lower house can have a say in the matter. While the legislature can object to a demand for grant, reject it or reduce it, it cannot increase the same. It may also be mentioned here that since no demand for a grant can be made except on the recommendations of the President or the Governor (in the case of State), private members cannot propose any fresh items of expenditure. If this were allowed it would necessitate revision of receipts and consequently the budget and sometimes may lead to improper appropriation of public funds.

Even after the demands for grants have been voted by the Parliament, the executive cannot draw the money and spend it. According to the Constitutional provisions, after the demands for grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amount so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill. The Appropriation Bill after it receives the assent of the President becomes the Appropriation Act. Thus, without the enactment of an Appropriation Act, no amount can be withdrawn from the Consolidated Fund.

Since the financial year of the government is from 1st April to 31st March, it follows that no expenditure can be incurred by the government after 31st March unless the Appropriation Act has been passed by the close of the financial year. This is generally not possible as the process of discussion of the budget usually goes on up to the end of April or the first week of May. Thus, in order to enable the government to carry on its normal activities from 1st April till such time as the Appropriation Bill is enacted, a Vote on Account is obtained from Parliament through an Appropriation (Vote on Account) Bill.

The proposals of government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are submitted to Parliament through the Finance Bill. The members can utilize the occasion of discussion on the Finance Bill to criticize government policies, more specifically the proposals regarding the taxation and tax laws. In certain cases, taxation proposals take effect immediately. Since, however, passing of the Finance Bill may entail a time lag, a mechanism under which the taxation proposals take effect immediately pending the passing of the Finance Bill exists in the form of Provisional Collection of Tax Act, 1931, which empowers the government to collect taxes for a period of 75 days till the Finance Bill is passed and comes into effect.

The budget of the Central Government is not merely a statement of receipts and expenditure. Since Independence, with the launching of five year plans, it has also become a significant statement of government policy. The budget reflects and shapes, and is in turn shaped by, the country's economic life. A background of the economic trends in the country during the current year enables a better appreciation of the mobilization of resources and their allocation as reflected in the budget. A document, Economic Survey, is prepared by the government and circulated to the members of Parliament a couple of days before the budget is presented. The Survey analyses the trends in agricultural and industrial production, money supply, prices, imports and exports and other relevant economic factors having a bearing on the budget."

Execution of the budget

The execution of the budget is the responsibility of the executive government. The procedures for execution of the budget depend on the distribution and delegation of powers to the various operating levels. As soon as the Appropriation Act is passed, the Ministry of Finance advises spending Ministries/ Departments about their respective allocation of funds. The controlling officers in each ministry/department then allocate and advise the various disbursing officers. The expenditure is monitored to ensure that the amounts placed at the disposal of the spending authorities are not exceeded without additional funds being obtained in time. Thus the financial system broadly consists of the following levels:

a) controlling officers; normally the head of the ministry/department acts as the controlling officer;
b) a system of competent authorities who issue financial sanction;
c) a system of drawing and disbursing officers; and
d) a system of payments, receipts and accounts.

The Department of Revenue in the Ministry of Finance is in overall control and supervision over the machinery charged with the collection of direct and indirect taxes. Such control is exercised through the Central Board of Direct Taxes and the Central Board of Indirect Taxes. These Boards exercise supervision and control over the various operational levels which implement different taxation laws. The

Reserve Bank of India is the central banker of the government. The nationalized banks and the network of treasuries are also performing the service of collection (receipts) and disbursement of funds.

Audit

The executive spends public funds as authorized by the legislature. In order to ensure accountability of the executive to the legislature, public expenditure has to be audited by an independent agency. The Constitution provides for the position of the Comptroller and Auditor General of India to perform this function. It is his/ her duty to ensure that the funds allocated to various agencies of the government have been made available in accordance with law; that the expenditure incurred has the sanction of the competent authority; that rules, orders & procedures governing such expenditure have been duly observed; that value for money spent has been obtained and that records of all such transactions are maintained, compiled and submitted to the competent authority. This is the last stage in completing the budgetary cycle.

COMMON WEAKNESSES IN BUDGET PROCESSES

The IBP guide to budget analysis (2001) provides a useful account of common problems with budget processes in developing countries, which include the following:

- Difficulties of making accurate macro-economic projections due to vulnerability to external shocks, and dependence on erratic revenue systems and aid flow;
- Lack of independence from political control of the audit function;
- Lack of accurate budget data;
- Lack of information on socio-economic trends and conditions;
- Weaknesses in the capacity of the legislature to hold the executive accountable due to lack of information and access to technical skills.