UNIT 5  CONCEPT AND SIGNIFICANCE OF BUDGET AND BUDGET CYCLE IN INDIA*

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5.0 OBJECTIVES

After reading this Unit, you should be able to:
- Understand the meaning and significance of public budget; and
- Explain the steps involved in the budget cycle.

5.1 INTRODUCTION

Government functions, policies and programmes will fail and carry no meaning without adequate budgetary provision. And the basis for government budget is public finance, or revenues raised by government which are then allocated to fund public policies and programmes.

A general or special fund, therefore, comes from the public budget which is composed of revenues raised by government through its taxation rate (goods and services) and borrowing decisions. The principal justification for this arrangement

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is that funds allocated through budget for specified government functions and policies, which are so vital that they must be protected by law from political vagaries.

## 5.2 CONCEPT OF BUDGET

The term ‘budget’ is derived from a French word, ‘Bougette’, which means a leather bag or wallet from which the Chancellor of the Exchequer used to take out his papers about government’s financial schemes for the ensuing year for laying before the House of Commons. So when he set off to place his financial plans before the House, he used to open his budget, that is, the bag. The term was used in its present sense for the first time in 1733 in the British parliament. Since then, the term has been used for a financial scheme or statement of annual income and expenditure of the government.

A budget is a work plan that gives direction to the implementation of policies and programmes. The Institute of Cost and Works Accountants, describes the term ‘budget’ as, “a financial and/or quantitative statement prepared prior to a definite period of time, of the policy to be pursued during that period for the purpose of attaining a given objective”. Briefly, the budget is an authentic statement of expected income and expenditure for a specific period. It is mainly instituted as (i) a plan of income and expenditure; (ii) a reflection of public policy, and (iii) a mechanism for planning, controlling, managing and evaluating the activities.

According to Wildavsky, a budget is “a series of goals with price tags attached.” Dimock and Dimock define the budget as “a financial plan summarising the financial experience of the past stating a current plan and projecting it over a specified period of time in future”. If a government wants to achieve certain objectives, the government may issue a policy statement stressing the need of realising these objectives. But these objectives cannot be achieved without the provision of adequate funds in the budget. But it is not necessary that all policies are reflected in the budget. As one United Nations publication points out “…..while the national budget is an important policy document, it does not necessarily present a full picture of the national policies of a Government and may not be consistent with the national development plan” (UN).

## 5.3 SIGNIFICANCE OF BUDGET

In all democratic countries, the budget has been a dominant policy document. It is not only the main instrument for implementing government activities but also used extensively to regulate and influence economic and social activities in the private sector of mixed economies. A budget is a work plan and an evaluation tool that gives direction to the implementation of public policies and programmes. Hence is the need of budget to carry out multifarious activities of the government. Budget is the vital aspect of financial administration and since it operates within the limits of legislative authorisation, the executive is responsible for legal and financial accountability to the legislature. Admittedly budget has commanded a dominant position in the scheme of governance. The budget system today not only provides the legislature to have an over-all control over the revenue collected and expenditure incurred by the executive, but it also becomes an important means for evaluating the progress of various government projects and schemes.
A budget gives the direction in which government intends to go in the near future, usually in the next fiscal year. Emphasising the need and importance of budget, Bridges (1964) says, “Whatever else a Government may or may not do, one thing it cannot avoid doing each year if it is to continue to exist, and that is to obtain the authority of Parliament to raise revenue to meet expenditure which is done by the Budget and the accompanying Finance Bill”.

Recognising the important place of budgeting in administration, a Study Group of the Royal Institute of Public Administration (1959) observes: “In all organisations, however, budgeting can assist management at every level in several ways. In the first place, it helps in making reviewing policy, by encouraging comprehensive forward-looking planning and decision making and providing both the information and the occasions for regular reviews of plans and prospects for the future. Secondly, it supplies yardsticks against which the actual results can be judged, thus helping to assess their significance and results can be judged, thus helping to assess their significance and decide what action may be called for in consequence. A budget can be used in both these ways, whether it relates to income and expenditure on revenue account, capital expenditure, or finance and cash transactions”.

In brief, budget has acquired great dimension not only from the constitutional point of view to assert legislative control over executive, but also administratively it has become an important aid to management, both for policy-making and for keeping check on its execution. Indeed, it is the heart of administrative management. It also serves as a powerful tool of coordination, and negatively, an effective device of eliminating wasteful financial expenditure.

5.4 FUNCTIONS OF MAJOR INSTITUTIONS IN BUDGETARY PROCESS

The budgetary process in India is indeed a difficult exercise. It involves a variety of institutions at various levels. What follows is a brief description of the major actors or agencies involved in the budgetary process at the union level.

5.4.1 Parliament

Parliament in India is the supreme legislative body involved in the budgetary process. Parliamentary approval for the passage of budget is a must. In consonance with the norms of parliamentary democracy, the Parliament is entrusted with the primary responsibility of acting as the custodian of public money in the country. Under Article 112 of the Constitution, the President shall cause to be laid before both the Houses of Parliament the ‘annual financial statement’. This Annual Financial Statement is the main budget document. It may be noted that word ‘budget’ does not figure in the Indian Constitution. Further, of the two Houses of Parliament, it is the lower House or the Lok Sabha that holds absolute control over the financial matters, including the union budget.

5.4.2 Political Executive

In India, the Executive has an equally an important role to play in the budgetary process. The union Finance Minister pilots the budget in the parliament. The Ministry of Finance is the core unit of the Executive, entrusted with the task of
Budget

managing the operational dynamics of the budget. The Ministry of Finance (MOF) is the nodal agency of the budgetary process. Right from estimating the final figures of the revenues and expenditure of the government for presentation before the Parliament, the Ministry is vested with the task of ultimately ensuring that the finances of the country are managed with proper care.

5.4.3 Audit Department

Another important institution which is involved in the budgetary process is the office of the Comptroller and Auditor General (CAG). Visualised under the provisions of Article 148 of the Constitution, the office of CAG conducts an audit on behalf of the Parliament to investigate and report on the fidelity, legality and efficiency of all the financial transactions carried out by government departments. Over the past few years, the CAG has emerged as one of the most stringent checks on the financial impropriety of the government, though critics have argued against such a role of audit in our country.

5.4.4 Parliamentary Committees

Finally, the Parliamentary Committees on Estimates, Public Accounts and Public Undertaking as well as 24 departmental Standing Committees play an important role in the budgetary processes of the country. Important roles are assigned to these committees to exercise control over the finances of the government or its public undertakings. These committees are empowered to perform these tasks by parliament due to paucity of time or lack of expertise with the latter. It may be mentioned here that the role of these Committees is distinct in relation to the budgetary process. The Estimates Committee, for instance, suggests economies in estimates of expenditures of various government departments in order to make them more realistic and economical. The Public Accounts Committee carries out a post-mortem of the accounts in the light of the audit report of the CAG. In the process, these committees bring out financial irregularities, if any, and suggest remedial measures for the same.

In brief these institutions/organisations noted above are playing a significant role in the budgetary process in India. Each year, the budget follows a cycle that includes: 1. preparation of the budget (which entails deciding where tax money will be expended); 2. budget approval; 3. budget implementation; and finally 4. auditing (which is intended to make sure that tax money allocated to various government departments is spent properly).

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) What do you mean by the term Budget? Discuss the significance and role of Budget.

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2) Discuss the process of budget making in India.

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5.5 PREPARATION OF ANNUAL BUDGET

Budgetary formulation is the initial step in the preparation of the budget estimates. It is generally considered a useful tool for providing a meaningful grouping of the activities of the government. Besides, it serves the purpose of presenting a maze of data in a simple and systematic way which enables the parliamentarians to understand the details of the budget. Budgetary classification is particularly helpful in the appreciation of the performance budgeting method. Under the budgetary classification government activities are categorised into three broad groups namely (i) General or Regulatory Services such as revenue, defence, police, general administration, etc. (ii) social and community services such as education, health, housing, etc. and (iii) economic services such as foreign trade, industry, transport, agriculture, etc.

After budget classification in terms of the broad categories such as general, social and economic services, they are further classified into units and sub-units to enable the measurement or performance of related activities. The formation of the budget estimates follows the cycle of the financial year, from 1st April to 31st March. The Union Budget of India (including the Rail Budget) is presented each year on the first working day of February by the union Finance Minister of India in Parliament. However, owing to cumbersome procedures involved in the final formation of the budget estimates, the process for the same begins around the month of September-October of the preceding year. Initiating the process, the Ministry of Finance issues a circular to various ministries and departments inviting their estimates for the coming year. On the basis of instructions from top nodal agency, various administrative agencies prepare their estimates. These sectional estimates are then examined and scrutinised by Departmental Heads and then passed on to officers of the Finance Department/Ministry of Finance in November-December. By the 3rd week of January, the Ministry of Finance is able to prepare a consolidated statement of revenues and expenditures, known as the ‘Annual Financial Statement’. This statement is called the budget document. It is generally presented in the following format:

1) actual figures of the previous three financial years;
2) the sanctioned budget estimates for the current financial year;
3) revised estimates of the current financial year;
4) proposed estimates for the next financial year, with explanatory notes for any increase or decrease in estimates; and
5) actuals of the current financial year available at the time of preparation of the estimates and actuals for the corresponding period of the previous financial year.
The estimates of the ‘Annual Budget’ for the ensuing financial year are proposed on the basis of: (i) the revised estimates of the current year; (ii) the 12 months actuals of the last and previous years; (iii) any recognisable regularity in past year’s figures; and (iv) any special circumstances causing variations.

The Annual Financial Statement or the main budget document is prepared by the Ministry of Finance shows the receipts and payments of the government under three parts in which government accounts are kept: (i) Consolidated Fund, (ii) Contingency Fund, and (iii) Public Accounts.

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 Parliament. Occasions may arise when government may have to meet urgent unforeseen expenditure pending authorisation from 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 subsequently recouped to the Fund. The corpus of the Fund authorised by the Parliament, at present, is Rs. 500 crore.

Besides, these two funds under which government accounts are kept, there is Public Account in which moneys are received and disbursed. In respect of Public Account, government acts more as a banker, for transactions such as those relating to provident funds, small savings collections and other deposits. Parliamentary authorisation for such payments from the Public Account is, therefore, not required.

In a few cases, a part of the revenue of government is set apart in separate funds for expenditure on specific activities like road development, primary education, public health, etc. These amounts are withdrawn from the Consolidated Fund with the approval of Parliament and kept in the Public Account for expenditure on the specific items.

The Budget has to distinguish expenditure on revenue account from other expenditure. Government Budget, therefore, comprises (i) Revenue budget, and (ii) Capital budget.

### 5.5.1 Scrutiny of Budget

Scrutiny of budget is of utmost importance for it affects the economy of the country. This examination and scrutiny of the budgetary proposals takes place at two levels: administrative and legislative. Administrative scrutiny refers to the scrutiny carried out by the higher level of a particular department as well as the Ministry of Finance. The proposal is made part of the departmental budget when it is approved by the head of the department. Further, it is found that if the proposal involves construction works, it needs to be submitted for scrutiny to the Public Works Department which may then give technical approval to the proposal. As the final step in administrative scrutiny, all the departmental budgets, particularly the ‘new items’ thereof, are minutely scrutinised by the Ministry of Finance and the latter’s decision carries considerable weight.
Legislative scrutiny has its own function and significance. It begins after the budget is presented to the Parliament. With the setting up of 24 departmental-related Standing Committees in 1993, legislative scrutiny of the budget has become more focused and sharp. In the end, the debates on budgetary proposals culminate in getting the parliamentary approval.

5.5.2 Principles of Budget-making

The formation of the budget is guided by certain basic principles must be followed. The more important of these principles are as follows:

1) The budget must be a balanced one: Generally speaking the estimated expenditure should not exceed estimated income. When expenditure exceeds estimated income, it is called a deficit budget. Though deficit budgeting is risky in that it can lead to inflation. However, up to a point it is acceptable because it helps fight or downturn in economic activity.

2) Estimates should be on a cash basis: This is how it is in India, Britain and U.S.A. This kind of cash budgeting has the advantage that the final preparation of accounts of a year can be done soon after its close, though it may not reveal the true financial picture for the year. By deferring payments that are due in that year, a surplus instead of a deficit will be shown in the present year’s budget, which is incorrect. In contrast to the cash budget, there is the revenue budget which corrects this deficit, but it results in long delays in preparation and presentation of accounts and this makes the exercise of financial control difficult.

3) Budget must distinguish between recurring expenditure and income on the one hand and capital payments and receipts on the other. In other words, there must be a distinction between current or revenue budget and capital budget. Each part must be balanced separately and the overall surplus or deficit is ascertained by taking both into account.

4) Budget should be gross and not net: All the transactions of income and expenditure must be clearly and fully shown and not merely as the resultant net position. Neglect of this rule can adversely affect the established financial procedure and result in laxity of control, incomplete accounts, etc.

5) Budget estimates should be as exact as possible: Gross over-estimating leads to heavy taxation. Gross under-estimating can throw the whole budget out of gear when it comes to implementation. Close estimation is usually done by taking the average figures of previous three years under different heads and making the necessary adjustments. Itemised estimates are an aid to close budgeting. Generally, one is liberal in estimating expenditure and conservative in estimating income.

6) The formal classification used in the budget should correspond to the format of accounts, that is, budget heads should be the same as that of accounts. This facilitates budget preparation, budgetary control and maintenance of accounts.

7) The rule of lapse: It is the last budgetary principle. No part of the grant that is unspent in the financial year can be carried forward to the next financial year. If this rule is not applied, departments would live on accumulated and unspent balances and would, to that extent, be independent of legislative control.
5.6 ENACTMENT OF BUDGETARY PROPOSALS

A very crucial stage in the budgetary process is approval of the budget by Parliament.

In this context, it is important to bear in mind the powers of the Indian Parliament in budgetary matters, covered in Articles from 112 to 117 of the Constitution. Briefly stated, they are the following:

1) No demand for a grant shall be made except on the recommendation of the President.

2) Any proposal dealing with expenditure must be on the recommendation of the President.

3) Parliament can reduce or abolish a tax, but not increase it.

4) Certain items of expenditure are ‘charged’ on the Consolidated Fund of India, like the salaries and allowances of the President, Judges of the Supreme Court, Chairman and Deputy Chairman of Rajya Sabha, Speaker, Deputy Speaker, Comptroller & Auditor-General of India and a few others. The ‘charged’ expenditure is subject to discussion though not submitted to the vote of Parliament.

5) Parliament cannot amend the Appropriation Bill in such a way as to vary the amount, be it charged expenditure or otherwise, or alter the destination of any grant.

6) In financial matters, the powers of the Rajya Sabha are restricted. It must accept the Finance Bill with or without any recommendations within 14 days. The Lok Sabha may accept or reject any or all of these recommendations. In any case, the Finance Bill does not go again to the Upper House but directly to the President for his assent.

Let us now review the various stages in the budgetary process in the parliament.

1) Presentation to the Legislature: The Finance Minister presents the budget to the Lok Sabha usually on the first working day of February. He does so with the budget speech which is eagerly awaited by business circles as it gives first indications of tax proposals and the economic and financial policy of the Government. The budget is also placed before the Upper House, though its financial powers are extremely limited.

2) General discussion: It takes place a few days after the presentation of the budget. It is spread over two or three days. The discussion in each House is confined to general principles or policy underlying the budget. No details are discussed; there is no voting, nor are cut motions allowed. The general discussion serves the purpose of enabling an overview of the programmes of government and particularly on the ‘charged’ expenditure. At the end of the debate the Finance Minister replies, reacting to the points raised by the members.

3) Voting of demands for grants: After the general discussion, the Lower House takes up voting of demands. This voting of the expenditure is part of the budget and is the exclusive privilege of the Lower House. The demands are
presented ministry-wise and each demand is subject to a vote. At this stage there is a lot of discussion of the details. The opposition can subject the proposals to severe criticism. Members can move cut motions, which are of three kinds namely- disapproval policy cut, economy cut and token cut. The purpose behind the cuts is to criticise the specific departments of government and expose maladministration. When put to vote they are generally defeated because government has a majority to support it. In a sense, the cut motions have symbolic value only.

In about 30 to 40 days the Lok Sabha must complete the voting of demands. The time limit for each demand as well as for the entire expenditure part of the budget is fixed by the Speaker in consultation with the leader of the House. The schedule is carefully observed. On the last day, all the remaining demands are subject to vote though the discussion may not be adequate. A demand becomes a grant after it has been duly voted.

5.6.1 Demand for Grants

The estimates of expenditure from the Consolidated Fund included in the Annual Financial Statement and required to be voted by the Lok Sabha are submitted in the form of Demands for Grants in pursuance of Article 113 of the Constitution. 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. In regard to Union Territories without legislature, a separate Demand is presented for each one of them. It may be noted that Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement.

5.6.2 Finance Bill

At the time of presentation of the Annual Financial Statement before Parliament, a Finance Bill is also presented in fulfilment of the requirement of Article 110(1) (a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. A Finance Bill is a Money Bill as defined in Article 110 of the Constitution. It is accompanied by a Memorandum explaining the provisions included in it.

5.6.3 Appropriation Bills

After the Demands for Grants are voted by the Lok Sabha, Parliament’s approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill. Under Article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the legal sanction by Parliament.

5.7 LEGISLATIVE APPROVAL OF BUDGET

After the Appropriation Bill is passed in the Lok Sabha, the Speaker certifies it as a money Bill and sends it to the Rajya Sabha. Here the bill is discussed and
Budget

Budget returned to the Lower House, with or without recommendations. The Lok Sabha gives the Appropriation Bill its final shape and then sends it to the President for his assent, which is given as a matter of course. Thus the Appropriation Bill becomes the Appropriation Act.

Before it becomes a law, it is discussed in the Legislature in two parts. First, the expenditure side is discussed and then the revenues are discussed. All legislatures make extensive use of Committees for the examination of estimates. In the legislature, two separate Bills are passed, one is the Appropriation Bill which is a legal authorisation to spend money, the second, Revenue Bill, which gives authority to impose and collect taxes. After these two bills are passed by the Legislature, the Political Executive seeks to implement it.

5.8 IMPLEMENTATION OF BUDGET

Implementation of budget takes place from 1 April of each year. The nodal agency, the Ministry of Finance, issues advisories to the spending ministries intimating the quantum of allocated funds to them. Thereafter, the heads of the departments, allocate money to the numerous disbursing officers of the departments. However, it may be noted that the disbursing officers are not authorised to spend moneys beyond certain limits. To go beyond limits, they require sanction from the requisite authorities. At the same time, it is also mandatory for each spending department to keep records of payments and receipts in the prescribed method of accounting.

Budget Accounting and Audit

The Comptroller and Auditor General of India (CAG) is a constitutional authority. Accordingly, he “shall perform such duties and exercise such powers in relation to the accounts of the Union and of the states” as may be prescribed by Parliament. In this way he is the custodian of the accounting and audit systems in the country.

The auditing part of the budget cycle is designed to make sure that public money (collected through taxes, etc.) is spent appropriately. In brief, audit is an independent review authority with the objective that public organisations or programmes spend money in accordance with law and efficiently. In other words, the office of the CAG is responsible for budget audits. An audit is primarily seen as an extension of legislative control and accountability over the financial administration of the country. The audit in our country is more focused on expenditures.

Check Your Progress 2

Note: i) Use the space given below for your answers.

   ii) Check your answers with those given at the end of the Unit.

1) Discuss the role of union Finance Ministry and parliament in the enactment of budget.

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2) Explain the role of parliamentary financial committees.

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5.9 CONCLUSION

The Budget for 2017-18 contained three major reforms. First, the presentation of the Budget was advanced to 1 February to enable the parliament to avoid a Vote on Account and pass a single Appropriation Bill for 2017-18, before the close of the current financial year. This enabled the ministries and departments to operationalise all schemes and projects, including the new schemes, right from the commencement of the next financial year. They would be able to fully utilise the available working season before the onset of the monsoon. Second, the merger of the Railways Budget with the General Budget from 2017-18 onwards was a historic step. The colonial practice prevalent since 1924 was discontinued. This decision brought the Railways to the centre stage of Government’s fiscal policy and facilitated multi-modal transport planning between railways, highways and inland waterways. The functional autonomy of Railways will, however, continue. Third, the plan and non-plan classification of expenditure has also been done away with effect from 2017-18. This will give a holistic view of allocations for sectors and ministries and would facilitate optimal allocation of resources.

5.10 GLOSSARY

Budget: It is an authentic legal statement of income and expenditure for a specific period.

Cycle: A series of events that are regularly repeated in the same order.

Dissolution: the context is dissolution of the House, when the House of People is dissolved all matters pending before the House lapse.

Finance Bill: A Finance Bill may be said to be any Bill which relates to revenue or expenditure, over which the Upper House has minimal jurisdiction.

Transfer payments: Transfers of money from the government to individual recipients, such as farm subsidies, disaster relief, etc.

5.11 REFERENCES


5.12 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) Your answer should include the following points:
   - Definition of Budget
   - Significance as a tool of financial administration
   - An instrument of legislative control over public finances

2) Your Answer should include the following:
   - Preparation of the budget
   - Budget approval
   - Budget implementation
   - Audit of public accounts

Check Your Progress Exercise 2

1) Your Answer should include the following:
   - Presentation of Budget
   - Scrutiny of Budget
   - Discussion in parliament
   - Legislative approval of budget

2) Your Answer should include the following:
   - Names of the three committees
   - Role of each of the committee
   - Significance of parliamentary committees