Public Policy and Administration:

BUDGET IN INDIA

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:

1. Formulation/Preparation and submission of Budget;

2. Approval or enactment of Budget by the Parliament.;

3. Execution of the Budget

4. Accounting and

5. Audit

1.Budget Preparation/Formulation:

In India, budget preparation formally begins on the receipt of a circular from the Department of Economic Affairs, under 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 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 scrutinised by the Financial Advisors concerned. The plan items of the Central Budget are finalised in consultation with the Planning Commission and are based on the Annual Plan.

2.Parliamentary Approval/Enactment of Budget:

The estimates of expenditure prepared by ministries/departments are transmitted to the Ministry of Finance by December where these are scrutinised, modified where necessary and consolidated. The estimates of revenue are also prepared by the Finance Ministry and thus the budget is finalised. 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 20-25hours. 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 utilise the occasion of discussion on the Finance Bill to criticise 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 mobilisation 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.

3. 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 nationalised banks and the network of treasuries are also performing the service of collection (receipts) and disbursement of funds.

4. Accounting:

Accounting means keeping a systematic record of financial transactions. A good accounting system is indispensable for adequate budgetary control. It is only through systematic accounts supported by vouchers and receipts that the legality and honesty of the transactions as also the fidelity of the officers handling the funds can be determined. It is through accounts only that it can be ascertained whether provisions of the budget as voted by the legislature have been properly implemented or not, i.e., how much has been spent and for what purpose and whether within the budgetary limits or not. Accounts furnish the valuable information needed regarding financial conditions and operations for policy determining and programme making. The early and accurate accounting reports are necessary in order to direct the course of work and future expenditures. They also provide the essential record to demonstrate the appropriate and legal use of funds making certain that each sub-division of an organisation is actually using money for the purpose for which it was appropriated. The accounts and the supporting financial documents provide the evidence on the basis of which spending officer justifies his expenditure either to finance Director or to the auditor.

5. Audit:

The last stage in the execution of the budget is audit. The term, audit, has been defined as “the process of ascertaining whether the administration has spent or is spending its funds in accordance with the terms of the legislative instrument which appropriated the money” It is a means of enforcing accountability. Therefore ,the executive spends public funds as authorised 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 and 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

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