NAME - YUKTA RAGHAV

COURSE - BA PROGRAMME [History + Political science]

SUBJECT - Political science [SEC]

ROLL NUMBER - BAP / 20 / 168

~~SUBMI~~ SEMESTER - III

SUBMITTED TO :- Ms. MOITRY MA'AM

Date / /
Page

Q. What is a budget? What is the budgetary process in India?

Ans **BUDGET**

The word 'budget', derived from the French word 'bougette' means a sack or pouch from which the Chancellor of Exchequer used to take out his papers, for laying before the Parlia-ment, containing the Government's financial scheme for the ensuing year. Now, the term 'budget' refers to the financial papers, certainly not to the sack.

There is no unanimity among writers regarding the definition of the term 'budget'. It has been defined differently by different writers of public administration.

Dimock – "A budget is a financial plan summarising the financial experience of the past stating current plan and projecting it over a specified period of time in future".

Munro – "A plan of financing for the incoming fiscal year. This involves an itemised estimate of all revenues on the one hand and all expenditures, on the other."

W.F. Willoughby – According to him, a budget comprises of three components:-

(a) A statement of the sums required for the due conduct of public affairs during the period to which such estimate relates;

(b) An estimate of the probable income from revenue and loans on the basis of existing provisions of law regarding public dues and public operations.

(c) A statement showing conditions of treasury in terms of assets and liabilities.

BUDGET INVOLVES :-

- Preparation of the estimates
- Collection and custody of funds
- Disbursement and control of expenditure.
- Recording of all the transactions whose legality and regularity are duly verifies and reported to the legislature by an independent audit.

Budgeting serves as a powerful too of coordination, and, negatively an effective device of eliminating duplication and wastage. These ends are served by devices, such as, justification of estimates, super-vision of the use of appropriate funds, timing of the rate of expenditures, and the like. Budgeting presents an opportunity for evaluating programmes and policies, thereby obsolete or unnecessary activities and giving a call for their discontinuance.

Utility of Budget - Budget today has become one of the primary tools of financial as well as developmental administration. It is a management tool and sets out programmes and projects for socio-economic development. The utilities of budget are as as follows:

(a) As a tool of Accountability : The objective is to ensure the financial and legal accountability of the executive Government to the legislature, and within the executive Government, to ensure a similar accountability on the part of each subordinate authority to the one immediately above in the hierarchy of delegation. There is also a system of audit. It is undertaken in order to check whether the expenditure confirms to the authority and that the expenditure is incurred as per budgetary sanctions and as per the purpose sanctioned in the budget.

(b) Budget and Planning : The planning application has always been latent in the budgetary process. Planning attempts to translate long term goals into medium term operational objectives and make allocation of human, physical and financial resources to programmes designed to achieve these objectives most effectively at the least cost. Budget maybe said to take over where planning leaves off. An evaluation of the programmes in terms of the policies embodying the goals of the Government is the meeting place of planning and budgeting. The planner evaluates the programmes when he completes the task of identification and elaboration of goals and policies. The budgeter performs this function from the opposite end of the spectrum when he completes the task of assessing the resources required to implement the proposed programmes.

(c) Informative role :- The budget document contains valuable information for various sections. The functional classification of budget gives a clear picture of the Government's effort in each field. The budget contains a lot of data on various economic indicators such as national income, consumption, expenditure, capital investment, deficit financing. The budget is also anxiously awaited by the common people.

FORMS OF BUDGET

Budgets can be classified into various categories viewed from different view points. A brief description of the major budget types is given below:

Long-Term Budgeting: ~~It is~~ contended that a country's needs for a single year cannot be intelligently budgeted for, without consideration of its long-term needs. Many of the improvements needed, e.g. the strengthening of defences, extension of communication, economic and industrial development, etc., are costly and cannot be effected within a single year.

Steps:

(i) To determine and forecast the needs of the country over a period of several years, and the outlay required to meet them.

(ii) To arrange the various improvement projects in order of their relative priority.

(iii) To explore the possible sources - taxation, savings, borrowing, etc., of raising the amount of outlay required.

(iv) To prepare a balanced programme for the entire period, which should contain the various items of development agreed upon, and should also be flexible enough to permit modifications according to the prevailing circumstances.

(v) To incorporate in each year's annual budget a portion of the long-term budget according to the ~~prevailing circumstances~~ time-schedule, and to get in duly passed by the legislature, to do necessary revision for the future year's programme in the light of the prevailing circumstances, and to add the forecast for an additional year for the one which has been transferred to the current budget.

Line-Item budget: the budgetary system that evolved in England during the 18th and 19th centuries, was viewed primarily as a legal and accounting instrument, and the budget agency had the main responsibility for consolidating money estimates of expenditure needs from the various departments each year. The conventional pattern of Government budgeting serves the sole purpose official accountability and is a document for parliamentary control of the financial operations of the Government. The entire expenditure, is presented for grants. Every Ministry presents one demand for its own requirements and separate demands for each of its subordinate organisations. The demands for grants, thus follow the organisational pattern and the details in each of these demands are on the basis of objectwise classification. This type of budget is known as the line-item budget with its focus on itemised classification of expenditure. It provides the basis for maximum control.

The criticism are as follows:

(a) It has no educative value to citizens.

(b) It cannot show the relationship between programme inputs & outputs.

(c) It does not help decision makers to evaluate unit costs and programme accomplishment.

Zero-Base Budgeting (ZBB): It originated in U.S.A. It was developed by Peter. A. Phyrr in the Texas Instruments Company. In 1977, the U.S. President Jimmy Carter, adopted ZBB in the federal Government.

ZBB can be defined broadly as an evaluation of all programmes and expenditures of every year requiring each manager to justify his entire budget request in detail.

Steps: The introduction of ZBB in an organisation involves the following steps:

(a) Identification of decision units.
(b) Decision packages
(c) Ranking of decision packages in terms of cost benefits.
(d) Formulation of Budget, and
(e) Follow up and Revision

- It has some peculiar features:

(i) It is based upon a comprehensive analysis of priorities, goals and objectives which makes it more realistic;
(ii) Cost effectiveness can be enforced in a better way as the ZBB requires the evaluation of operational activities in terms of costs and benefits;
(iii) It provides an effective mechanism for planning and control functions. Targets are specified;
(iv) It ensures better participation of executives, which leads to better communication, development of inter-personal relationships and better learning and personnel development.

The implementation of ZBB poses certain problems. These are:-

(i) The problem of effective administration and communication is bound to arise.

(ii) It requires costly infrastructure and trained personnel.

(iii) Ranking of decisions poses another problem.

(iv) It requires handling of large data-making which is a tough task.

(v) The role of human bias in the selection of decision packages cannot be ruled out.

In India, the decision of introducing ZBB was taken in 1986 by Mr. V.P. Singh, the Finance Minister. ZBB was adopted by various departments and Ministers at the Union level in 1987-88. All the above types of budgets are in use in some or the other form and often in combination in the Governments of today.

BUDGETARY PROCESS OF INDIA

The budgetary responsibilities of a modern government are vast and grave, Article 112 of the constitution ~~being federal~~ of India refers to the laying of an Annual Financial statement, which is a statement of the estimated receipts and expenditure, of the Government of India for the ensuing financial year. The annual financial statement consists of (a) statement of Revenue (b) statement of expenditure, and (c) an overall statement. This Annual Financial statement shows the sums charged on the Consolidated Fund of India and the money required to meet other expenditures.

- According to Article 112 of the Indian Constitution the President is responsible for presenting the budget to the Lok Sabha. The annual financial statement takes into account a period of one financial year.
- The Union Budget is an annual statement of how much money the Government expects to raise and how it will spend the money in the next financial year.

STAGES OF BUDGET PROCESS IN INDIA

- In India, the Union Budget is prepared by the Department of Economic Affairs of Ministry of Finance. The following are the various stages through which a budget has to pass in India:

1. Preparation of Budget
2. Parliamentary Approval
3. Execution of the Budget
4. Accounting
5. Audit

PREPARATION OF BUDGET

It is the first step in the budgetary process. The budget is prepared by the Finance Minister with the assistance of number of advisors and bureaucrats. The Finance Minister seeks the view of the Industry captains and economists prior to preparation. Various accounting and finance related organisations send in their opinions and suggestions. The budgeting exercise in India remains mainly the domains of bureaucrats to participate and influence the outcomes. Finance Ministry, Administrative Ministries and their subordinate offices and the CAG are all involved in the preparation of Budget in India.

PARLIAMENTARY APPROVAL

In parliament, the budget goes through five stages:

- Presentation of budget by Finance Minister
- General discussion on budget.
- voting on demand for grants in lok sabha.
- Passing of appropriation bills.
- Passing of finance bills.

PRESENTATION OF BUDGET BY FINANCE MINISTER

The budget is presented to the parliament on the date fixed by the President. Generally, it was presented on the last working day of February, a month before the commencement of the financial year but this 92 years old practices of presenting budget has been changed now. During general elections, the budget is presented twice, first to secure a vote on account for 4 months and later completely. Budget speech of finance minister is in two parts, Part A constitute a general economic condition of the country while Part B relates to taxation proposals.

The general budget is presented in the Lok Sabha by Minister of Finance. At the conclusion of the speech of the finance minister in Lok sabha, annual financial statement is laid on the table of Rajya Sabha.

GENERAL DISCUSSION ON BUDGET

- Discussion is done in two stages. In the first stage, broad outlines of the budget, principle and policies underlying it are to be discussed in general discussion of the budget which lasts for about 4-5 days.
- In second stage discussion is held based on reports of concerned Departments / Ministries standing committees, which is usually done after a month of a general discussion of the budget.

VOTING ON DEMAND FOR GRANTS

After standing committee reports are presented to the house, the house proceeds with a Ministry wise discussion of committee reports and voting on demand for grants. The time for discussion and voting on demand for grants is allocated by the speaker in consultation with the leader of the house. Introduction and voting on Demands for Grants is confined only to the Lok Sabha. The Lok Sabha has the power to assent, refuse to assent and even to reduce the amount of the Demand for grant. In Rajya Sabha, there is only general discussion of the budget. The upper house does not vote on the Demands for Grants.

PASSING OF APPROPRIATION BILLS

An appropriation bill is intended to give authority to the Government of India to incurr expenditure from the consolidated fund of India. After the voting of Demand for grants has been completed, the government introduces an appropriation bill. Appropriation bill includes charged expenditure and sums granted by voting on demand for grants. The procedure for passing the appropriation bill is same as that of the money bills.

PASSING OF FINANCE BILLS

All the taxation proposals of the government for a financial year are embodied in a finance bill. The rates of taxes, such as income Tax, Custom Duty, etc, are annually determined by the legislature. The discussion on finance Bill is opened by the finance Minister. After the Bill and ammendments have been discussed, a motion is moved that the Bill be passed by the Lok Sabha, it referred to the Rajya Sabha. When both the house have agreed, the Bill goes for Presidential assent.

EXECUTION OF THE BUDGET

- The execution of the budget is the responsibility of the executive. Execution of the Budget rests on the proper collection of revenues and proper distribution of funds. The Department of Revenue has an ~~all~~ overall control and supervision over the machinery charged with the collection of taxes. Such control is exercised through the Boards of Taxes. The network of Treasuries and nationalised banks are engaged in the collection, custody and disbursement of funds.

ACCOUNTING

- From 1976, the secretary of each ministry is designated as the chief accounting authority responsible for all the transactions of the ministry and its departments. This responsibility is discharged through the Integrated Financial advisor of the Ministry.
- The controller General of Accounts is the apex accounting authority of the central Government. The CGA is also responsible for disbursements and banking arrangement of various ministries, departments and offices of the Government of India.

AUDIT

Audit is very important instrument of control over finance. The Comptroller and Auditor General of India is responsible for audit of accounts. The audit reports prepared by the CAG contain comments on regularity and propriety of expenditure. The audit reports are presented to the President or Governor and it becomes obligatory for the President or Governors to cause them to be laid before the Parliament or state legislatures respectively.