Principles of Financial Management

15th October 2025

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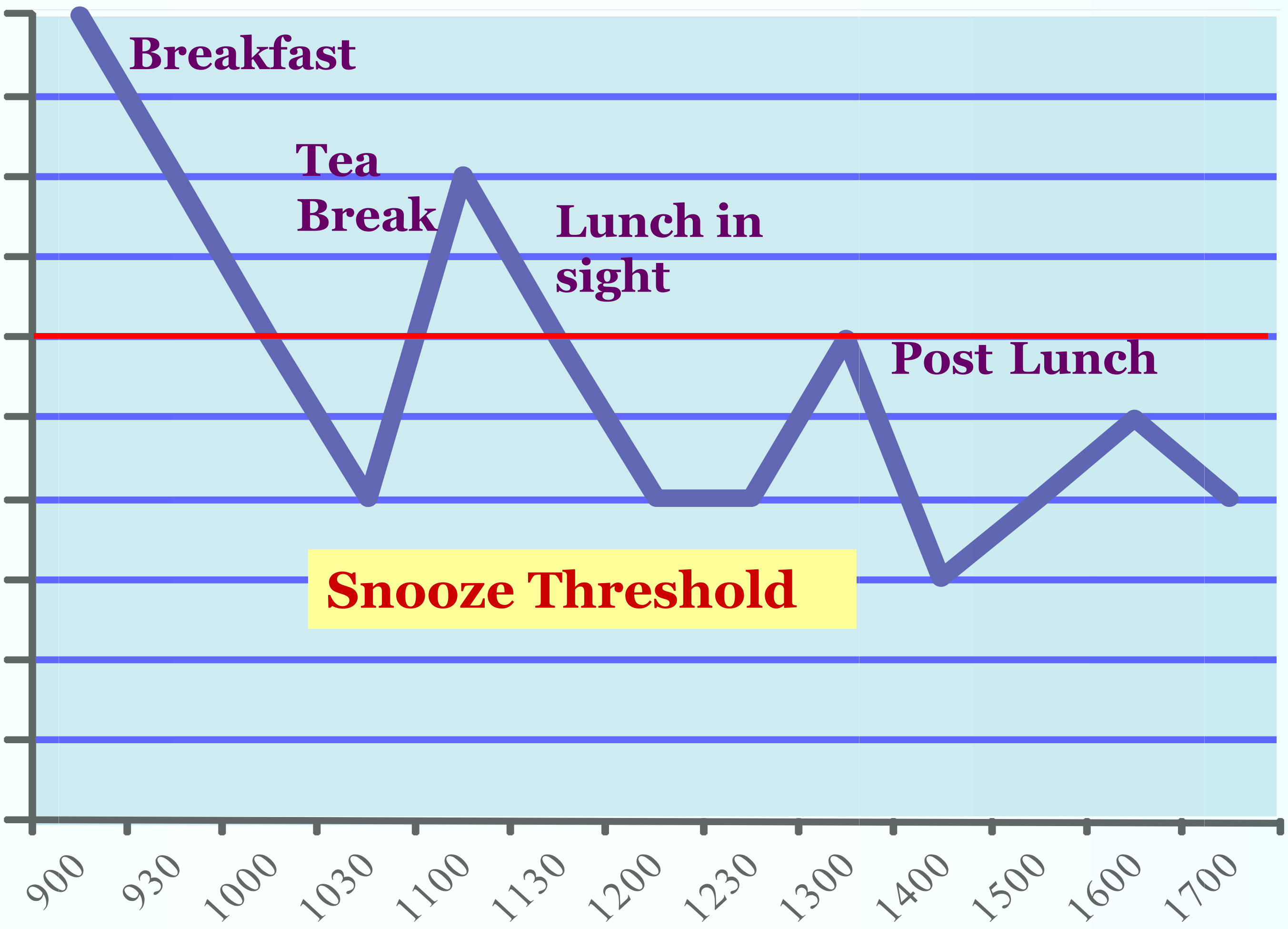
Learning Objectives

1. To understand the principles of financial management

2. To gain insights into the application of principles of financial management in Govt

Importance of Timing



Attention levels during a Day like this

Objective of Financial Management

- **Financing Decisions** - Raising Funds
- **Investment Decisions** – Investing Funds in Assets (Capex)
- **Operating Decisions** – Generating Revenue to meet Operating/Revenue Expenditure

Ensure optimum utilization of resources

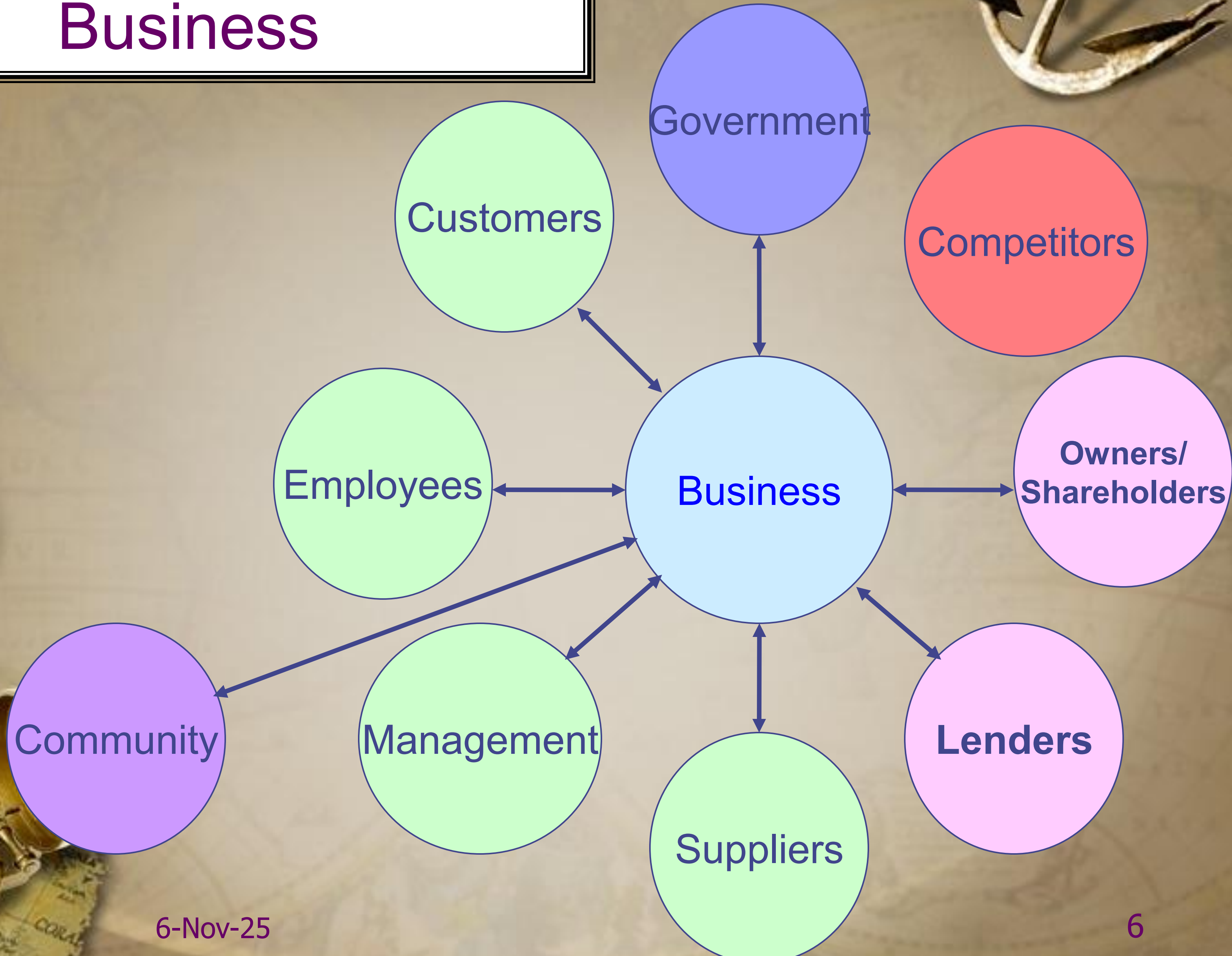
Decision Makers and their information needs

Who are the decision makers?

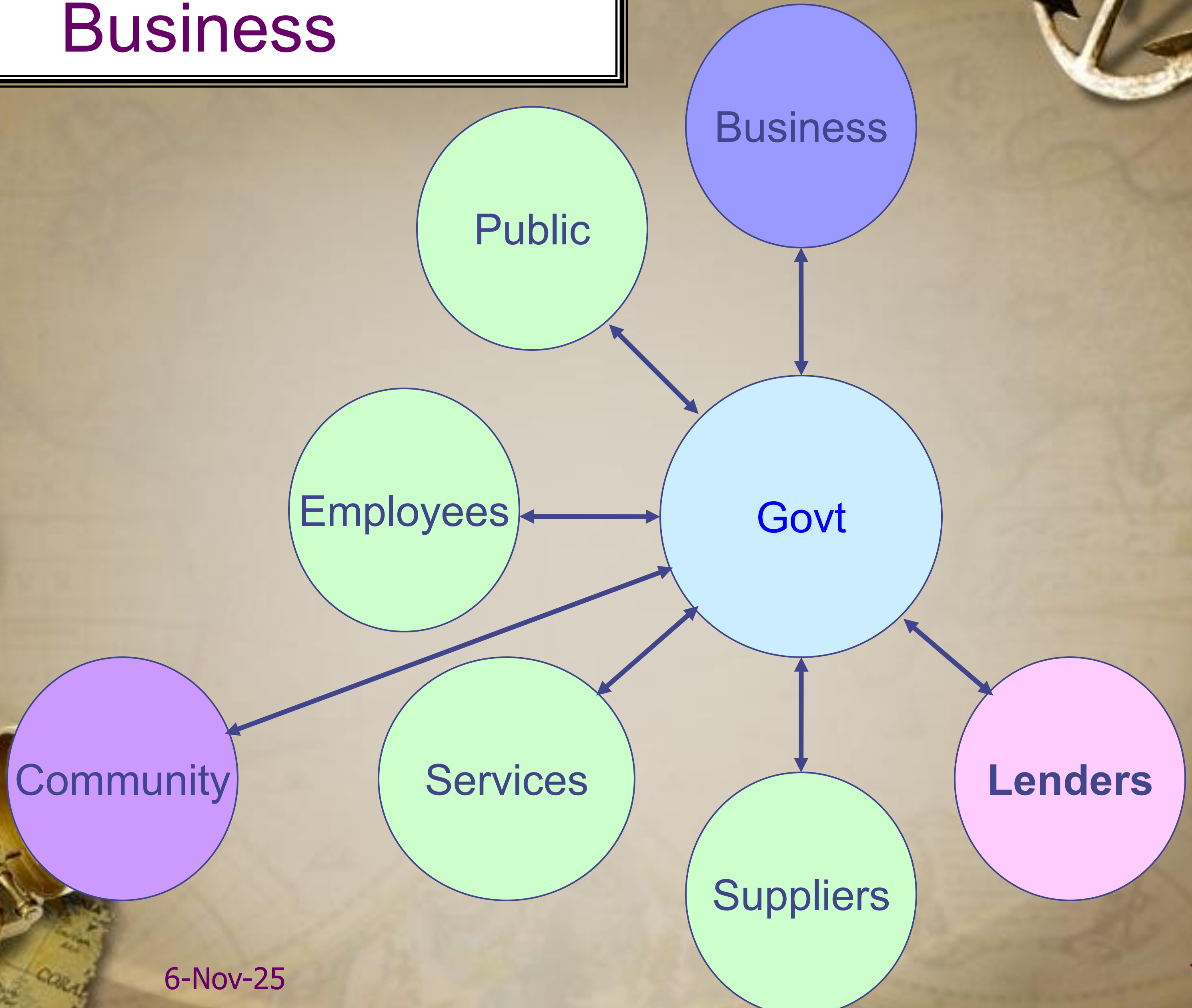
What decisions do they take?

What Information do they need?

Stakeholders of a Business



Stakeholders of a Business



Decision Making

FINANCING DECISIONS

- Raising FUNDS to acquire ASSETS

INVESTMENT DECISIONS

- Acquiring ASSETS to operate the business

OPERATING DECISIONS

- Operating ASSETS to generate **INCOME**

Objective – Profit

Decision Making

FINANCING DECISIONS	• Raising FUNDS to acquire ASSETS
INVESTMENT DECISIONS	• Acquiring ASSETS - Capex
OPERATING DECISIONS	• Operating ASSETS • Generating Revenue to meet expenditure

Objective – Public Service Delivery

DECISION MAKING

WHAT IS NECESSARY FOR SURVIVAL?

HOW DO WE MEASURE THE SUCCESS OF A Business

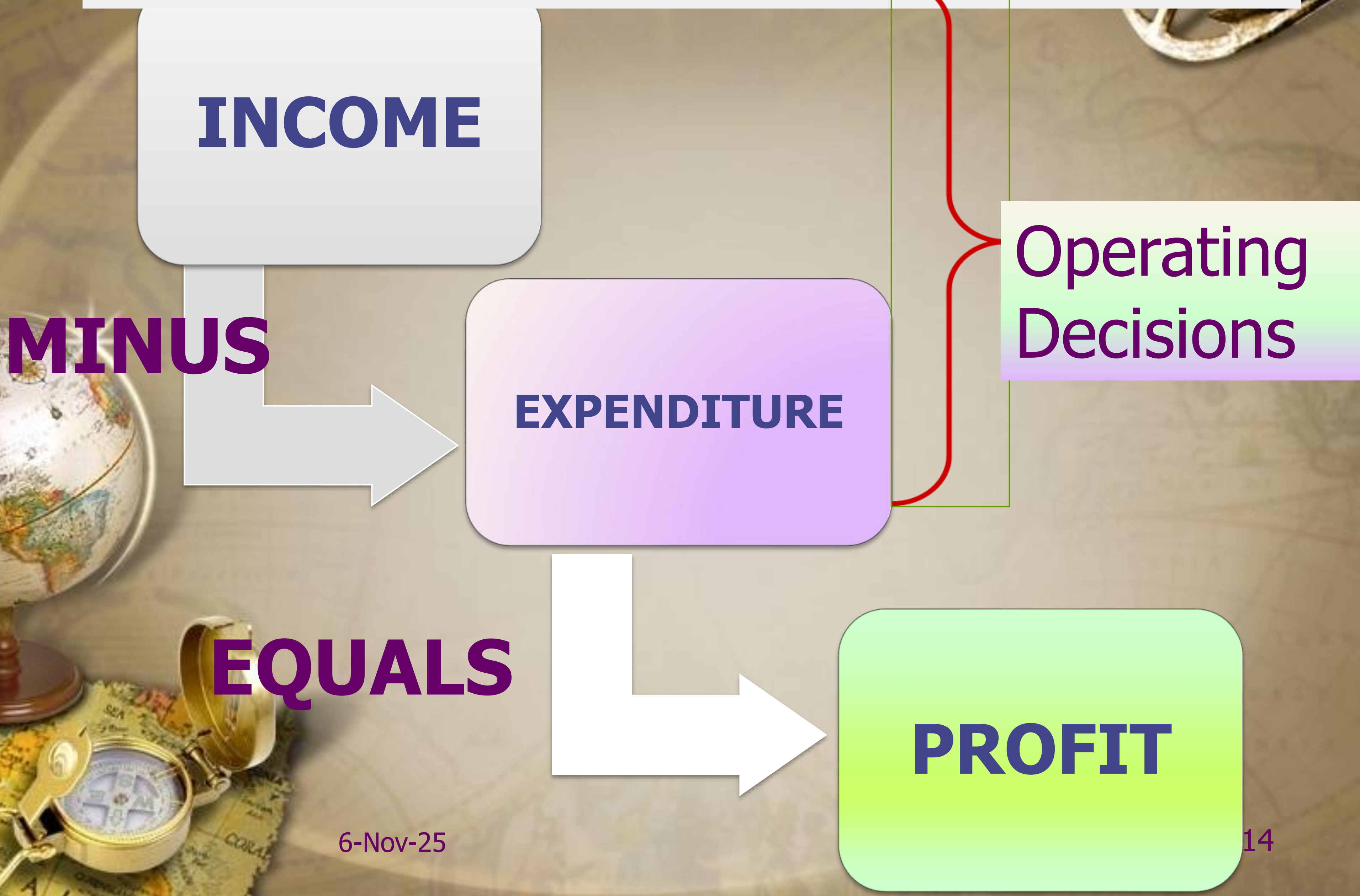
PROFIT

HOW DO WE MEASURE THE SUCCESS OF A Expenditure in Govt

OBJECTIVE

Public Service Delivery

INCOME STATEMENT FOR THE PERIOD



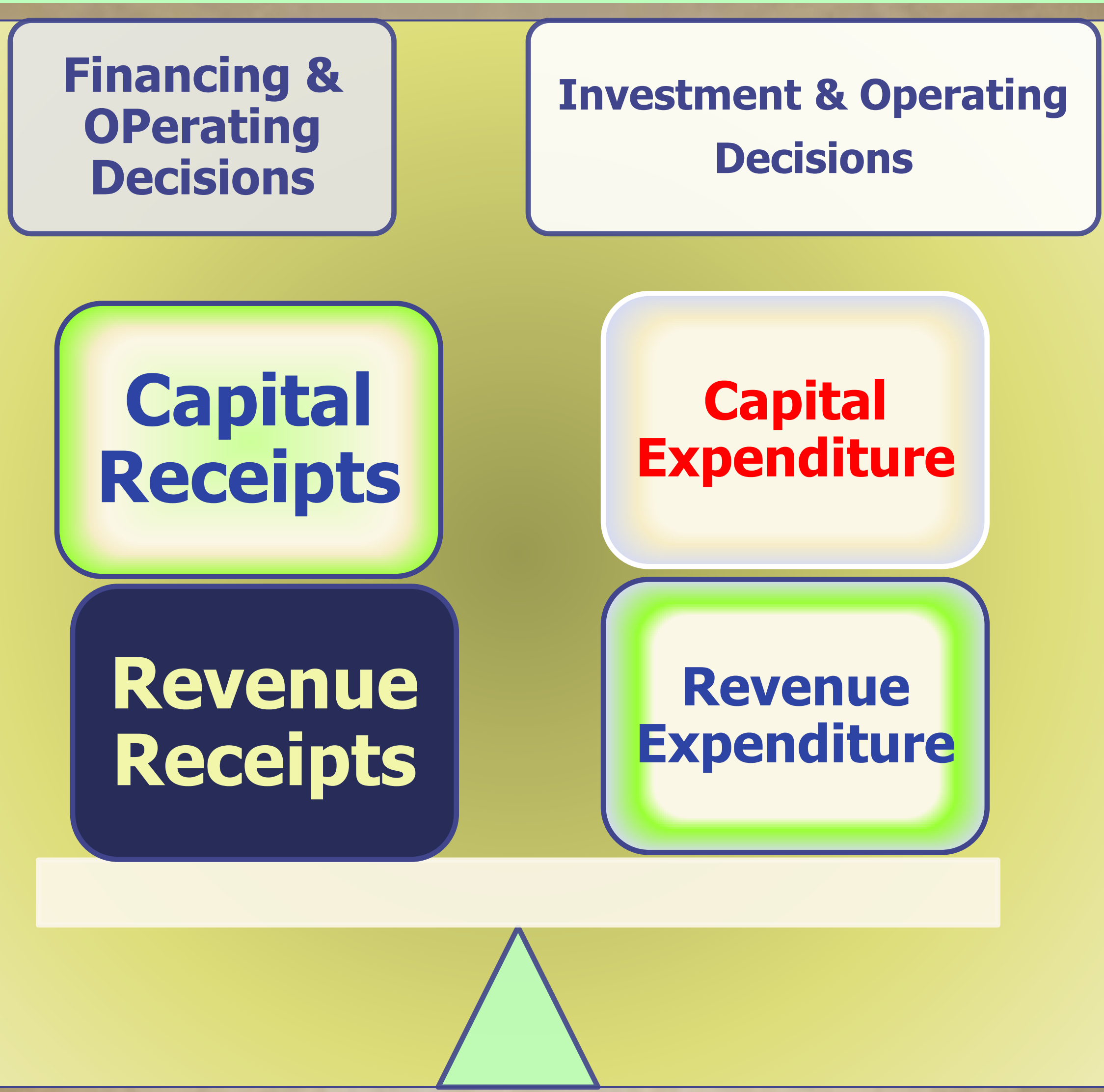
HOW DO WE MEASURE
Prosperity in Business

HOW DO WE MEASURE
Prosperity in Economy

Principles of Financial Management

- Cash is King
- Incremental Cash Flows
- Risk vs Return tradeoff
- Time Value of Money
- Curse of Competitive Markets
- Ethics & Governance

BUDGET


Financing & OPerating Decisions
Investment & Operating Decisions
Capital Receipts
Capital Expenditure
Revenue Receipts
Revenue Expenditure

BUDGET 2025-26

Rs in crores

Financing & Operating Decisions
Rs 34,96,409

Investment & Operating Decisions
Rs 50,65,345

Capital Receipts
Rs 76,000

Capital Expenditure
Rs 11,21,090

Revenue Receipts
Rs 34,20,409

Revenue Expenditure
Rs 39,44,255

Table 2: Budget at a Glance 2025-26 (Rs crore)

	Actuals 2023-24	Budgeted 2024-25	Revised 2024-25	Budgeted 2025-26	% change (2024-25 RE to 2025-26 BE)
Revenue Expenditure	34,94,252	37,09,401	36,98,058	39,44,255	6.7%
Capital Expenditure	9,49,195	11,11,111	10,18,429	11,21,090	10.1%
of which:					
Capital Outlay	7,88,100	9,18,695	8,47,736	8,95,246	5.6%
Loans and Advances	1,61,095	1,92,416	1,70,693	2,25,844	32.3%
Total Expenditure	**44,43,447**	**48,20,512**	**47,16,487**	**50,65,345**	**7.4%**
Revenue Receipts	27,29,036	31,29,200	30,87,960	34,20,409	10.8%
Capital Receipts	59,768	78,000	59,000	76,000	28.8%
of which:					
Recoveries of Loans	26,646	28,000	26,000	29,000	11.5%
Other receipts (including disinvestments)	33,122	50,000	33,000	47,000	42.4%
Total Receipts (excluding borrowings)	**27,88,804**	**32,07,200**	**31,46,960**	**34,96,409**	**11.1%**
Revenue Deficit	7,65,216	5,80,201	6,10,098	5,23,846	-14.1%
% of GDP	**2.6%**	**1.8%**	**1.9%**	**1.5%**	
Fiscal Deficit	16,54,643	16,13,312	15,69,527	15,68,936	0.0%
% of GDP	**5.6%**	**4.9%**	**4.8%**	**4.4%**	
Primary Deficit	5,90,771	4,50,372	4,31,587	2,92,598	-32.2%
% of GDP	**2.0%**	**1.4%**	**1.3%**	**0.8%**	

Sources: Budget at a Glance, Union Budget Documents 2025-26; PRS.

Revenue Receipts

Tax Revenue

Rs 28,37,409

+

Non Tax Revenue

Rs 5,83,000

→

Revenue Receipts

Rs 34,20,409

Breakup of Receipts

Table 3: Break up of central government receipts in 2025-26 (Rs crore)

	Actuals 2023-24	Budgeted 2024-25	Revised 2024-25	Budgeted 2025-26	% change (2024-25 RE to 2025-26 BE)
A. Gross Tax Revenue	**34,65,519**	**38,40,170**	**38,53,455**	**42,70,233**	**10.8%**
of which					
Corporation Tax	9,11,055	10,20,000	9,80,000	10,82,000	10.4%
Taxes on Income	10,44,756	11,87,000	12,57,000	14,38,000	14.4%
Goods and Services Tax	9,57,208	10,61,899	10,61,899	11,78,000	10.9%
Customs	2,33,119	2,37,745	2,35,000	2,40,000	2.1%
Union Excise Duties	3,05,362	3,19,000	3,05,000	3,17,000	3.9%
Service Tax	425	100	100	100	0.0%
B. Devolution to States	**11,29,494**	**12,47,211**	**12,86,885**	**14,22,444**	**10.5%**
C. Centre's Net Tax Revenue	**23,27,251**	**25,83,499**	**25,56,960**	**28,37,409**	**11.0%**
D. Non-Tax Revenue	4,01,785	5,45,701	5,31,000	5,83,000	**9.8%**
of which:					
Interest Receipts	38,261	38,224	34,042	47,738	40.2%
Dividend	1,70,877	2,89,134	2,89,285	3,25,000	12.3%
Other Non-Tax Revenue	1,88,568	2,14,389	2,03,427	2,05,668	1.1%
E. Capital Receipts (without borrowings)	**59,767**	**78,000**	**59,000**	**76,000**	**28.8%**
of which:					
Disinvestment	33,122	50,000	33,000	47,000	42.4%
Receipts (without borrowings) (C+D+E)	**27,88,803**	**32,07,200**	**31,46,960**	**34,96,409**	**11.1%**
Borrowings	**16,54,643**	**16,13,312**	**15,69,527**	**15,68,936**	**0.0%**
Total Receipts (including borrowings)	**44,43,446**	**48,20,512**	**47,16,487**	**50,65,345**	**7.4%**

Sources: Receipts Budget, Union Budget Documents 2025-26; PRS.

Expenditure Breakup

Table 4: Break up of central government expenditure in 2025-26 (Rs crore)

	Actuals 2023-24	Budgeted 2024-25	Revised 2024-25	Budgeted 2025-26	% change RE 2024-25 to BE 2025-26
Central Expenditure	**35,14,614**	**37,90,380**	**37,99,210**	**40,16,003**	**5.7%**
Establishment Expenditure of Centre	7,68,961	7,83,618	8,41,762	8,68,096	3.1%
Central Sector Schemes	14,23,437	15,16,176	15,12,820	16,21,899	7.2%
Other expenditure	13,22,216	14,90,586	14,44,628	15,26,008	5.6%
of which interest payments	10,63,872	11,62,940	11,37,940	12,76,338	12.2%
Centrally Sponsored Schemes and other transfers	**9,28,833**	**10,30,132**	**9,17,277**	**10,49,343**	**14.4%**
Centrally Sponsored Schemes	4,44,547	5,05,978	4,15,356	5,41,850	30.5%
Finance Commission Grants	1,48,522	1,32,378	1,27,146	1,32,767	4.4%
of which:					
Rural Local Bodies	47,260	49,800	45,000	48,573	7.9%
Urban Local Bodies	21,223	25,653	21,000	26,158	24.6%
Disaster Management Grants	23,673	25,688	25,688	26,969	5.0%
Post Devolution Revenue Deficit Grants	51,673	24,483	24,483	13,705	-44.0%
Other grants	3,35,764	3,91,776	3,74,774	3,74,725	0.0%
of which capex loans to states	1,09,554	1,50,000	1,25,000	1,50,000	20.0%
Total Expenditure	**44,43,447**	**48,20,512**	**47,16,487**	**50,65,345**	**7.4%**

Ministry wise Expenditure

Table 5: Ministry-wise expenditure in 2025-26 (Rs crore)

	Actuals 2023-24	Budgeted 2024-25	Revised 2024-25	Budgeted 2025-26	% change (2024-25 RE to 2025-26 BE)
Defence	6,09,504	6,21,941	6,41,060	6,81,210	6.3%
Road Transport and Highways	2,75,986	2,78,000	2,80,519	2,87,333	2.4%
Railways	2,45,791	2,55,393	2,55,348	2,55,445	0.0%
Home Affairs	1,96,872	2,19,643	2,20,371	2,33,211	5.8%
Consumer Affairs, Food and Public Distribution	2,32,496	2,23,323	2,12,820	2,15,767	1.4%
Rural Development	1,63,642	1,80,233	1,75,878	1,90,406	8.3%
Chemicals and Fertilisers	1,91,165	1,68,500	1,86,653	1,61,965	-13.2%
Agriculture and Farmers' Welfare	1,18,147	1,32,470	1,41,352	1,37,757	-2.5%
Education	1,23,365	1,20,628	1,14,054	1,28,650	12.8%
Communications	1,11,339	1,37,294	1,50,201	1,08,105	-28.0%
Health and Family Welfare	83,149	90,959	89,974	99,859	11.0%
Jal Shakti	95,109	98,714	51,558	99,503	93.0%
Housing and Urban Affairs	68,565	82,577	63,670	96,777	52.0%
Other Ministries	19,28,316	22,10,838	21,33,030	23,69,358	11.1%
Total Expenditure	**44,43,447**	**48,20,512**	**47,16,487**	**50,65,345**	**7.4%**

Sources: Expenditure Budget, Union Budget 2025-26; PRS.

Expenditure on Schemes

	Actuals 2023-24	Budgeted 2024-25	Revised 2024-25	Budgeted 2025-26	% change (2024-25 RE to 2025-26 BE)
MGNREGS	89,154	86,000	86,000	86,000	0.0%
Jal Jeevan Mission/National Rural Drinking Water Mission	69,992	70,163	22,694	67,000	195.2%
PM-KISAN	61,441	60,000	63,500	63,500	0.0%
Pradhan Mantri Awas Yojana - Rural	21,770	54,500	32,426	54,832	69.1%
Samagra Shiksha	32,830	37,500	37,010	41,250	11.5%
National Health Mission	33,043	36,000	36,000	37,227	3.4%
Pradhan Mantri Awas Yojana - Urban	21,684	30,171	15,170	23,294	53.6%
Modified Interest Subvention Scheme	14,252	22,600	22,600	22,600	0.0%
Saksham Anganwadi and POSHAN 2.0	21,810	21,200	20,071	21,960	9.4%
New Employment Generation Scheme	-	10,000	6,799	20,000	194.1%
PM Surya Ghar Muft Bijli Yojana	-	6,250	11,100	20,000	80.2%
National Livelihood Mission - Ajeevika	13,934	15,047	15,047	19,005	26.3%
Pradhan Mantri Gram Sadak Yojana	15,380	19,000	14,500	19,000	31.0%

Note: Saksham Anganwadi and POSHAN 2.0 has Umbrella ICDS - Anganwadi Services, Poshan Abhiyan, Scheme for Adolescent Girls

Subsidies Rs in crores

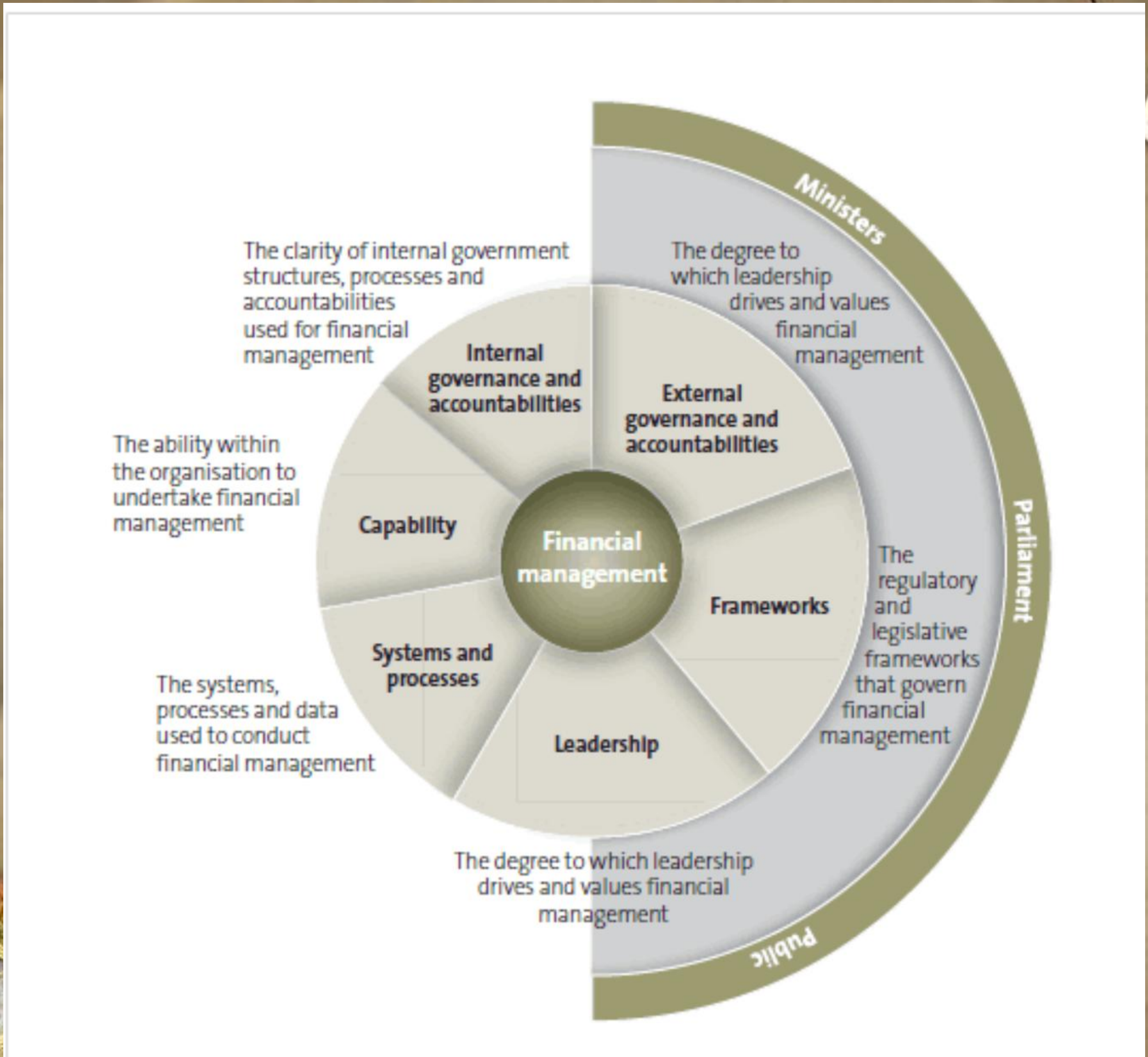
	Actuals 2023-24	Budgeted 2024-25	Revised 2024-25	Budgeted 2025-26	% change (2024-25 RE to 2025-26 BE)
Food subsidy	2,11,814	2,05,250	1,97,420	2,03,420	3.0%
Fertiliser subsidy	1,88,292	1,64,000	1,71,299	1,67,887	-2.0%
Interest subsidy	19,516	29,550	28,156	27,840	-1.1%
LPG subsidy	12,240	11,925	14,700	12,100	-17.7%
Other subsidies	3,037	17,698	16,294	14,969	-8.1%
Total	4,34,899	4,28,423	4,27,868	4,26,216	-0.4%

Sources: Expenditure Profile, Union Budget 2025-26; PRS.

Table 8: Allocations for women, children, SCs, STs and NER (Rs crore)

	Actuals 2023-24	Revised 2024-25	Budgeted 2025-26	% change (2024-25 RE to 2025-26 BE)
Welfare of Women	3,84,500	3,76,529	4,49,029	19.3%
Welfare of Children	89,323	1,00,445	1,16,133	15.6%
Scheduled Castes	1,33,658	1,38,363	1,68,478	21.8%
Scheduled Tribes	1,05,177	1,07,874	1,29,250	19.8%
North Eastern Region	91,785*	87,736	1,05,833	20.6%

Note: *Figures for 2023-24 are Revised Estimates for the year.
Sources: Expenditure Profile, Union Budget 2025-26; PRS.


Ministers
Parliament
Public
The clarity of internal government structures, processes and accountabilities used for financial management
Internal governance and accountabilities
The degree to which leadership drives and values financial management
External governance and accountabilities
The ability within the organisation to undertake financial management
Capability
Financial management
Frameworks
The regulatory and legislative frameworks that govern financial management
Systems and processes
The systems, processes and data used to conduct financial management
Leadership
The degree to which leadership drives and values financial management

Foundation of Governance

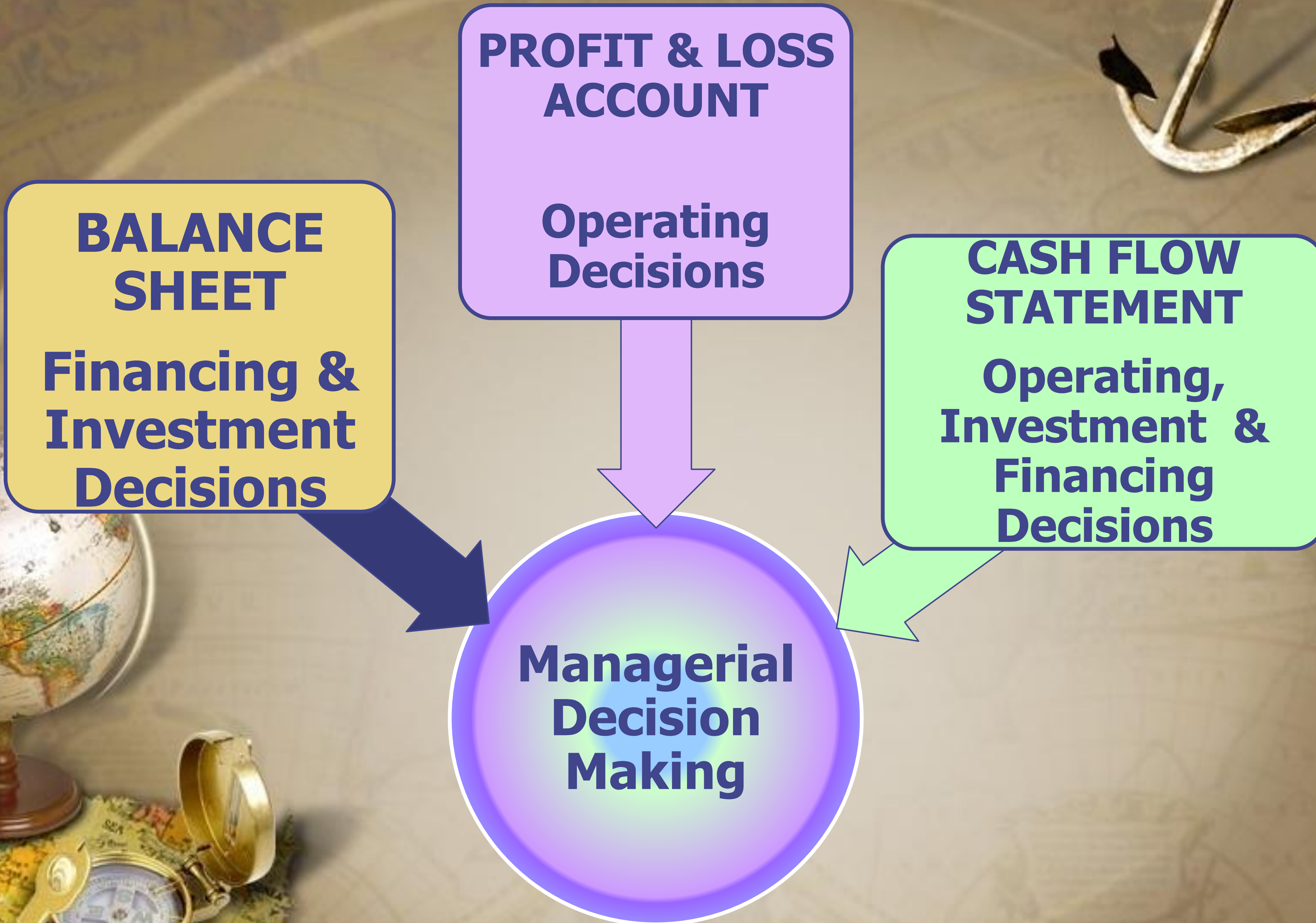
- Ensuring compliance with the applicable legal and regulatory requirements
- Facilitating the achievement of long term goals of the Govt
- Protecting employee interests
- Delivering superior value to the public
- Adopting fair business practices with vendors
- Protecting the environment and the community

Governance Framework

- Competent and Independent Bureaucracy
- Strong Internal Controls - Audit
- Effective Management of Risk
- Transparency and
- Accountability

Cash vs Accrual System of Accouting

- Income earned vs Cash Recevived
- Cost Incurred vs Cash Paid
- Cost of service
- True Financial Position – Assets Liabilities Income and Expenditure
- Railways, Postal Service


PROFIT & LOSS ACCOUNT
Operating Decisions
BALANCE SHEET
Financing & Investment Decisions
CASH FLOW STATEMENT
Operating, Investment & Financing Decisions
Managerial Decision Making