

Budget Manual & State Budgetary Process

By

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1. Budget Manual

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Budget Manual

Consists of 3 Parts.

Part I Explains changes made from time to time.

Part II Brings up to date the various instructions to the estimating Officers for the preparation and examination of Budget Estimates.

Part III Contains Appendices I to IX showing the list of Major & Minor Heads of Accounts, Acts and Rule etc.

Definitions of 'Budget'

- The term '**Budget**' is derived its origin from the French word '**Bougette**', which means a leather bag.
- In Britain the term was used to refer to the leather bag, in which the Chancellor of the Exchequer used to carry the Annual Statement of the Government's needs and resources to the Parliament.
- Through usage, gradually the word Budget has come to be used to signify the documents in the bag instead of the bag.
- The Study team on State Level Administration of the Administrative Reforms Commission of India defined the term "Budget" as

- **The expression used in the Constitution for the 'Budget' however, is the 'Annual Financial Statement'.**
- **Just as Audit the post discipline, budget is the pre-discipline on public spending**
- **Article 202 of the Constitution defines Budget as a "Statement of Estimated Receipts and Expenditure of the State for that Year".**
- **The budget is a statement of resources and expenditure under different heads for a financial year.**

Constitutional Provisions & The need for a Budget

- The need for a Budget arises on account of the Constitutional obligation laid down under Article 266(3) which envisages Parliamentary and Legislative control over expenditure.
- Constitutional Provision: The Art. 202 of COI requires that the Budget Statement(AFS) shall be laid before the Legislature and its approval is obtained before any expenditure is incurred out of the Consolidated Fund of the State.

Purposes of the Budget

- The Govt. budget is a mirror of its policies. It has several purposes viz.,
- It serves as a report on the status of government finances.
- It provides an indication of the government policies.
- It is a document that provides citizens an idea of the benefits that are likely to accrue to them and the burden they have to bear in the form taxes and levies.

Purposes of the Budget (contd..)

- It provides an expression of sectoral policies and allocations.
- It provides an action plan for the departments of the government
- It provides a signal to the market about the incentives and the borrowing requirements of the government.

Main objectives of Budget Policy

- It is designed for optimal allocation of scarce resources taking into many socio-political considerations.
- Prepared keeping in view the general policy of govt, aimed at the welfare of the people, and the development of the country.
- The size and focus of public expenditure has great relevance in the growth process and in reduction of economic disparities.
- Provide effective administration,
- Improve infrastructural facilities,
- Provide and promote employment opportunities,
- Ensure stability in prices,
- Promote economic growth,
- Reduce inequalities, while maintaining fiscal balances and economic sustainability.

Key Principles of Budget

- The following are the key Principles of an effective budget formulation:
- Budget realism; (Revenue Forecast, Expenditure Framework)
- Comprehensiveness and transparency; and (Simple Classification)
- Accessibility and timely presentation(Publish all Financial Reports in Telugu and place them in Website)

Division / Components of the Budget

- The budget consists of 3 divisions:
1. **Consolidated Fund** of the State
 2. **Contingency Fund** of the State
 3. **Public Account** of the State

Consolidated Fund of the State

- The term Consolidated Fund is an expression introduced by the **Constitution of India vide Article 266(1)**.
- It is called '*Consolidated*' Fund as it is formed out of all Revenues received by the State Government, all Loans borrowed from Government of India, from other Autonomous Institutions and the Public and the Loans raised through the issue of Treasury Bills, or Ways and Means Advances and all money received by the Government in recovery of Loans and Advances.

Contingency Fund of the State

- The Contingency Fund of the State has been Constituted by the **Telangana Contingency Fund Act, 2014**.(Article 267(2) of the Constitution) G.O.Ms.No.2, Finance (BG) Dept., Dt:05.01.2015.
- It is created by an appropriation from the consolidated fund of the State.
- The Fund is placed at the disposal of the Governor of State to enable him to sanction advances out of such funds for meeting unforeseen expenditure arising in the ensuing year, pending authorization by the Legislature.(Art.205 & 206 of the Constitution)
- The advances sanctioned from out of the Contingency Fund for meeting unforeseen expenditure are paid back to the fund by obtaining the Vote of the Legislature for those, either in Supplementary statement or in the Annual Financial Statement.
- The Present size of the corpus of the Contingency Fund is Rs. 50 Crores.

Public Account of the State

- ▶▶ **As envisaged in Art 266(2) and 284 the “Public Account” of the Government relates to the transaction in respect of which the Government acts as the “banker”, incurs a liability to repay the money received or recovers the amounts paid.**
- ▶▶ **All public money received by or on behalf of the State government which are not credited to the consolidated fund of the state are accounted for under the Public Account.**
- ▶▶ **All such money do not actually belong to the Government but they have to be accounted for in the same way as Government money and they have to be repaid to parties concerned on the due dates.**
- ▶▶ **The repayment of these amounts do not require the vote of the Legislature, as they are in the nature of ordinary banking transactions.**
- ▶▶ **It merely shows adjusting heads and all these transactions are cleared eventually by adjustment under final heads.**

Public Account (cont'd)

Public Accounts includes.

- 1) Small Savings, Insurance and Provident Funds.
- 2) Reserve Funds
- 3) Deposits and Advances.
- 4) Suspense and Miscellaneous.
- 5) Remittances and
- 6) Cash Balances.

Structure of Governmental Financial Transactions

- ▶▶ All items of expenditure are broadly either “**Charged**” or “**Voted**”.
- ▶▶ **Article 202 (3) of the Constitution of India** lays down that the following items of expenditure shall be **Charged** on the Consolidated Fund of each State:-
- ▶▶ The items of expenditure incurring, which does not require legislatures sanctions, intended to protect the independence of the Judiciary, Governor and the Speaker.
- ▶▶ a. the emoluments and allowances of the Governor and other expenditure relating to his office;
- ▶▶ b. the salaries and allowances of the Speaker and Deputy Speaker of the Legislative Assembly and, in the case of a State having a Legislative Council, also the

Structure of Governmental Financial Transactions

- ▶▶ Chairman and the Deputy Chairman of the Legislative Council.
- ▶▶ c. debt charges for which the State is liable including interest, sinking fund charges and redemption charges, and other expenditure relating to raising of loans, their servicing and redemption;
- ▶▶ d. expenditure in respect of the salaries and allowances of judges of any High Court.
- ▶▶ e. any sums required to satisfy and judgment, decree or award of any court or arbitral tribunal;
- ▶▶ f. any other expenditure declare by the Constitution or by the Legislature of the State by law, to be so charged.

Structure of Governmental Financial Transactions

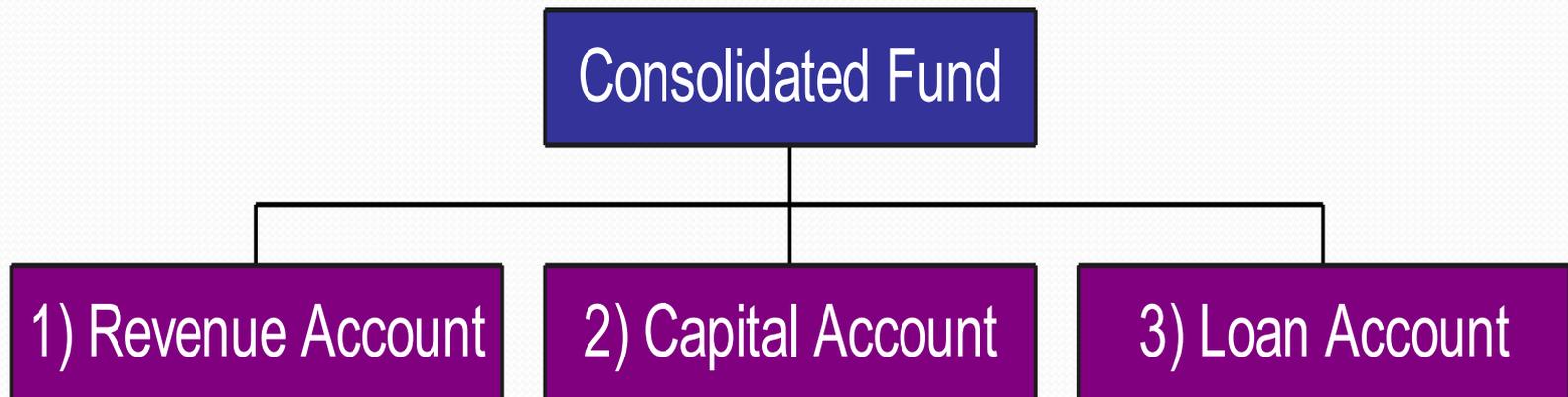
- **Voted Expenditure** – In respect of all other items, estimates of expenditure shall be submitted to the Legislative Assembly and the Legislative Assembly shall have the power to assent or refuse to assent or to assent to any demand subject to a reduction. Such expenditure assented to by the Legislature is referred to as the ‘Voted Expenditure’.

Structure of Governmental Financial Transactions

- The Budget or Annual Financial Statement has to show separately the amounts required to meet the “**Charged**” and “**Voted**” expenditure.
- In the total expenditure of a State, charged expenditure constitutes only a small proportion. Thus, legislative vote is required to incur bulk of the expenditure of a State Government. This is in accordance with one of the cardinal principles of Parliamentary form of Government that all expenditure incurred by the State should be specifically authorized by the Legislature.

1. Consolidated Fund of the State

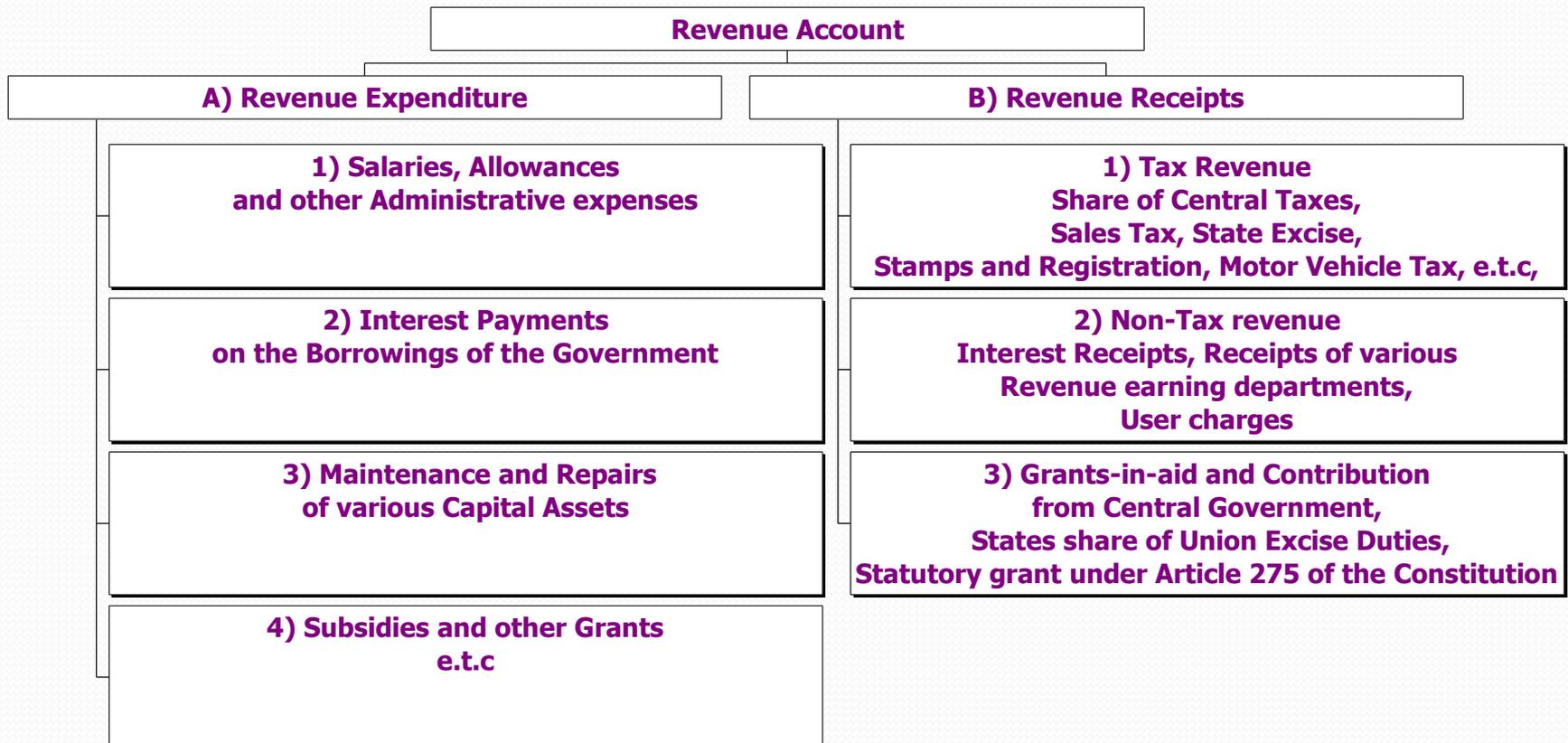
- The transactions relating to the Receipts and Expenditure out of the Consolidated Fund are accounted for in 3 different sections:



1. Consolidated Fund Of The State

Revenue Account

- Revenue expenditure represents the current expenditure of the Govt, incurred towards meeting the day to day expenditure of running the government.
- Expenditure which does not result in the creation of any asset is classified as Revenue Expenditure.



1. Consolidated Fund Of The State

- 1) Revenue Account

- When Revenue Expenditure is less than Revenue Receipts, the difference is called '**Revenue Surplus**' for the year and when it is more the difference is called '**Revenue Deficit**'.
- Fiscal Deficit- Fiscal Deficit defined as excess of Revenue and capital expenditure (including net loans given) over the Revenue receipts (including grant in aid received) and capital Receipts (excluding borrowings). Net of Consolidated Fund excluding receipts and disbursements under Public Debt.

1. Consolidated Fund Of The State

2) Capital Account

- The Expenditure or Receipts which result in creation of assets is shown in **Capital Account**.
- Capital expenditure records expenditure of capital nature, which is incurred on the creation of assets of lasting nature such as :
 - All **Irrigation** and **Electricity projects** which are lasting assets and which yield Revenues to the Government and Expenditure on Construction of such projects
 - The Expenditure on Construction of **Roads** including cost of machinery and tools
 - The Investments of the State Government in various **Public undertakings, Co-operative Institutions**, e.t.c.
 - Receipts by way of Recoveries or Sale of Capital Assets
 - Such expenditure is met from surplus under Revenue Account, Loans and Capital Receipts.

Capital Receipts.

- Open Market Loans.
- Floating Debt (Gross)(Short-term **debt** that is continually refinanced, renewed, or rolled over to meet ongoing operational requirements.)
- Loans from GOI.
- Other Loans.
- Deposit Transactions (Net)
- (A banking **deposit** that has immediate and full liquidity, with no delays or waiting periods. **Transaction deposits** can be transferred into other cash instruments)
- Loans and Advances.
- Other Receipts.
- Contingency Fund Net.

1. Consolidated Fund Of The State

3) Loan Account

- The **Loan Account** is the Account of Public debt incurred and discharged and of Loans and Advances by the state Government to Local bodies, PSUs, and Others and Recoveries from them in Installments on due dates
- Government borrows money from the Public in Open-market, from the GOI or other Autonomous bodies like LIC, GIC, NCDC, NABARD, RBI, e.t.c, which have to be repaid on due dates.

Estimation of Resources

➤ **State's Own Tax Revenue**

- (The main Tax Revenues of the State are- **GST** (Sales Tax, State Excise,) Motor Vehicle Tax, Stamps and Registration Fees, Entertainment Tax and Land Revenue.)
- Non-tax Revenue
(It consists of Royalty on Minerals, Forestry and Wild Life, Interest
- Receipts etc.
- Transfers from GOI
- Non-Scheme grants from GOI (Eg. Central Road Fund. HBA to IAS.,)
- Total Estimated Resources – Estimate of
Establishment Expenditure = Balance from Current Revenues
(BCR).

Central Transfers

- Share of Central Taxes.
- Central Grants.
- FC Grants (14th FC: MA&UD and
- PR&RD Depts only.)
- Plan Grants
- Centrally Assisted State Plan Schemes.

Budget and Legislative Control

- **Legislature has the Authority over Public Funds, so a statement of estimated Receipts and Expenditure of the State has to be laid before the State Legislature for its *authorization* in respect of every financial year.**
- **The Government is only the executive agency to give effect to the decisions of the Legislature on all money matters.**

Purpose of 'Annual Financial Statement' or 'Budget'

- As it is not possible for the legislature to scrutinize and approve the day-to-day monetary transactions of the government, a system has been evolved by which the government prepares a **“Financial Statement”** or **“Budget”** for the ensuing year, showing all the anticipated Receipts and Expenditure classified under certain broad Heads of Accounts.

Demands for Grants

- **The estimates of Expenditure from the Consolidated Fund, which are required to be voted by the Legislature are presented to the Legislative Assembly in the form of **Demands for Grants**.**
- **For each major service a demand is presented by the respective department.**
- **At present there are 40 Demands For Grants in the State Budget.**

Approval of the Budget

- After the demands are voted by the Assembly a Bill called **'The Appropriation Bill'** shall be introduced in the Legislative assembly for authorization and then it has to be approved by the Governor.
- The Appropriation bill then become the **Appropriation Act** which empowers the Government to draw money and spend from the Consolidated Fund of the State in accordance with the vote of the **Legislature.**

Accounting and Budget Classification

- The estimates of Receipts and Expenditure in the Budget publications are shown according to the *Revised Accounting Classification*.
- This **revised classification** has been designed to present more clearly the proposals and objectives of Government expenditure in order to facilitate the process of decision making at all levels, enhance the accountability of management and provide an additional tool for control of financial operations.

Accounting and Budget Classification

- For the purpose of expenditure, the transactions of the Government have been brought under different functions representing major divisions:
- **General Services:** Covering Police, General Administration etc. which are indispensable to the existence of an organized state
- **Social Services:** Covers activities associated with Provision of Services needed for community living such as Education, Medical and Health, etc
- **Economic Services:** Covers activities such as Assistance provided to agencies in the fields of production and trade
EX: Agriculture, Power, Irrigation, Industry, etc

Significance Head of Account

- **Major head** means a main head of account for the purpose of recording and classifying the receipts and disbursements relating to the functions of the Government.

- **Sub-Major head** - The Major heads are sub divided in some cases into sub major heads. Sub major heads are opened under a major head to record those transactions which are of a distinct nature and are of sufficient importance to be recorded exclusively, but at the same time allied to the function of the major head. The head of account relating to each such sub division is termed as “sub major head” and the budget code is two digit code e.g. under the major head “2202.Education” the sub major head are:-
 01. Elementary Education
 02. Secondary Education
 03. University and Higher Education etc.

Significance Head of Account

- **Minor head** means a head subordinate to a Major head or Sub-Major head representing a specific programme.
- **Group Sub head** suggested in between the Programme Minor head and Sub head representing a similar group of schemes which are implemented under a separate funding pattern.
- **Sub-head** means a head subordinate to a minor head. It indicates schemes for Plan Programmes or administrative set-up in the case of non-plan expenditure.

Significance Head of Account

- **Detailed head** is the primary unit of appropriation. It exhibits expenditure under basic items like salaries, Travel Expenses, Office Expenses etc.
- **Sub-detailed heads** denote break-up of detailed heads or object classification, wherever necessary, and possible. e.g. 010 Salaries / 011 Pay / 012 Allowances / 013 DA etc.

The important feature of the revised classification is introduction of a number of tyres for purposeful review of Government operations.

Sl. No.		Establishment		Scheme	
1	Major Head 4 Digit Code	2210	Medical and Public Health	2210	Medical and Public Health
2	Sub-Major Head 2 Digit Code	01	Urban Health Services - Allopathy	01	Urban Health Services - Allopathy
3	Minor Head 3 Digit Code	001	Direction and Administration	110	Hospitals and Dispensaries
4	Group Head 2 Digit Code			25	STATE SECTOR SCHEMES
5	Sub Head 2 Digit Code	(01)	Headquarter's Office	(40)	RIMS General Hospital
6	Detailed Head 3 Digit Code	010	Salaries	010	Salaries
7	Sub detailed head 3 Digit Code	011	Pay	011	Pay
		012	Allowance	012	Allowance
		013	DA	013	DA

Revised Classification

1	Revenue Receipts 0020 to 1999 (Starting with 0 &1)	0030 1475	Stamps and Registration Fee Other General Economic Services.
2	Revenue Expenditure (Starting with 2 &3	2011 3054	Legislature Roads and Bridges.
3	Capital Expenditure(4&5)	4055 5054	Capital Outlay on Police Capital Outlay on Roads and Bridges.
4	Loans and Advances (6&7)	6210 7055	Loans on Medical & Public Health. Loans for Road Transport.
5	Public Account (Receipts& Disbursements same Major Head	8009	State Provident Fund.

HEAD OF ACCOUNTS

1	Revenue Receipts 0020 to 1999 (0 and 1)	0210	Medical and Public Health
2	Revenue Expenditure 2011 to 3999	2210	Medical and Public Health
3	Capital Expenditure 4011 to 5999	4210	Capital Outlay on Medical and Public Health
4	Loans and Advances 6011 to 7999	6210 7610	Loans for Medical and Public Health Loans to Government Servants
5	Public Account 8001 to 8999 (Vol.IV)	8009	State Provident Fund
		8011	Insurance and Pension Funds
6	Contingency Fund 8000		

Vote on Account

Vote on account means a grant made in advance by the Legislative Assembly in pursuance of Article 206 (1) (a) of the Constitution, in respect of the estimated expenditure for a part of the new financial year, pending the completion of the procedure relating to the voting of the demands for grants and the passing of the Appropriation Bill.

Vote on Account

1. Vol I / I Annual Financial Statement Explanatory Memorandum on Budget.
2. Vol I / 2 Statement of Demands for Grants
3. Budget at a Glance
4. Vote on Account for Expenditure of the State
5. Survey of Socio Economic Trends and State Plan.

Preparation of Budget.

The Budget or the Annual Financial Statement of the State is prepared based on departmental estimates furnished by E.O/CCO through Number Statements, BE,RE &BE under Establishment expenditure and Scheme Expenditure.

NECESSITY FOR PROMPT SUBMISSION OF ESTIMATES AND RESPONSIBILITY OF THE HODs AND THE ESTIMATING OFFICERS

The estimates shall be furnished as per the instructions of Finance Department and any delay in submission of estimates will result in serious dislocation of work in Secretariat in making provisions for any sanctioned scheme. The estimates shall be prepared accurately and the authority must be quoted for the estimates.

Basic Approaches and Principles in Budget preparation.

- Budget preparation involves estimation of Revenue, Debt and Expenditure in respect of all activities.
- Activities of the government include both on-going and new activities proposed.
- There are broadly two approaches to budget preparation viz., bottom-up and top-down approaches.
- These approaches are not mutually exclusive but complimentary.

Bottom Up Approach

- Involves preparation of estimates by line departments for carrying out their activities.
- The estimates are sent upwards.
- They are consolidated by the administrative department and sent to the Finance Dept.
- Finance Dept. consolidates and prepares the draft Budget.

Top-Down Approach

- Finance Department in discussion with other departments determines the policies and priorities.
- FRBMA sets a top-down constraint on the spending powers of a department.
- Finance Department may impose ceilings and the departments are constrained to remain within those ceilings.

- **Economy** : In order to ensure effective and optimum utilization of the resources, it is necessary to observe economy in expenditure and also avoid such expenditure which does not result in benefits commensurate with the expenditure.
- **Explanations for variations in figures:** Estimating Officers are requested to furnish brief and clear explanations for material variations between the Budget and Revised Estimates of the current year and the Budget Estimates for coming year both under Receipts and Expenditure.
- **Accuracy and authority for estimates** : It will be the responsibility of the HODs and other Estimating Officers to see that no omissions or deviations are made in making provisions or any sanctioned scheme or any other item of expenditure covered by sanction of the Competent Authority.

➤ **Date of submission of Estimates** : All Estimating Officers shall submit the estimates **Online** to their respective Administrative Departments on the dates prescribed by Finance Department.

➤ Where any large provision is proposed in respect of outstanding liabilities or arrear payments, full details should be furnished and the original sanction for incurring such expenditure should invariably be quoted.

➤ **Scrutiny of estimates by the Administrative Department of Secretariat:** The Administrative Departments of Secretariat scrutinize the estimates of the Departments under their control and forward to Department with their comments thereon. The object of examination by the Administrative Departments is to detect excessive or inadequate provision in the Budget Estimates which they are in a position to do in the better way in view of their more intimate knowledge of working of the Departments under their administrative control.

Scheme Expenditure

- In the changed scenario Annual Plan does not exist, there is a necessity to maintain the existing practise of making specific allocations for SC and ST development to meet the legislative obligation. As per Telangana Scheduled Castes Sub-Plan (SCSP) and Tribal Sub-Plan (TSP) Act 2013 (Planning, Allocation and Utilisation of Financial Resources), all Government Departments should earmark at least 15.45 per cent and 9.08 per cent of the total plan outlay in the Budget exclusively for the development of Scheduled Castes and Scheduled Tribes, respectively. Schemes are to be designed to benefit the SCs/STs individually or as a community with a view to improving their economic and social condition. The existing practise of group sub-head system which identifies the source of funding for each type of the scheme viz., Centrally Sponsored Scheme, Externally Aided Scheme, Schemes Assisted by RIDF, etc., were continued except for the deletion of the group sub-head relating to the Normal State Plan.

GH	03	EAP
	04	Finance Commission Grants
	07	RIDF
	12	Centrally Sponsored Schemes
	25	State Sector Schemes

Preparation of Budget

- **Number Statements** : A Statement showing the Cadre Strength of a Department both temporary and permanent Gazetted and Non-gazetted.

The total cadre strength of all the Departments in the State are published in Budget Document Vol.VIII/I (Appendix -A) .

Accounts or actuals of a year are the amounts of receipts and disbursements for the financial year beginning on April 1st and ending on March 31st following, as finally recorded in the Accountant-General's books.

Revised Estimates is an estimate of the probable receipts or expenditure for a financial year, framed in the course of that year with reference to the transactions already recorded and anticipations for the remainder of the year in the light of the orders already issued or contemplated to be issued or any other relevant facts. Revised Estimate is not an Appropriation.

Budget Estimates are the detailed estimates of the receipts and disbursements of a financial year.

Budget Documents

Since the budget documents should exhibit the actuals of previous year, budget estimates and revised estimates of current year, along with the budget estimates for ensuing year, **Two set of books were presented to the legislature one set containing information in the columns upto Revised Estimates for current year and the other set for BE 2017-18 with all other columns left blank. The amount for the BE 2017-18 is presented Rupees in lakhs instead of rupee in thousands.**

1. **Budget Speech(Telugu, English, Urdu)**
2. **Volume I/1 – Annual Financial Statement and Explanatory Memorandum on Budget.**
3. **Volume I/2- Statement of Demand for Grants.**
4. **Volume II – Detailed Estimates of Revenue and Receipts.**
5. **Volume III- Details of Demands for Grants for Non-Pan and Plan. There are 17 parts in Volume III, each part contains Demands for Grants or Departments coming under each Department of Secretariat.**

Budget Documents

6. **Volume IV** – Public Account
7. **Volume V** – Annexure to the Budget.
8. **Volume VI** – Budget in Brief (Telangana Budget at a Glance)
9. **Volume VII** – VII/1 Pragati Paddu (Scheme Expenditure)
VII/2 SCSDF (SC Special Development Fund)
VII/3 STSDF (ST Special Development Fund)
10. **Volume VIII** – Appendices to the Budget Estimates.
11. **Volume IX** – Analysis of the Demands for Grants by Ministers.
12. Notice of Demands for Grants.
13. **Volume X** – Government Commercial Undertakings
Supplement to the Detailed Budget Estimates.

Finance Minister Budget Speech

- The Budget Speech contains a review of the Financial position of the State for the previous year, Current year and the coming year.
- The main purpose of the Budget Speech is to explain the important policies and programmes of the Government and how far they have been implemented & achievements during previous year and how they are going to be introduced and implemented in future.
- Issues covered in the FM Budget Speech are Economic Situation, (DES) Seasonal Conditions, Agricultural Production, Infrastructure Irrigation, Roads, Power, I&PR, MA&UD and Transport Departments.
- Social Sector (Health, Education, Employment, Sports& Youth Welfare.
- Welfare(Rural Development, SC/ ST/ BC/ MW/ WDCW.
- Law and Order.
- Employees Welfare.
- Accounts of last year, RE of current year and BE of next year.

Performance Budget

- This is a comprehensive operational document, conceived, presented and implemented in terms of programmes, projects and activities with their financial and physical aspects closely interwoven. Performance budget seeks to present the purpose and objectives for which funds are requested, the cost of various programmes and activities proposed for achieving these objectives and quantitative data measuring the work performed or services rendered or results accomplished under each programme and activity.

OUTCOME BUDGET

- From the Financial Year 2007-08 the Government of India had replaced Performance Budget with Outcome Budget.
- Outcome budgets have become an integral part of the budgeting process since 2005-06. OUTCOME BUDGET 2017-18 will broadly indicate the physical dimension of the financial budgets as also the actual physical performance in 2015-16 and performance for the year 2016-17 and the targeted performance during 2017-18.
- An Outcome Budget measures the development outcomes of all Government Programmes. For instance, it will tell a citizen if money has been for building a primary health centre, has indeed come up. In other words it is a means to develop a linkage between the money spent by a Government and the result which follow
- The concept has developed in many democracies to make budgets more cost effective. According to experts it signals the emergence of an important tool for effective Government management and accountability.
- The Outcome Budget documents will be prepared separately by each Department in respect of all Demands / Appropriation controlled by them.
- As far as feasible, sub-targets for coverage of women and SC/ST beneficiaries under various developmental schemes should be separately indicated.

OUTCOME BUDGET (contd..)

- **Broad Format of Outcome Budget 2017-18**
- The Outcome Budget 2017-18 will be prepared on the basis of Budget 2017-18 in the form of a document, separate for each Department, broadly consisting of the chapters detailed below:-
- Executive summary: A part from summarizing relevant chapters, this portion should prominently highlights the details of the monitoring mechanism and the public information system put in place by the Department to regularly monitor physical and financial progress during the course of the year and inform the general public about it.
- It contains 6 Chapters.
- Every year all departments have to present the same to the Legislature 2 days before their respective Demand is taken up for discussion.

Zero Based Budget

- Zero Based budget starts from the scratch.
- The objective of Zero Based Budgeting is to “reset the clock” each year.
- It requires denovo examination of all items of expenditure incurred by a department to find out their necessity with reference to the functions and responsibilities of the department.
- It complements and links to existing planning, budgeting and review processes.
- It identifies alternative and efficient methods of utilizing limited resources.
- Provision for expenditure is to be justified for new as well in respect of continuing projects.

New System of Preparation of Budget Estimates from 2017-18

- The Constitution of India does not envisage presentation of Budget with Plan and Non-Plan distinction, it only stipulates that the Budget should contain distinction between **Charged** and **Voted** items and also **Revenue and Capital**.
- The GOI has informed that there is no distinction of Budget Classification as Non-Plan and Plan from the fiscal year 2017-18 at the Union and State Government level and advised to prepare the Budget Estimates 2017-18 in the lines of Revenue and Capital, as announced by Hon'ble Union Finance Minister during his Budget speech of 2016-17 indicating that it is mandatory for the states to move to **New System**, as a measure towards a major fiscal and budgetary reforms.

Budget Release Order (BRO) System

- **Budget Release Order (BRO) System: From 1st April, 2001 the Government of Andhra Pradesh has introduced a system of Budget releases called BRO System by issuing orders vide G.O.Ms.No. 59 Finance & Planning (FW: BG) Department dt.30-3-2001.**
- **BRO system will facilitate:**
- **Smooth flow of funds to line departments.**
- **Delays in movement of files from HOD to Administrative Department in Secretariat to Finance Department can be avoided.**

Budget Release Order (BRO) System – (Contd.)

- **After passing of Appropriation Act in the State Legislature, during April the Finance Expenditures Sections will release funds through BROs /LOCs under Plan and Non-Plan from the provisions already made in the Budget Estimates.**
- **Based on the BROs issued by the Finance Department, Administrative Department of Secretariat will issue Administrative Sanction Orders duly following the Business Rules and Codal provisions.**
- **The BROs for 2nd, 3rd and 4th quarters will be issued by Finance Department by reviewing the progress of expenditure of the previous quarter.**
- **The system of suo-moto release of BROs by the Finance Department in the 1st quarter itself has not only reduced the file work but also funds were made available to the departments in time**

Budget Release Order – Contd.

- **Government introduced BRO system for release of funds under Plan and under Non-Plan wherever sanction from Government is necessary.**
- **Finance Dept. will issue BRO's in the month of April every year for the 1st quarter from the provisions made available in the Budget.**
- **The Department of Secretariat have to issue administrative sanctions for the expenditure based on the BRO's issued by the Finance Department with in 90 days of from the date of issue of such BRO by Finance Department.**
- **Incase, the administrative department fails to issue administrative sanction with in the above prescribed time limit, such department has to again approach Finance Department giving valid reasons for not issuing the administrative sanction and also for issuing of fresh BRO if necessary.**
- **(G.O.MS.No.94 ,Finance Department Dt.02-04.2012)**

Re-appropriations

- **As per para 17.4 of A.P. Budget Manual, the HODs are authorized to re-appropriate funds from one unit of appropriation to another unit of appropriation under their control subject to following restrictions :**
- **From one Grant to another Grant.**
- **Between Revenue, Capital and Loans Sections even in the same Grant.**

Re-appropriations – (Contd.)

- Restrictions continued :-
- Expenditure constituting New Service / Project / Scheme for which there was no budget provision previously.
- From Charged provision to Voted provision or vice-versa.
- From Establishment expenditure to Scheme expenditure
- Re-appropriations for accommodating recoveries.
- Re-appropriations shall be within the R.E fixed by the Finance Department.

Re-appropriations – (Contd.)

- **Conditions:-**
- **The expenditure shall be under general control of HOD or authority sanctioning Re-appropriation.**
- **Re-appropriation should invariably be rounded to the multiple of Rupees in lakhs only**
- **Re-appropriation should not involve the undertaking of recurring liability i.e. liability which extends beyond the financial year in question.**
- **Re-appropriations should not be rushed through at the fag end of the financial year, to prevent the lapse of an appropriation.**

Supplementary Estimates

- Article 205 of the Constitution of India provides that if the amount authorised by the Appropriation Act to be expended on a particular service for a financial year is found to be insufficient for the purposes of that year or when a need has arisen in the course of financial year for supplementary or additional expenditure upon some new service not contemplated in the Annual Financial Statement for that year, another statement showing the estimated amount of that expenditure shall be laid before the Legislature of the State. The provisions of the Constitution relating to the Annual Financial Statement will also apply to the Supplementary Statement.

➤ The Supplementary Statement now presented to the Legislature relates to:

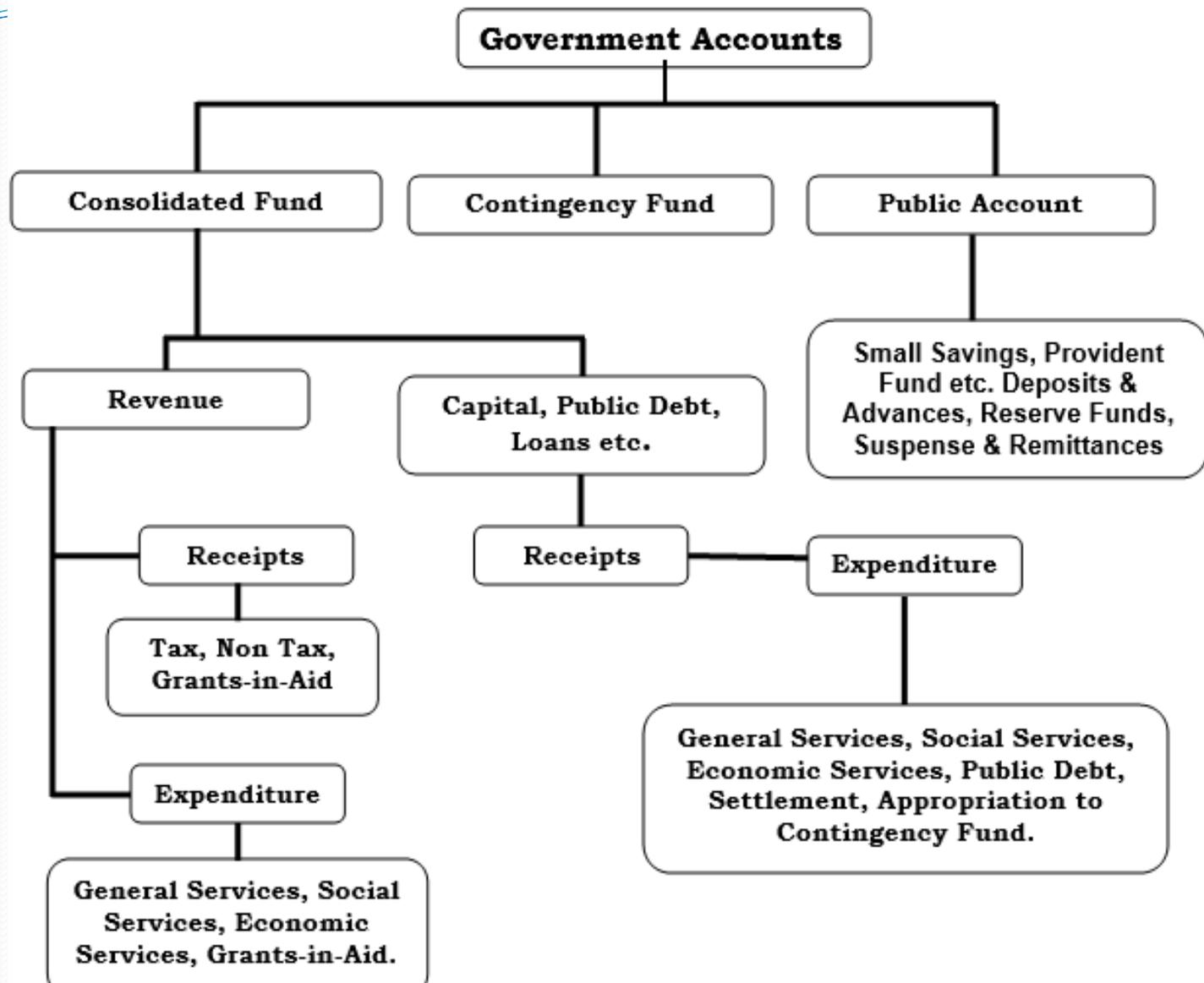
(a) Services already provided for in the Budget for the **Current Year** for which additional appropriation is now required with reference to the expenditure incurred or expected to be incurred before the end of the year; and

(b) New Services and new items of expenditure sanctioned by the Government in the course of the year.

In the case of New Service, the actual amount required during the current year or the amount advanced from the Contingency Fund, as the case may be, has to be included in the Supplementary Statement.

The Finance Department will issue instructions each year to all Secretariat Departments & to all HODs calling for proposals for inclusion in Supplementary Estimates of the current year to cover the additional expenditure sanctioned over and above budget and to recoup the advance sanctioned from **Contingency Fund**.

Structure of Government Accounts



Role of Line Departments

- Prepare and forward Budget Estimates as per Government instructions Online in time to administrative Department.
- Prepare Schemes supported by the Planning Department
- Project resources requirements for different programmes consistent with resources indicated.
- Primarily responsible for implementation
- Will be given flexibility to make internal changes on a three year rolling basis to incentivise changes to arrive at optimal mix of inputs to obtain better outputs and outcomes.

Thank You