Principles of Financial Management in Govt

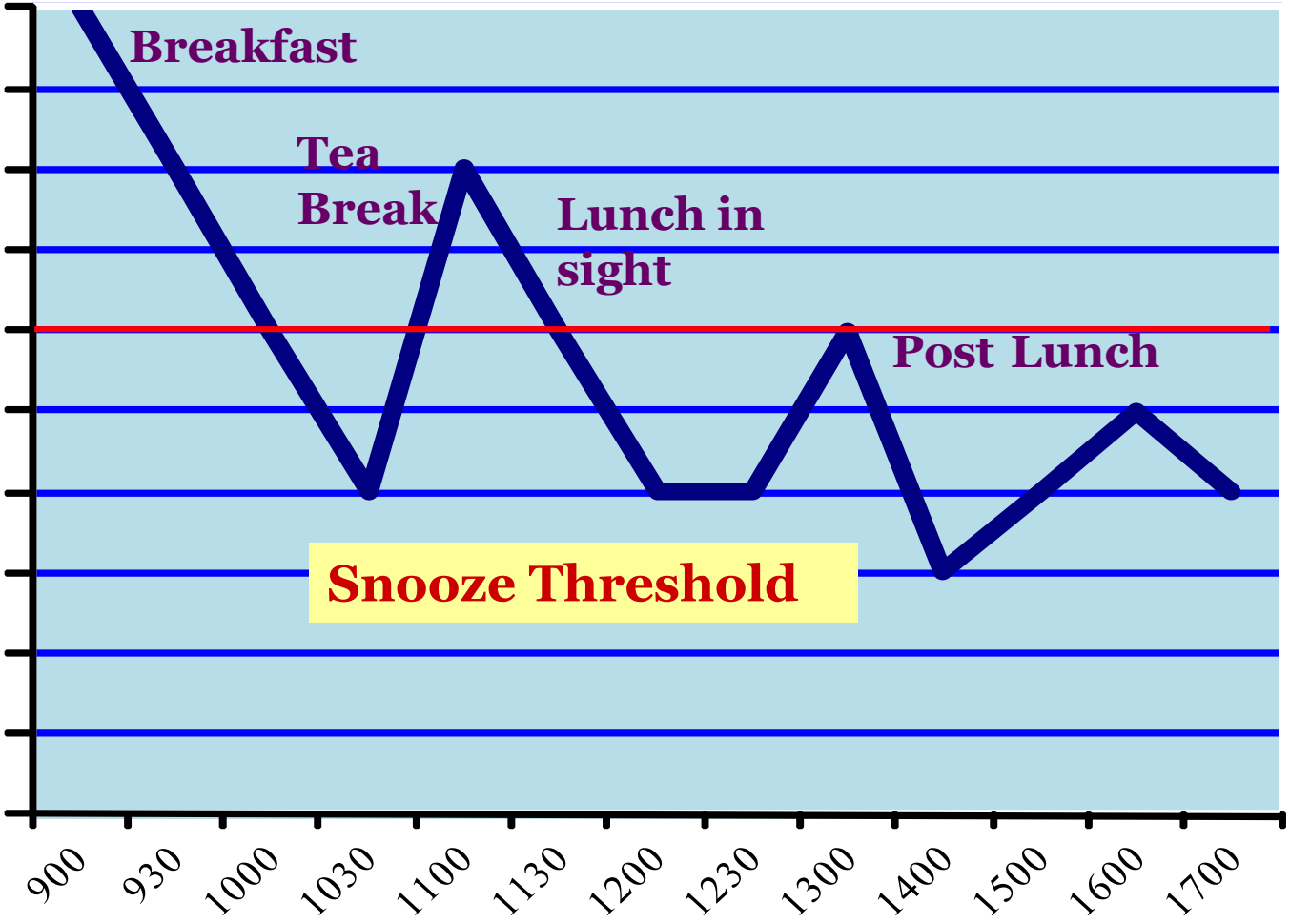
19th October 2026

Mubeen Rafat

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 Receipts to meet Revenue Expenditure (Opex)

Ensure optimum utilization of resources

Decision Makers and their information needs

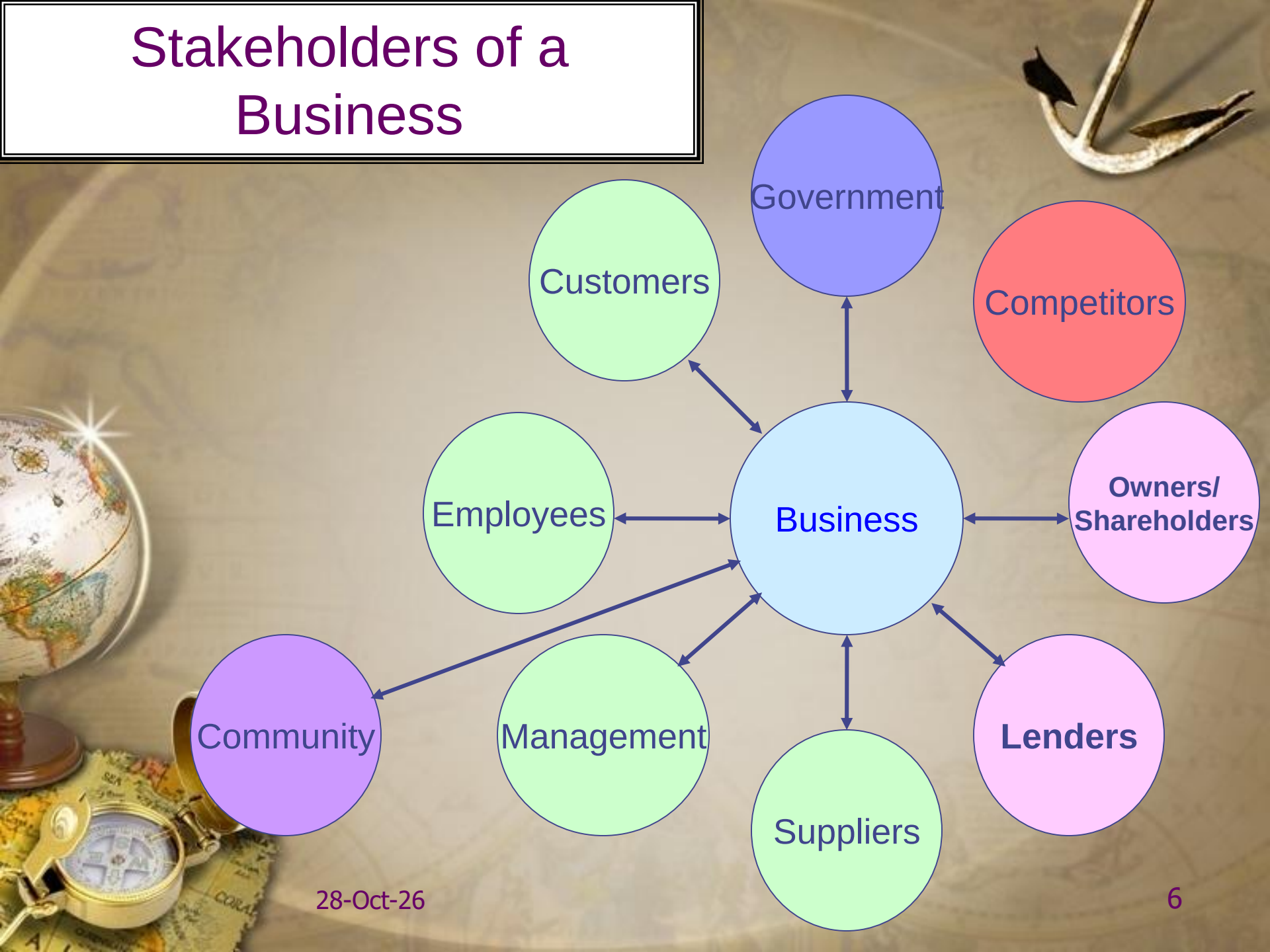
Who are the decision makers?

What decisions do they take?

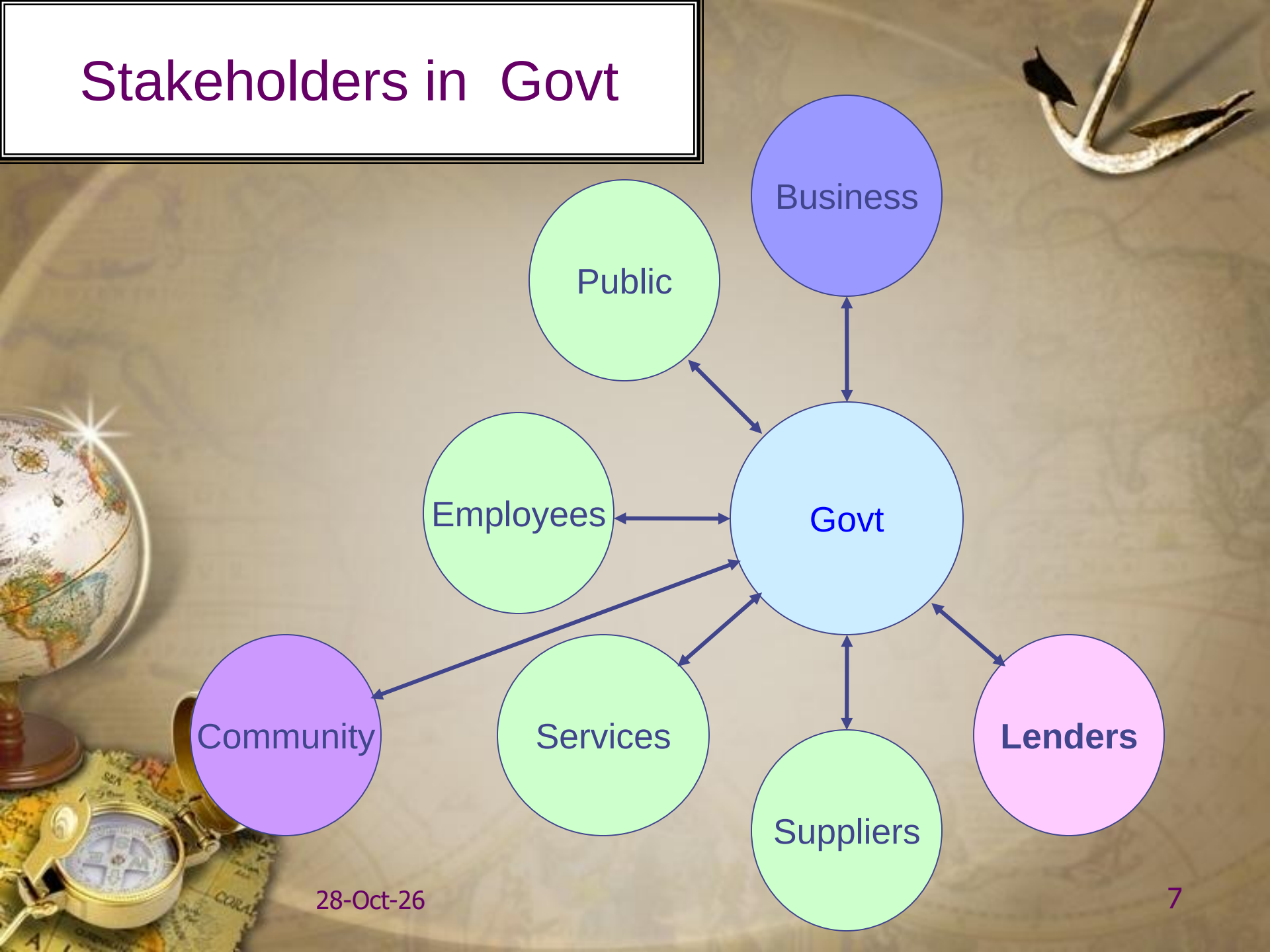
What Information do they need?



Stakeholders of a Business



Stakeholders in Govt



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 and meet expenditure
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

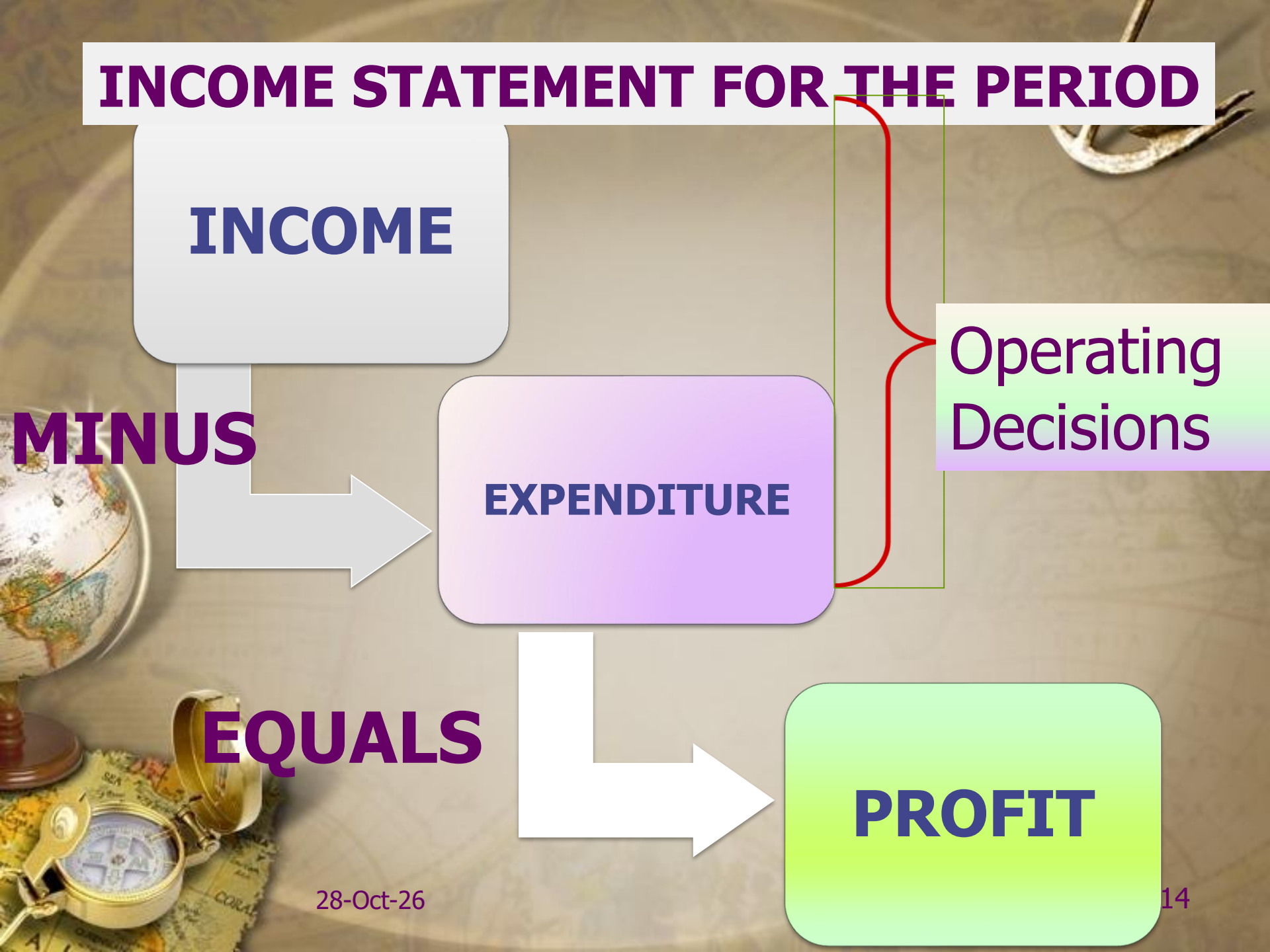


PROFIT

HOW DO WE MEASURE THE SUCCESS OF A Expenditure in Govt



INCOME STATEMENT FOR THE PERIOD



BUDGET FOR THE PERIOD

RECEIPTS

MINUS

EXPENDITURE

EQUALS

SURPLUS /DEFICIT

HOW DO WE MEASURE
Prosperity in Business



HOW DO WE MEASURE
Prosperity in Economy



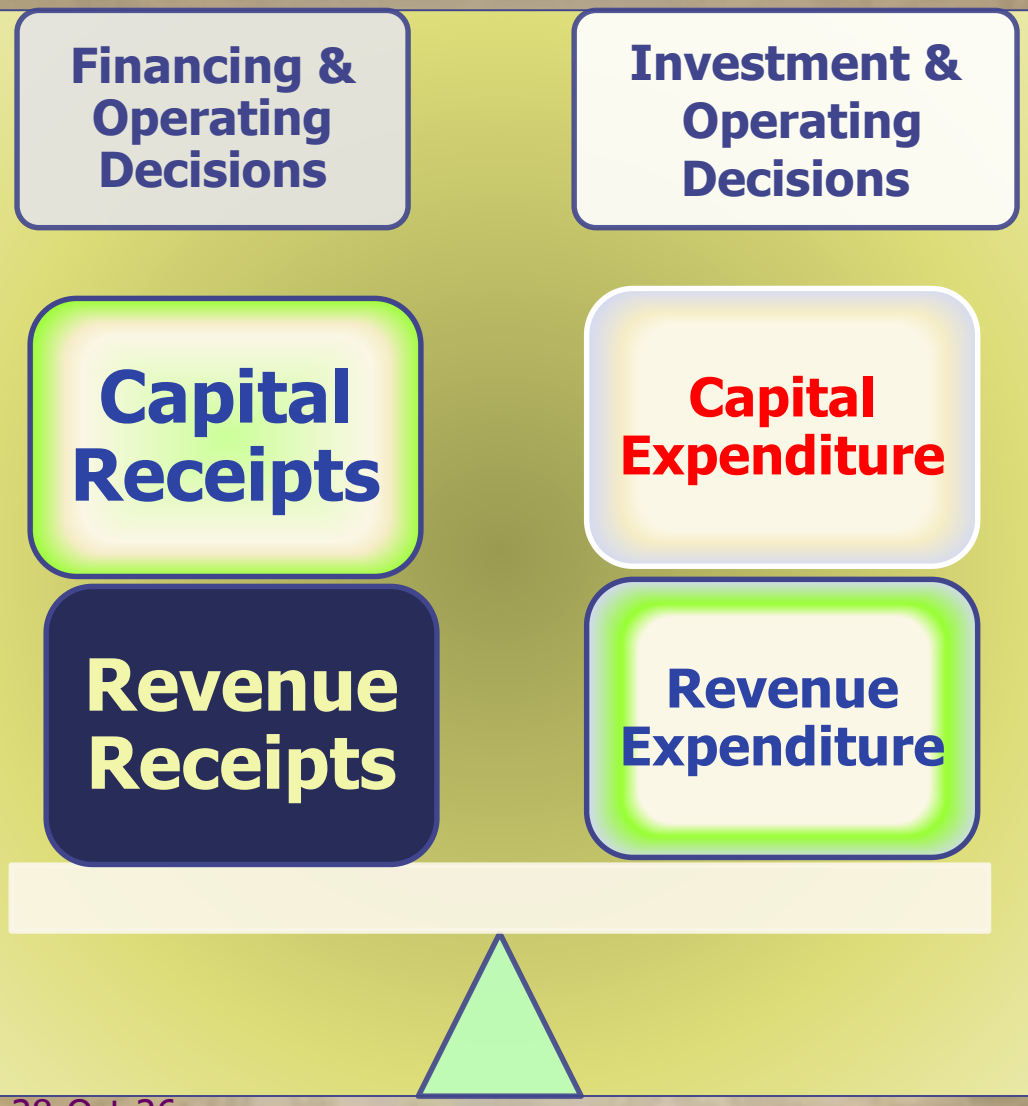
GDP growth


India's First-Quarter Performance at a Glance
Indicator
Q1 2025-26
Q1 2026-27
Real GDP
6.9%
7.8%
Real GVA
7.0%
8.2%
Nominal GDP
8.1%
10.3%
Nominal GVA
8.1%
11.5%
Source: Ministry of Statistics & Programme Implementation (MoSPI)
*GDP: Gross Domestic Product
GVA: Gross Value Added

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 2026-27

Rs in crores

Fiscal deficit
Rs 16,95,768

Financing & Operating Decisions Total Receipts
Rs 36,51,547

Investment & Operating Decisions Total Expenditure
Rs 53,47,315

Capital Receipts
Rs 1,18,397

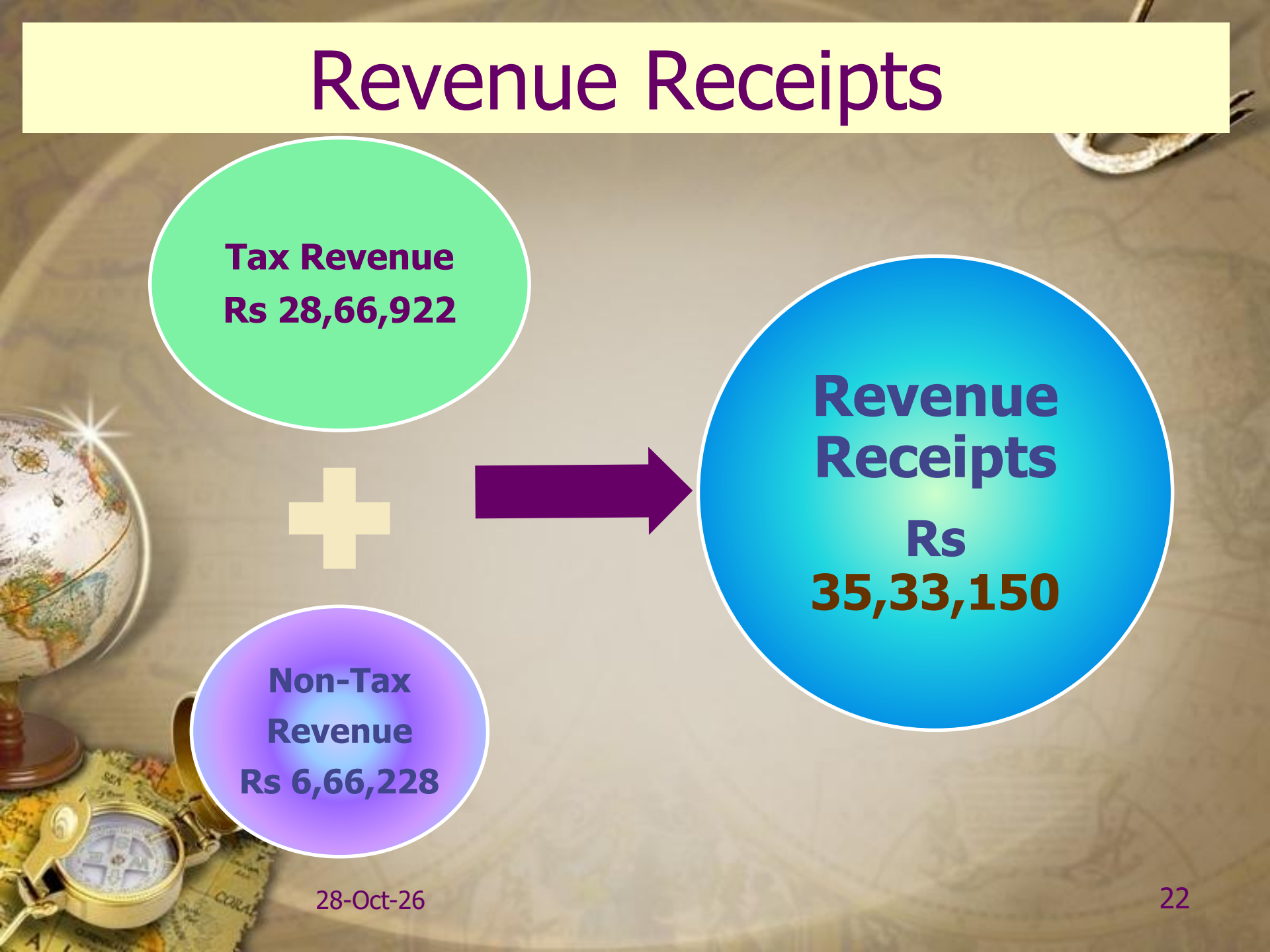
Capital Expenditure
Rs 12,21,821

Revenue Receipts
Rs 35,33,150

Revenue Expenditure
Rs 41,25,494

Revenue Deficit
Rs 5,92,344

Revenue Receipts



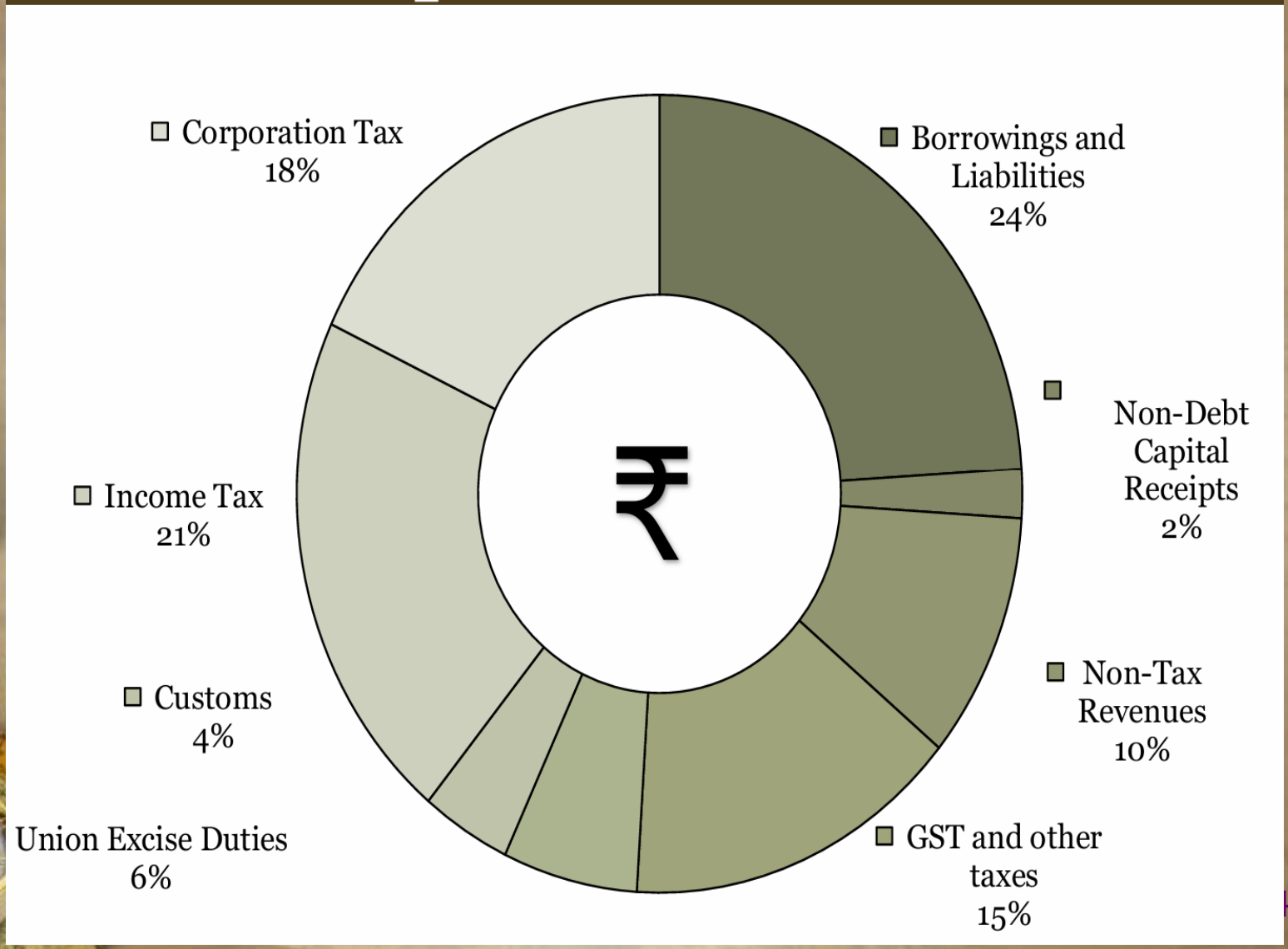
Breakup of Receipts

Table 2: Break up of central government receipts in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
A. Gross Tax Revenue	**37,96,382**	**42,70,233**	**40,77,772**	**44,04,086**	**8%**
of which					
Corporation Tax	9,86,767	10,82,000	11,09,000	12,31,000	11%
Taxes on Income	12,35,171	14,38,000	13,12,000	14,66,000	11.7%
Goods and Services Tax	10,27,041	11,78,000	10,46,480	10,19,020	-2.6%
CGST	*8,76,471*	*10,10,890*	*9,58,480*	*10,19,020*	*6.3%*
GST Compensation Cess	*1,50,570*	*1,67,110*	*88,000*	*0*	-
Customs	2,33,201	2,40,000	2,58,290	2,71,200	5%
Union Excise Duties	3,00,253	3,17,000	3,36,550	3,88,910	15.6%
B. Devolution to States	**12,86,885**	**14,22,444**	**13,92,971**	**15,26,255**	**9.6%**
C. Centre's Net Tax Revenue	**25,00,039**	**28,37,409**	**26,74,661**	**28,66,922**	**7.2%**
D. Non-Tax Revenue	5,36,580	5,83,000	6,67,662	6,66,228	**-0.2%**
of which:					
Interest Receipts	40,435	47,738	40,165	41,763	4%
Dividends and Profits	3,08,424	3,25,000	3,75,590	3,91,000	4.1%
Other Non-Tax Revenue	1,84,206	2,05,668	2,48,461	2,29,373	-7.7%
E. Capital Receipts (without borrowings)	**41,818**	**76,000**	**64,027**	**1,18,397**	**84.9%**
of which:					
Disinvestment	17,202	47,000	33,837	80,000	136.4%
Receipts (without borrowings) (C+D+E)	**30,78,437**	**34,96,409**	**34,06,350**	**36,51,547**	**7.2%**
Borrowings	**15,74,431**	**15,68,936**	**15,58,492**	**16,95,768**	**8.8%**

Sources: Receipts Budget, Union Budget Documents 2026-27; PRS.

RECEIPTS ANALYSIS



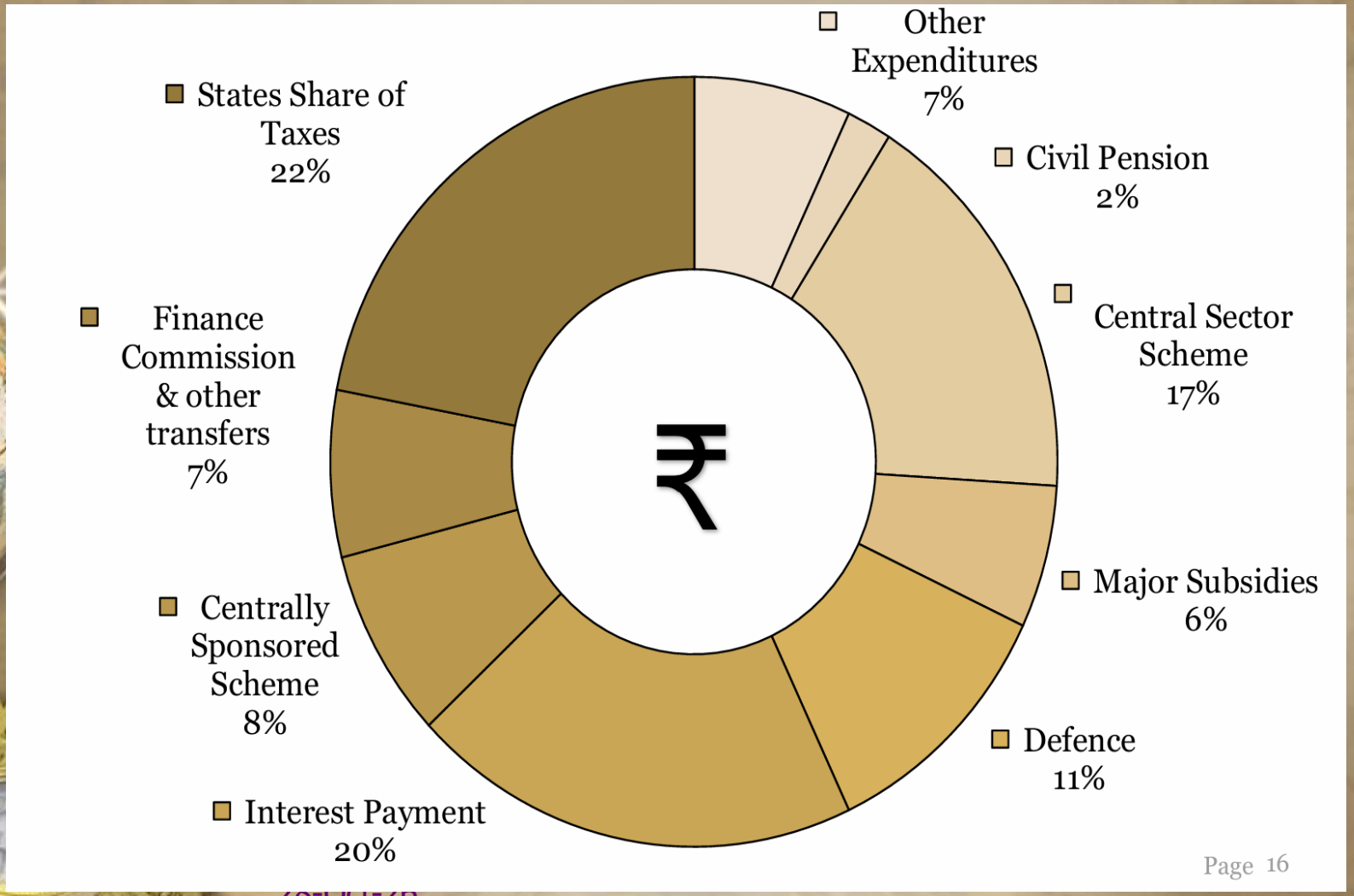
Expenditure Breakup

Table 3: Break up of central government expenditure in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Central Expenditure	**37,44,781**	**40,16,003**	**41,19,301**	**43,57,429**	**5.8%**
Establishment Expenditure of Centre	8,29,423	8,68,096	7,82,701	8,24,114	5.3%
Central Sector Schemes	14,94,392	16,21,899	16,37,156	17,71,928	8.2%
Other Expenditure	14,20,966	15,26,008	16,99,445	17,61,387	3.6%
of which Interest Payments	11,15,575	12,76,338	12,74,338	14,03,972	10.2%
Centrally Sponsored Schemes and other transfers	**9,08,086**	**10,49,343**	**8,45,540**	**9,89,885**	**17.1%**
Centrally Sponsored Schemes	4,02,368	5,41,850	4,20,078	5,48,798	30.6%
Finance Commission Grants	1,20,858	1,32,767	1,52,953	1,29,397	-15.4%
of which:					
Rural Local Bodies	*41,262*	*48,573*	*54,314*	*55,909*	*2.9%*
Urban Local Bodies	*19,260*	*26,158*	*26,023*	*45,272*	*74.0%*
Disaster Management Grants	*25,249*	*26,969*	*33,515*	*28,216*	*-15.8%*
Post Devolution Revenue Deficit Grants	*24,483*	*13,705*	*13,705*	*0*	
Other Grants	3,84,860	3,74,725	2,72,510	3,11,691	14.4%
of which Capex Loans to States	*1,49,484*	*1,50,000*	*1,44,000*	*1,85,000*	28.0%
Total Expenditure	**46,52,867**	**50,65,345**	**49,64,842**	**53,47,315**	**7.7%**

Sources: Budget at a Glance, Union Budget Documents 2026-27; PRS.

EXPENDITURE ANALYSIS



Expenditure on Schemes

Table 6: Scheme-wise allocation in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
VB-G RAM G	0	0	0	95,692	-
MGNREGS	85,834	86,000	88,000	30,000	-66%
Jal Jeevan Mission/National Rural Drinking Water Mission	22,612	67,000	17,000	67,670	298%
PM-KISAN	66,121	63,500	63,500	63,500	0%
Pradhan Mantri Awas Yojana – Rural	32,327	54,832	32,500	54,917	69%
Samagra Shiksha	36,288	41,250	38,000	42,100	11%
National Health Mission	38,889	37,227	37,100	39,390	6%
Saksham Anganwadi and POSHAN 2.0	21,014	21,960	20,949	23,100	10%
Modified Interest Subvention Scheme	22,600	22,600	22,600	22,600	0%
Pradhan Mantri Awas Yojana – Urban	5,865	25,794	7,900	22,025	179%
PM Surya Ghar Muft Bijli Yojana	7,818	20,000	17,000	22,000	29%
PM Viksit Bharat Rozgar Yojana	0	0	0	20,083	-
Bharatnet	3,995	22,000	5,500	20,000	264%
Research, Development and Innovation (RDI) Scheme	0	20,000	3,000	20,000	566.7%

Sources: Expenditure Profile, Union Budget 2026-27; PRS.

Subsidies Rs in crores

Table 5: Subsidies in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Food subsidy	1,99,867	2,03,420	2,28,154	2,27,629	-0.2%
Fertiliser subsidy	1,70,683	1,67,887	1,86,460	1,70,799	-8.4%
Interest subsidy	21,885	27,840	24,666	27,441	11.3%
LPG subsidy	14,479	12,100	15,121	12,085	-20.1%
Other subsidies	15,692	14,969	15,105	16,820	11.3%
Total	**4,22,606**	**4,26,216**	**4,69,505**	**4,54,773**	**-3.1%**

Sources: Expenditure Profile, Union Budget 2026-27; PRS.

Allocations

Table 7: Allocations for women, children, SCs, STs and NER (Rs crore)

	Actuals 2024-25	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Welfare of Women	3,59,722	3,97,885	5,00,879	25.9%
Welfare of Children	99,099	1,07,945	1,32,297	22.6%
Scheduled Castes	1,23,372	1,61,205	1,96,400	21.8%
Scheduled Tribes	1,05,711	1,23,435	1,41,089	14.3%
North Eastern Region	87,736*	88,741	1,08,335	22.1%

Note: *Revised estimates taken as actuals

Sources: Expenditure Profile, Union Budget 2026-27; PRS.

Ministry wise Expenditure

Table 4: Ministry-wise expenditure in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Defence	6,36,003	6,81,210	7,32,512	7,84,678	7.1%
Road Transport and Highways	2,99,460	2,87,333	2,87,142	3,09,875	7.9%
Railways	2,55,263	2,55,445	2,55,466	2,81,377	10.1%
Home Affairs	2,24,585	2,33,211	2,41,485	2,55,234	5.7%
Consumer Affairs, Food and Public Distribution	2,15,009	2,15,767	2,38,409	2,39,521	0.5%
Rural Development	1,79,307	1,90,406	1,88,753	1,97,023	4.4%
Chemicals and Fertilisers	1,84,993	1,61,965	1,91,186	1,77,061	-7.4%
Agriculture and Farmers' Welfare	1,39,744	1,37,757	1,33,370	1,40,529	5.4%
Education	1,10,736	1,28,650	1,21,949	1,39,289	14.2%
Health and Family Welfare	90,684	99,859	96,854	1,06,530	10.0%
Communications	1,47,832	1,08,105	79,768	1,02,267	28.2%
Jal Shakti	46,720	99,503	41,437	94,808	128.8%
Housing and Urban Affairs	53,255	96,777	57,204	85,522	49.5%
Total Expenditure	**46,52,867**	**50,65,345**	**49,64,842**	**53,47,315**	**7.7%**

Sources: Expenditure Budget, Union Budget 2026-27; PRS.

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

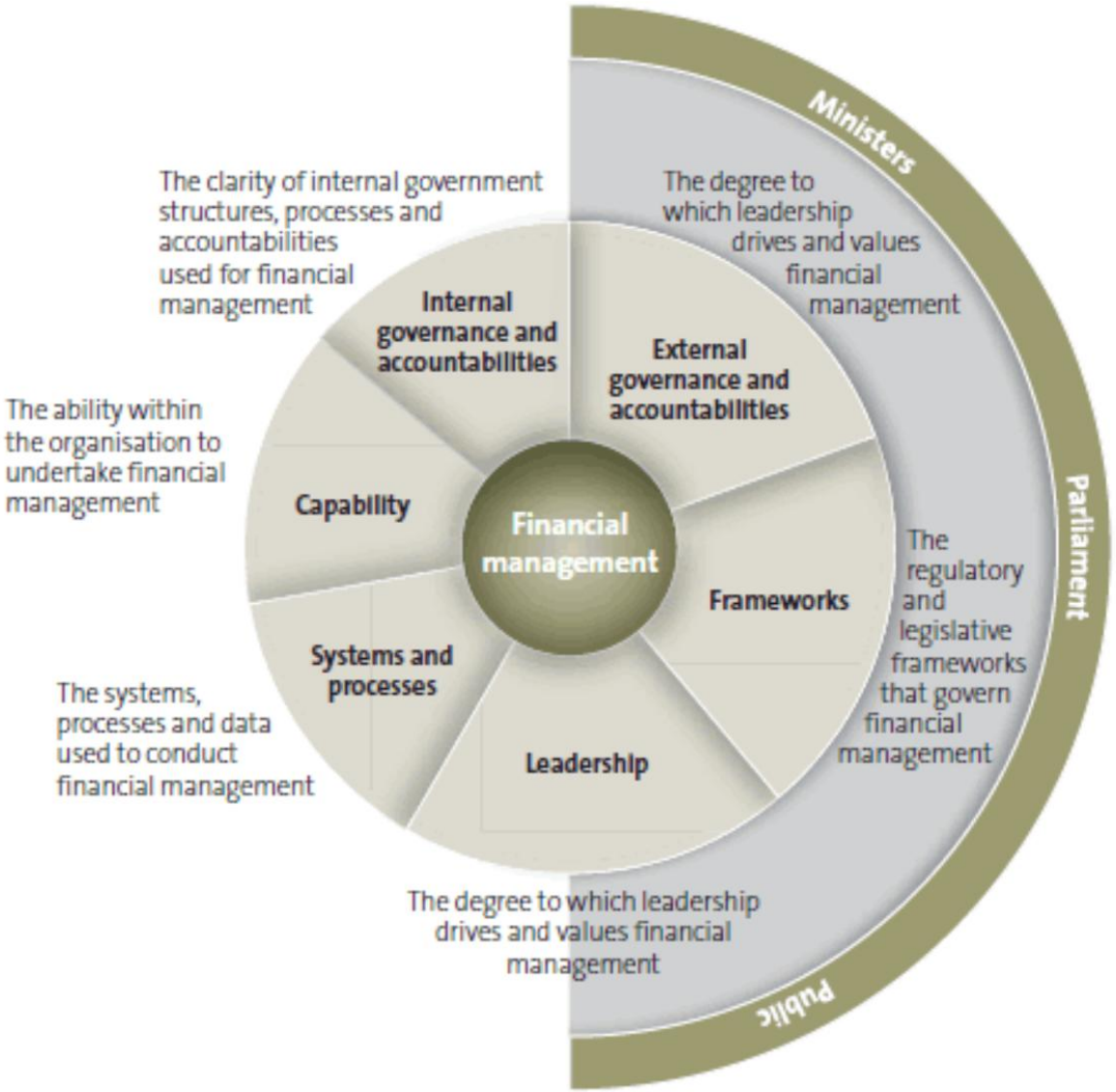
Governance Framework

- 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


Ministers
Parliament
Public
The clarity of internal government structures, processes and accountabilities used for financial management
The degree to which leadership drives and values financial management
Internal governance and accountabilities
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


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