

Annual Financial Statement (Budget)

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Objectives

At the end of the 3 sessions, you will be able to:

1. Describe the three Funds
2. Explain the principles of budgeting
3. Describe some of the budgetary terms
4. Explain the procedure to prepare Budget Estimates and Revised Estimates
5. State responsibilities regarding control of expenditure

Why budget?

- To manage the basic economic problem:
 - Limited resources
 - Unlimited requirements
 - Alternative uses of the limited resources
- For the efficient **public finance management** to meet the social, economic and political goals

Budget:

- Annual Financial Statement
- Financial year: 1st April to 31st March
- Estimated receipts and expenditure for
 - The budget year (2018-19)
 - Revised estimates for one year preceding the budget year (2017-18)
 - Actual for two years preceding the budget year (2016-17)

What is Budget?

1. Roadmap for efficient use of public resources
2. Based on socio-economic & political priorities
3. What is to be done & achieved; the manner in which it is to be done; and resources required

Structural reforms in budgeting

- Removal of distinction between Plan & Non-plan expenditure (Budget 2017)
- Merger of demands of Railways with the General Budget (92 year old tradition)
- Advancement of budget presentation to 1st Feb
- Mandatory submission of budget proposals through Union Budget Information System (UBIS) software

Funds

- Consolidated Fund of India
- Contingency Fund of India
- Public Account

Consolidated Fund of India

- Subject to assignment of certain taxes to the States, all revenues received by the Government of India, all loans raised by the Government and all moneys received by that Government in repayment of loans shall form one consolidated fund to be called “the Consolidated Fund of India”.

Art 266(1)

Public Account of India

- All other public money received by or on behalf of the Government of India shall be credited to the Public Account of India.

Art 266(2)

Contingency Fund

- Parliament may by law establish a Contingency Fund in the nature of an Imprest to be called “the Contingency Fund of India”.
- Fund shall be placed at the disposal of the President to enable advances to be made for meeting unforeseen expenditure, pending authorisation by Parliament.
- Corpus size: Rs 500 crore

Art 267/ Contingency Fund of India Act

Expenditure classification

- Voted and Charged
- Revenue and Capital

Charged & Voted

- Charged expenditure
 - Expenditure that is charged on Consolidated Fund of India under Art 113 (2) of Constitution of India
 - Not presented for vote in Lok Sabha
- Voted expenditure
 - Expenditure for which a vote from Lok Sabha is necessary before spending it

Capital & Revenue

- Capital
 - Asset creating expenditure
 - Normally, Non-recurring
- Revenue
 - Expenditure on servicing / maintenance of assets
 - Normally, Recurring in nature

Demand for Grants

- **Main** demand for Grants
 - Presented to the Parliament by the Ministry of Finance
 - Along with the Annual Financial Statement
- **Detailed** Demand for Grants
 - Laid on the Table of the Lok Sabha
 - By the Ministry concerned

SBE

- Statement of Budget Estimates (SBE) & Detailed Demands for Grants (DDG) uploaded in Union Budget Information System (UBIS)
- Statement of Budget Estimates
- Format in which ministry obtains the estimates of expenditure & sends to Ministry of Finance

BUDGET PRINCIPLES

Budget is prepared on Cash Basis: Not on Accrual basis

Rule of Lapse: no deduction of unspent budget can be appropriated for meeting the demands in the next financial year.

Realistic Estimation: The Finance Ministry is interested in seeing that the Departments do not obtain more/less money than what they really need.

6 broad categories of classification of Government expenditure

A: Centre's expenditure:

1. Establishment expenditure of the Centre
2. Central Sector Scheme
3. Other expenditure of Centre

B: Centrally sponsored schemes and other transfers

1. Centrally sponsored schemes
2. Finance Commission transfers (DoExpenditure)
3. Other transfers to States

6-tier accounting classification

Tiers of classification (15 Digits)	What it denotes
Major Head (4)	Functions of the Government
Sub-Major Head (2)	Sub-function
Minor head (3)	Programmes
Sub-head (2)	Schemes & activities
Detailed head (2)	Sub-schemes
Object head (2)	Primary unit of appropriation

Depiction of scheme in DDG

Tiers	Depiction of schemes	Head of Accounts
Tier – 1	Umbrella scheme	Minor Head
Tier – 2	Scheme	Sub-Head
Tier – 3	Sub-scheme	Detailed Head
Tier – 4	Component	Object Head

Vote of Account

- Obtaining permission to spend (normally) first two months' proposed budget
- One-sixth of the budget
- Till Lok Sabha debates and passes the Budget and President gives assent (now vote on account may become redundant)
- No expenditure on new service or new instrument of service from vote on account fund, unless specifically obtained

Appropriation

Allocation of funds to meet specified expenditure of funds included in a primary unit of appropriation

Re-appropriation

Transfer of funds from one primary unit of appropriation to another

Primary unit of appropriation

Sub-heads or standard objects under which allocation of funds are made in the budget

Grant – in – aid [R – 228 – 245]

- Needs approval of Ministry of Finance
- May be given to:
 - Autonomous bodies
 - Non-Government organisations
 - Scholarship for students of educational institutions
 - Urban & rural local self-governments
 - Co-operative societies, etc

Grant – in – aid [R – 228 – 245]

- **Recurring Grant:** released periodically to the same organization for the same purpose.
- **Nonrecurring Grant:** one time release to an organization for a special purpose (which could be released in instalments)
- **Unspent balances:**
 - Taken into account while sanctioning the subsequent grant
 - Use PFMS to know bank balance

Grant – in – aid [R – 228 – 245]

- Authenticated annual accounts: 30th June
- Audit certificate to Autonomous Body/
Government concerned: 31st October
- Submission of the Annual Report and
- Audited Accounts to the nodal Ministry to be
laid on the Table of the Parliament:31st
December

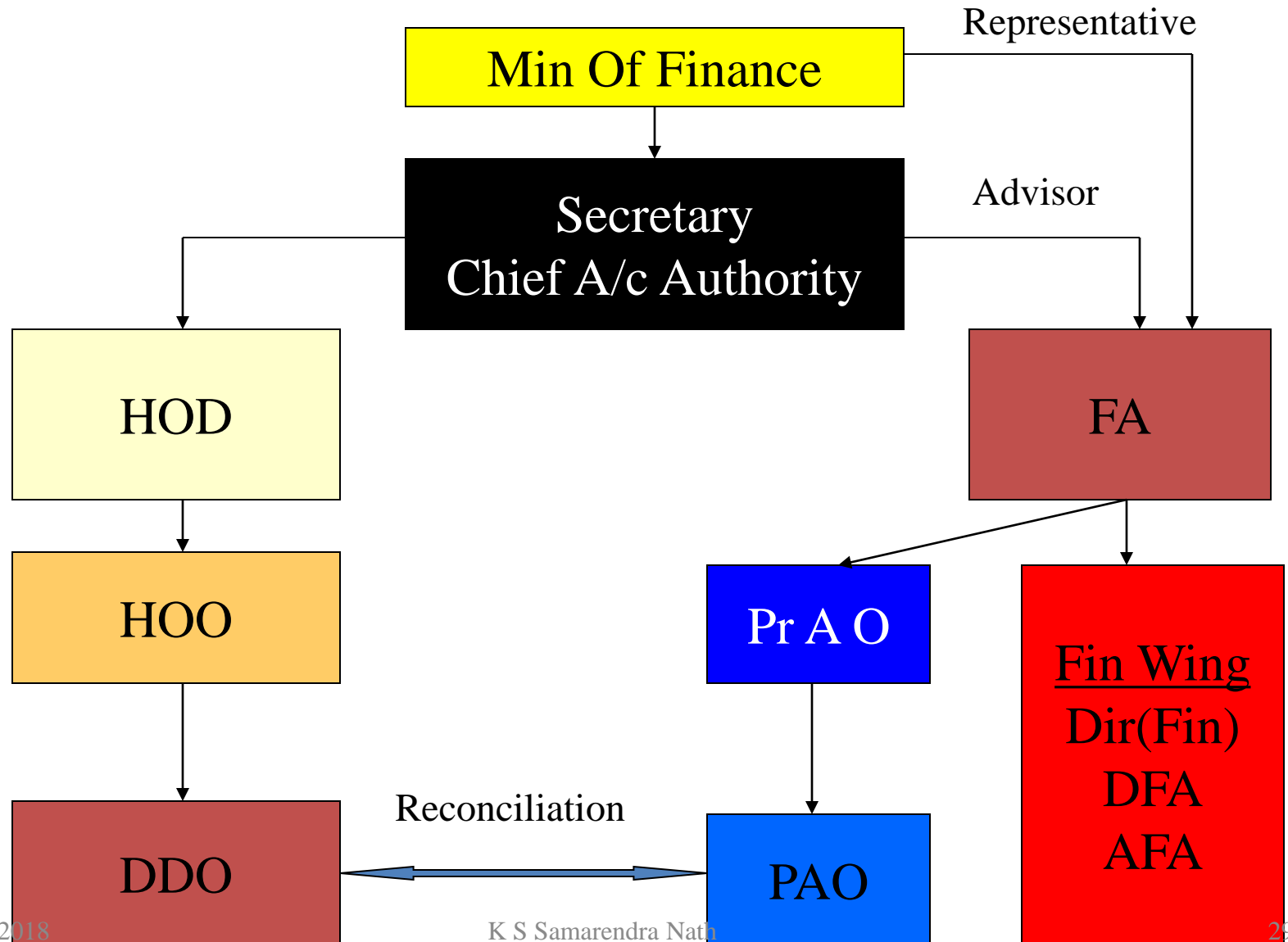
Utilisation certificate (UC)

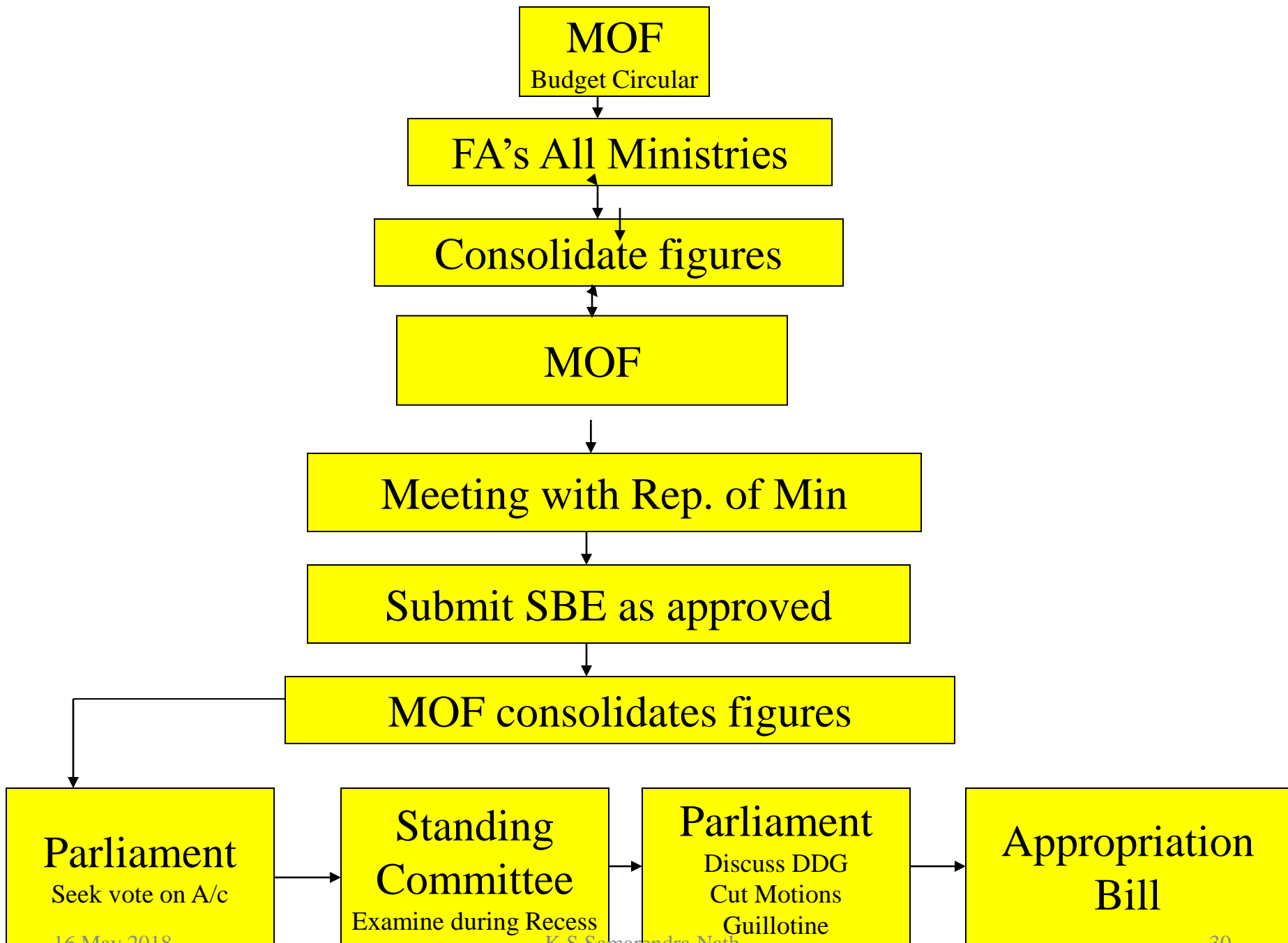
- Non-recurring grant-in-aid: within 12 months from closure of financial year
- Recurring grant-in-aid: needed for release beyond 75% of the grant during subsequent financial year
- If grant-in-aid on reimbursement basis: no need for UC
- Autonomous body: UC in GFR Form – 12-A
- State Government: UC in GFR Form – 12-C

Loan [R – 246 - 263

- Needs approval of Ministry of Finance (MoF)
- May be given to:
 - State Governments
 - Local Administrations of Union Territory Administration,
 - Local bodies, etc.
- Terms (rate of interest, repayment instalments, etc.) need approval of MoF
- Utilisation Certificate as in GFR Form 12 - B

Financial Machinery






Budgetary Process

Issue of budget circular by Department of Economic Affairs (Budget Division)



Consolidation of estimated receipts and expenditure by the respective Departments



Submission of Statement of Budget Estimates (Proposed) by the Departments to the DEA



Pre-budget meetings taken by Secretary (Expenditure) with the Financial Advisers

Budgetary Process...

Finalisation of ceilings of expenditure under RE and BE by MoF

A purple downward-pointing arrow with a 3D effect, indicating the flow from the first step to the second.

Printing of Detailed Demands for Grants

A green downward-pointing arrow with a 3D effect, indicating the flow from the second step to the third.

Presentation of Budget

Budgetary Process...

General discussions of budget



Finance Minister's reply



Discussions on Detailed Demands for Grants of individual Ministries



Cut motions



Guillotine (voting of all outstanding DDG)

Supplementary Demands for Grants

- Demands laid before the parliament
- Showing the estimated amount of further expenditure during the current budget year
- Over and above the expenditure authorized in the Annual Financial Statement for that year
- **Three types:**
 1. Cash Supplementary
 2. Technical Supplementary
 3. Token Supplementary

Cash supplementary

- Additional requirement over and above the original budget provisions
- Results in enhancement of the allocation for the Demand/Grant
- Impacts the fiscal/revenue deficit
- Parliament's approval needed

Technical Supplementary Grants

Revenue – Voted

Revenue - Charged

4 sections in
each DDG

Capital - Voted

Capital - Charged

Technical Supplementary Grants..

- Surrender from one of the 4 sections and using it in other section within the Demand
- Transfer of a scheme from one Demand to another Demand resulting in surrender from the Demand which has transferred the scheme and utilization of the same in the other Demand, where the scheme has been transferred
- Impact on the revenue / capital deficit position but does not change the fiscal deficit position
- Parliament's approval needed

Token supplementary

- Reappropriation towards utilizing the savings within the same section of the Demand
- Due to the limits of 'New Service / New Instrument of Service'

New Service (NS)/

New instrument of service (NIS)

1. **NS**: Expenditure arising out of a new policy decision, not brought to the notice of Parliament earlier, including a new activity or a new form of investment
2. **NIS**: Relatively large expenditure arising out of important expansion of an existing activity

Cut Motions

- Disapproval of Policy Cut
 - By moving “that the amount of the demand should be reduced to Rupee one’
- Economy Cut
 - To effect economy by moving ‘amount representing the economy be reduced by a specified amount

Cut Motions

- Token cut
 - By moving that the amount be reduced by Rs _____
 - To ventilate a specific grievance, that is in the sphere of responsibility of the Government

Thank you!