

Budget: Principles, Process of allocation & Control of expenditure

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Objectives

At the end of the 2 sessions, you will be able to:

1. List the public finance (funds)
2. Explain commonly used budget terms
3. List the principles of budgeting in India
4. Describe the salient features of the Indian budget
5. Describe the financial machinery to formulate and allocate budget
6. Explain the mechanism for control of expenditure

Budget

- Annual Financial Statement 2020-2021
- Financial year: 1st April to 31st March [01.04.2020 – 31.03.2021]
- Demand for Grants presented by the Finance Minister
- Detailed Demand for Grants presented by the Minister-in-charge
- Estimates of all revenues expected to be collected and expenditure including interest and debt service during a financial year
- Budget for 2020-2021:
 - The budget year for 2020-2021 known as Budget Estimates 2020-21
 - Revised estimates for 2019-20
 - Actual expenditure for 2018-19

Reforms in budgeting

- Removal of distinction between Plan & Non-plan expenditure from Budget 2017
- Merger of demands of Railways with the General Budget
- Advancement of budget presentation to February 1 from the last working day of February
- Mandatory submission of budget proposals through Union Budget Information System (UBIS)

Funds

- Consolidated Fund of India: Charged & Voted
 - Tax resources: Direct & Indirect
 - Non-Tax resources (46) including user charges (R-47)
- Contingency Fund of India
- Public Account

Budget principles

1 Budget is prepared on Cash Basis: Not on Accrual basis

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

3 Gross basis: Budget is prepared on gross, not net basis

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Role of Departments in budget making

1. Ministry of Finance

1. Department of Revenue
2. Department of Economic Affairs
3. Department of Expenditure
4. Department of Investment and Public Asset Management
5. Controller General of Accounts

2. NITI Aayog

3. Reserve Bank of India

4. Line Ministries:

1. Chief Accounting Authority
2. Financial Adviser
3. All offices under the Ministry

Role of Departments in budget making..

1. Department of Revenue:

1. All tax estimates provided by CDBT & CBIC

2. Controller General of Accounts:

1. All accounts related matters including opening new Heads of Accounts
2. Information regarding actual expenditure for 2018-19 & the upto date actuals 2019-20

3. Department of Economic Affairs:

1. Coordinate all matters relating to preparation of budget
2. Issue details budget circular
3. Finalise Statement of Budget Estimates received from the line ministries
4. Conduct meetings with the line Secretaries & the Financial Adviser
5. Cash management through Quarterly Expenditure Plan (QEP) & Monthly Expenditure Plan (MEP)

Role of Departments in budget making..

1. Department of Expenditure:

1. Estimates of Central Government Employees Group Insurance Scheme

2. NITI (National Institution for Transforming India) Aayog

1. Evolve shared vision for national development priorities, sectors and strategies
2. Develop credible plans
3. Design strategic long term policy and programme framework and monitor progress
4. Platform to resolve inter-sectoral and inter-departmental issues

Role of Departments in budget making..

1. Department of Expenditure:

1. Estimates of Central Government Employees Group Insurance Scheme

2. NITI (National Institution for Transforming India) Aayog

3. Line Ministry:

1. Estimates of user charges
2. Preparation and submission of Statement of Budget Estimates to DEA
3. 10% of budgeted allocation as a lump-sum provision for the North-Easter Region
4. Re-appropriation proposal
5. Proposal for supplementary demands for grants
6. Control of expenditure within the allotted budget

Receipts

1. Capital receipts

- Line Ministry: Loan repayments, disinvestment of equity holdings in Public Sector Enterprises, issue of bonus shares by the PSEs in favour of Central Government, and net receipts under Public Account transactions
- DIPAM: Disinvestment estimates

2. Revenue receipts:

1. Taxes: Department of Revenue
2. Other receipts: Line Department

Demands for Grants [Appropriation]

- The estimates of expenditure for which vote of the Parliament is requires [R-51(1)]
- Two levels (types) [R-51(3)]
- The **main** Demands for Grants shall be presented by Finance Ministry along with annual financial statement in the Parliament
- The **Detailed** Demands for Grants for consideration of DRSC is tabled by the Ministry concerned

Control of expenditure

1. Responsibility of the line Ministry – Exercised through the
 1. Head of Department
 2. Controlling Officer
 3. Drawing & Disbursing Officer (DDO)
2. Budget to be used only for charges to be paid during the year
3. No charges can be authorized after the expiry of the financial year
4. Expenditure cannot exceed the budget authorized by Parliament
5. HoD & Accounts Officer jointly responsible for monthly reconciliation of accounts
6. Department monitor physical progress of works under various schemes

Control of expenditure

7. Controlling Officer responsible for maintenance of Liability Register
8. Before giving concurrence, the Financial Advisor & before approving an expenditure the Secretary shall ensure availability of funds
9. What if additional funds are required?
 1. Explore & obtain re-appropriation of funds with the approval of competent authority
 2. Seek supplementary demand for grants from the Parliament

Advance from Contingency Fund of India

- No sufficient time for the voting of the Supplementary Demand before close of the financial year
- Obtain an advance from the Contingency Fund
- The application for an advance shall indicate inter alia the particulars of the additional expenditure involved and the sanction

Responsibilities of Chief Accounting Authority

1. Responsible and accountable for financial management of her Department
2. Ensure that the public funds appropriated to the Department are used for the purpose for which they were meant
3. Responsible for the efficient and transparent use of the resources in achieving the project objectives while complying with performance standards
4. Review and monitor regularly the performance of the programmes and projects
5. Responsible for preparation of expenditure and other statements
6. Ensure maintenance of full and proper records of financial transactions and adopts systems and procedures that shall at all times afford internal controls

Responsibilities of Chief Accounting Authority..

7. Ensure that her Department follows the guidelines for public procurement of goods & services for execution of works
8. Shall take effective and appropriate steps to ensure her Department
9. Collects all moneys due to the Government and
10. Avoids unauthorized, irregular and wasteful expenditure
11. Appear before the Committee on Public Accounts and any other Parliamentary Committee for examination

Types of Accounts

1. **Appropriation Accounts:** Prepared by the Principal Accounts Officer of the Ministry
2. **Proforma accounts:** Departmental commercial undertakings that cannot be suitably be brought within the cash basis accounting system
3. **Personal Deposit accounts:** for certain Designated Officers
4. **Capital expenditure account**
5. **Revenue expenditure account**

Capital & Revenue

- Capital
 - Asset creation
 - Non-recurring
- Revenue
 - Expenditure on servicing / maintenance of assets
 - Recurring

Constitutional provisions [Art 114]

- After the passing of the demands under Article 113, **Appropriation Bill** is introduced in the Lok Sabha to provide for the appropriation out of the Consolidated Fund of India
- Further, subject to the provisions of articles 115 and 116, no money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law passed in accordance with the provisions of this article

Other Constitutional provisions

- Article 115 provides for supplementary or additional or excess demand for grants
- Article 116 provides for ‘**vote on account**’
- No tax shall be levied or collected except by authority of law [Art 265] [Finance Act]
- Article 266 provides for Consolidated Fund of India and of the States (for all the revenues and all loans raised)

Other Constitutional provisions...

- Article 267 provides for **Contingency Fund** of India
- Article 280 provides for constitution of **Finance Commission** for distribution of resources between the Union and the State Governments
- Article 292 provides for borrowings by the Government of India

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

Major Heads

Major Heads	The functions
0020 – 1999	Revenue Receipt
2011 – 3999	Revenue Expenditure
4000	Capital Receipt
4001 - 5999	Capital Expenditure
6001 – 7999	Public Debt, Loans & Advances
8000	Contingency Fund of India
8001 - 8999	Public Accounts

6 broad classification of expenditure[2.1]

- A. Centre's Expenditure:

1. Establishment Expenditure of the Centre;
2. Central Sector Schemes;
3. Other Central Expenditure, including those on CPSEs and Autonomous Bodies;

- B. Centrally Sponsored Schemes and other Transfers:

1. Centrally Sponsored Schemes;
2. Finance Commission Transfers; and
3. Other transfers to States.

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
- No expenditure on new service or new instrument of service

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

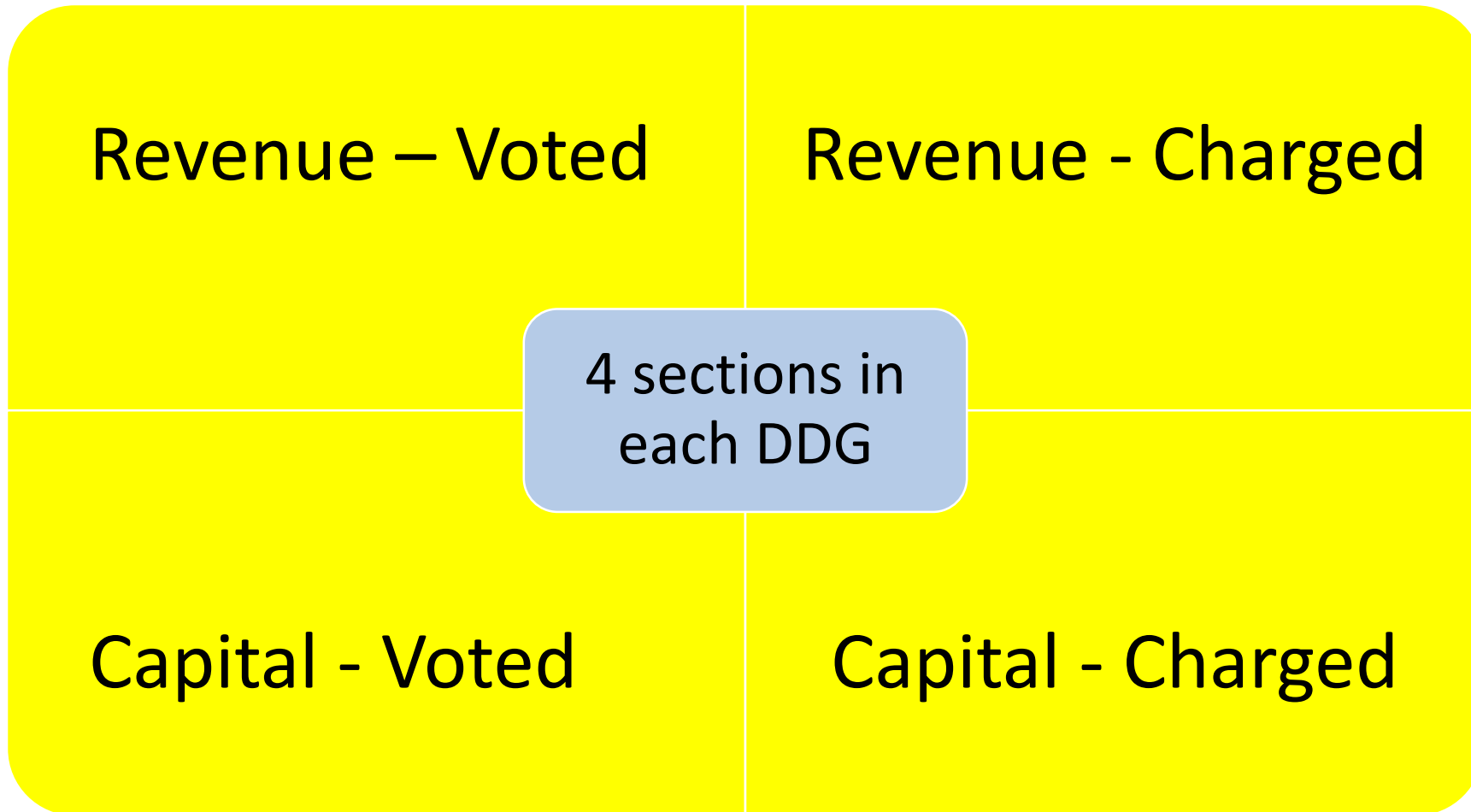
Primary unit of appropriation

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

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



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'

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

Budget documents

Mandated by the Constitution of India:

1. Annual financial statement
2. Detailed demands for grants
3. Appropriation Bill
4. Finance Bill

Thank you