CHAPTER-2

Budget in Legislative Perspective

The Constitutional Framework

2.1 As stated in Chapter 1, preparation and presentation of annual financial statement, or what is commonly known as budget, is a constitutional responsibility of the Union Government under **Article 112** of the Constitution.

2.2 In the Union Government, the budget of Ministry of Railways has been separated from the rest of the General budget since **1924** following the recommendations of the **Ackworth Committee**. This was primarily to secure stability for civil estimates by providing for an assured contribution from Railway revenue and also to introduce flexibility in the administration of Railway finances. As a result, the demands for grants in respect of Railways are submitted to the Parliament separately in the form of `Railway Budget'. The consideration of the Railway Budget, discussion on the same and its final approval is also segregated from the rest of the Union Budget. Comments in this paper on Railway budget will be restricted to the extent it impinges on the General budget. The discussion that follows, thus, restricts itself to preparation and passage of the General budget of the Government of India, excluding Railways.

2.3 Fiscal year for the Union as well as the states commences on April I[st], as per the Constitution, read with General Clauses Act. Conventionally, the budget of the Union Government is presented before both Houses of Parliament on the last day of February, although there have been exceptions to this convention. Various provisions of the Constitution form the foundation on which the budgetary process of Government of India rests, of which the most significant is **article 112** stipulating that the Government shall place an annual financial Statement before both Houses of Parliament.

2.4 The form of the annual financial statement is guided to a great extent by **article 112(2)** as it mandates that the estimates of expenditure embodied in the annual financial statement shall show separately the sums required to meet expenditure charged on the Consolidated Fund of India and the sums required to meet other expenditure proposed to be made from the Consolidated Fund of India and also distinguish expenditure on Revenue account from other expenditure. The Article also clearly describes the expenditure which shall be charged on the Consolidated Fund of India, which includes, *inter-alia,* debt charges of Government of India, sums required to satisfy any judgement, decree or award of any court and emoluments/salary and allowances etc. of the President, Chairman & Deputy Chairman of Rajya Sabha, Speaker of Lok Sabha, Judges of the Supreme Court and the Comptroller and Auditor General of India. The stipulation being that such expenditure can be discussed but not voted upon in the Parliament while approving the Appropriation Bill.

2.5 **Article 113(1)** of the Constitution lays down the procedure in Parliament with respect to presentation of budgetary estimates. According to this article, estimates of expenditure other than expenditure charged on the Consolidated Fund of India shall be submitted to the House of People in the form of demands for grants, on the recommendation of the President. The House of People shall have power to assent, or to refuse to assent, to any demand, or to assent to any demand subject to a reduction of the amount specified therein. Each ministry/department of Government of India has at least one demand for grant but large ministries like Defence, Human Resource Development, Agriculture etc. submit their budget estimates under more than one demand for grants.

2.6 The process of seeking authorization of the Parliament to expenditure estimates is not over with the presentation of demands for grants. **Article 114(1)** of the Constitution makes it mandatory that as soon as may be, after the grants under article 113 have been made by the House of the People, there shall be introduced a Bill to provide for the appropriation out of the Consolidated Fund of India of all the moneys required to meet the grants so made by the House of the People and the expenditure charged on the Consolidated Fund of India. This article ensures that no money is withdrawn from the Consolidated Fund of India except under appropriation made by law, passed in accordance with the provisions of this article. If the Government wants to withdraw even a single rupee over and above the estimates approved through the Appropriation Act, it will have to place before the Parliament supplementary demands for grants and seek authorization of the Parliament through a supplementary Appropriation Bill. Any expenditure made without the authorization of the Parliament, either under the initial Appropriation Act or the supplementary Appropriation Acts would be treated as unauthorized `excess expenditure' till it is regularized through the process outlined under article 115 (1).

2.7 As stated above, supplementary demand for grants have to be submitted for consideration of both Houses of Parliament as required under **Article 115** of the Constitution in case the amount authorized by law made in accordance with the provisions of Article 114 to be expended for a particular service for the current financial year is found to be insufficient for the purposes of that year or when a need has arisen during the current financial year for supplementary or additional expenditure upon some new service not contemplated in the annual financial statement for that year or if any money has been spent on any service during a financial year in excess of the amount granted for that service and for that year. In layman's terms, the provisions of the Constitution ensure that not paisa is drawn from the Consolidated Fund of India unless authorized by the Parliament. In addition, these also imply that no sums are diverted from the voted section to the charged section and *vice versa*. The Constitution also provides that the sums allocated under the revenue section can be diverted to the capital section and *vice versa* only with the explicit authorization of the Parliament, obtained through supplementary demands for grants which can broadly be categorized as cash, technical or token supplementary grants.

2.8 As the name suggests, cash supplementary is required to be submitted to seek authorization of Parliament for additional sums beyond the budget estimates. Such grants, if approved, have the impact of increasing the fiscal deficit, *ceteris peribus*. Technical supplementary demands on the contrary lead to mere reallocation of resources between the various sections of the grants i.e. from voted to charged and/or from revenue to capital. These do not impact the total expenditure and, thus, leave the fiscal deficit unchanged. Token supplementary demands are sought when funds are to be drawn from the available savings under a particular section of the grant, without leading to any reallocation between various sections of the grant, for a 'New Service' or 'New Instrument of Service'. In such a case, the provisions of Rule 10 of the Delegation of Financial Power Rules of the Government, which prescribe the upper limits under various New Services or New Instruments of Service, acquire significance. They lay down the conditions under which such a re-appropriation is possible only with the approval of the Parliament. These rules also describe the exceptions, like charged expenditure, which are exempt from the provisions of Rule 10. In an ideal situation, when the budgetary process is optimally efficient, there would be no need for raising supplementary demands. There are no Constitutional restrictions on the number of times the executive can approach the legislature for supplementary demands but it is always the endeavour of the executive to minimize the same as such demands undermine the efficacy of the budgetary process and budget estimates. Government of India conventionally approaches the Parliament with supplementary demands thrice during the course of the year i.e. during the Monsoon session, the winter session and the Budget session when the third and the final batch of supplementary demands for grants are submitted for approval of the Parliament.

2.9 When the total expenditure under a particular grant/appropriation in a financial year exceeds the sums authorized under the approved budgetary grant and the supplementary grant (i.e. the total grant) during that year, excess expenditure is said to have occurred. Such excess expenditure is unauthorized and needs to be regularized in accordance with provisions of article 115 of the Constitution. Such expenditure is identified by the Comptroller and Auditor General in his report on the Union Accounts of the said financial year. The report of the CAG on being placed on the table of both Houses of the Parliament stands referred to the Public Accounts Committee. This Committee examines the excess expenditure by calling for oral or written evidence of the concerned executives and gives recommendations about the manner in which the amount has to be regularized. The Government is duty bound to get the excess expenditure regularized by placing it before the

Parliament in the very next session after receipt of the recommendations of the Public Accounts Committee.

2.10 The Constitution also recognizes the fact that the completion of the procedure prescribed under article 113 for voting of grants and passing of the law in accordance with the provisions of article 114 in relation to that expenditure may not be completed before the commencement of the financial year for which the budget estimates are submitted for parliamentary approval. Pending approval of the Parliament, in such a case, the authorization for incurring expenditure out of the Consolidated Fund of India is obtained under **article 116** of the Constitution. Article 116 provides for vote on account, vote on credit and exceptional grants. This is an interim arrangement, which enables the executive to meet expenditure on essential services pending the passage of the Appropriation Act through which Parliamentary authorization is obtained.

2.11 The process of introduction of the Appropriation Bill, discussion on the Appropriation Bill, passing of the Bill by both Houses of Parliament and finally obtaining assent of the President and notification of the Appropriation Act is a long drawn and requires time. Conventionally, the budget of Government of India and also the Appropriation Bill is submitted only about 31 days prior to commencement of the next financial year. The time period of one month is obviously inadequate for the legislators to have serious debate on the demands preferred by the executive in the budget. The convention is that demands relating to various ministries or departments are referred to the concerned Standing Committee before these are taken up for general discussion in both the Houses of Parliament. The concerned Standing Committee examines the demands in conjunction with the detailed demands for grants, which are submitted to them by the concerned ministry/department. Once the Standing Committee has discussed the demands, the debate on General budget is taken up by the Parliament and the process of passage of the Appropriation Act is set into motion and, continues till it is concluded with the notification of the Appropriation Act. This process requires a period of about three months as against one month, which is available before the commencement of the financial year. Thus, for expenditure during the first two months of the financial year the executive obtains the authorization of the Parliament, through the `vote on account' procedure outlined under article 116(1)(a) of the Constitution. The approval of the Parliament is obtained through a separate Appropriation Bill enabling the executive to normally spend up to one sixth ($1/6^{th}$) of the budget estimates till the budget for the concerned financial year is finally passed. This Appropriation Bill also merits discussion of the Parliament and requires approval of Parliament and assent of the President before it is notified as an Act.

2.12 When a regular budget cannot be presented under special circumstances, such as by a Government awaiting elections, an interim budget is presented on the basis of existing levels of taxation. In such a case, a vote on account for comparatively longer period (say 4 months) is obtained to give time to the new Government to formulate its budgetary and economic policies. But, the period under vote on account may not conventionally be stretched beyond six months under any circumstances.

2.13 Mention should also be made here of the fact that occasions may arise when Government may have to meet urgent unforeseen expenditure pending authorization from Parliament. Such expenditure is temporarily made out of the **Contingency Fund of India,** which is an imprest placed at the disposal of the President to incur such expenditure. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from the Contingency Fund is recouped to the Fund. The corpus of the fund authorized by the Parliament, at present, is Rs 500 crore.

2.14 While article 114 to 116 of the Constitution lay down the procedure governing the expenditure side of the budget, **article 117** and **article 265** lay down the procedures relating to its revenue side. Article 265 states that no tax shall be levied or collected except by authority of law. This implies that Parliamentary authority is required for levying a new tax or for enhancing the rate of any existing tax. As per article 117 a Bill or amendment making provision for imposition, abolition, remission, alteration or regulation of any tax shall not be introduced or moved except on the recommendation of the President and a Bill making such provision shall not be introduced in the Council of States. Interestingly, no such recommendation is required for moving of an amendment making provision for reduction or abolition of any tax.

Budget Documents

2.15 **Budget documents mandated by the Constitution and presented to Members of Parliament for consideration are the Annual Financial Statement, Demands for Grants, Finance Bill and the Appropriation Bill.**

2.16 **Annual financial statement** is the main budget document which shows the estimated receipts and payments of Government under the three parts in which Government accounts are kept i.e. the Consolidated Fund, the Contingency Fund and, the Public Account. As mandated by article 112(1) of the Constitution, the annual financial statement distinguishes expenditure on revenue account from other expenditure and expenditure to be charged on the Consolidated Fund from the voted expenditure. Further, the estimates of receipts and disbursements are shown according to the accounting classification prescribed under article 150 of the Constitution. This classification is intended to allow Parliament and the public to

2.17 make a meaningful appreciation of allocation of resources and purposes of Government expenditure.

2.18 The annual financial statement shows the major head-wise details of the actual expenditure or receipts for the previous year, the budget estimates and revised estimates for the ongoing year and the budget estimates for the budgeted year so as to facilitate comparison. As receipts and expenditure of Union Territories without legislature form a part of the budget of the Government of India, details of the same are also available in the annual financial statement. Although budget of the Railway Ministry is presented to Parliament separately, the annual financial statement indicates the Railway revenue and expenditure as per Railway Budget. The annual financial statement also indicates the estimated cash balance of the Government of India with the Reserve Bank at the end of the financial year, which is calculated by netting all the estimated disbursements from the total estimated receipts under all heads.

2.19 While the annual financial statement gives the major head-wise details of estimated receipts and disbursement, the **demands for grants** present ministry / department-wise details of expenditure, distinguishing between revenue and capital expenditure together with voted & charged expenditure. Generally, one demand for grant is presented in respect of each ministry or department. However, in respect of large ministries or departments more than one demand is presented. Each demand includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, grants to State and Union Territory Governments and also loans and advances relating to the service. In regard to Union Territories without legislature, a separate demand is presented for each of the Union Territory. Where the provision for a service is entirely for expenditure charged on the Consolidated Fund, for example, Interest Payments, a separate 'Appropriation', as distinct from a demand is presented for the expenditure and it is not required to be voted by the Parliament.

2.20 The demands for grants are presented to the Lok Sabha along with the annual financial statement. Each demand exhibits estimates of expenditure in the matrix of 'voted' and 'charged' as also 'revenue' and 'capital' separately. This is followed by the estimates of expenditure under each major head of account. The break up of expenditure under each major head between plan and non-plan is also given. The amounts of recoveries taken in reduction of expenditure in the accounts are also shown. Similarly, certain earmarked receipts like receipts of departmentally run commercial undertakings, defence receipts, etc. are shown as reduction of expenditure in the demands for grants. A summary of demands for grants is given at the beginning of this budget document, while details of new service or new instrument of service such as formation of a new company, undertaking of a new scheme etc., if any, are indicated at the end of the document.

2.21 The discussion on demands for grants would be quite incomplete without a mention of **'Detailed Demands for Grants'**. Although not mandated by the Constitution, the demands for grants are followed by the detailed demands for grants, laid on the table of the Lok Sabha, sometime after the presentation of the Budget but, before the discussion on demands for grants commences. These detailed demands for grants show further break-up of the provisions included in the demands for grants as also of actual expenditure during the previous year. A break up of the estimates relating to each programme / organization, wherever the grant involved is not less than Rs. 10 lakh, is given under a number of object heads which indicate the categories and nature of expenditure to be incurred on that programme like salaries, wages, travel expenses, material and equipment, grants-in-aid etc.

2.22 The proposals of Government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are presented through the **Finance Bill**. This Bill, presented in terms of article 265 of the Constitution, has to fulfill certain legal and procedural requirements and, hence, may not, by itself, give a clear indication of the major features of the budget proposals relating to taxation. To facilitate an easy comprehension, an explanatory document titled **"Explanatory Memorandum to Finance Bill"** is also presented along with the Finance Bill.

2.23 After the demands for grants are voted by the Lok Sabha, Parliament's approval to the withdrawl from the Consolidated Fund of the amounts so voted and the amount required to meet the expenditure charged on the Consolidated Fund is sought through the **Appropriation Bill**. As per article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the enactment of such a law by Parliament.

2.24 As mentioned earlier, the process beginning with the presentation of the budget and ending with voting on the demands for grants requires sufficiently long time. The Lok Sabha is, therefore, empowered by the Constitution to make any grant in advance in respect of the estimated expenditure for a part of the financial year pending voting on the demands. The vote on account is obtained from Parliament through an **Appropriation (Vote on Account) Bill.**

Explanatory Documents on Budget.

2.25 Since budget documents are presented in the form mandated to fulfill legal and procedural requirements only, they are supplemented with documents, like Budget at a Glance, Expenditure Budget Volumes I & II, Receipts Budget, Performance Budgets and Annual Reports of each ministry/department to enable appreciation of various features of the Budget.

2.26 **Budget at a Glance** gives, in brief, comparison of receipts and disbursements, break-up between plan and non-plan component of budgeted expenditures, plan outlay by sectors, resources transferred to states, revenue deficit, fiscal deficit and primary deficit.

2.27 **Expenditure Budget, Volume I**, shows revenue and capital disbursements of various ministries / departments, estimates under plan and non-plan and analysis of types of expenditure and broad reasons for variations in estimates. Under the present accounting and budgetary procedures, certain classes of receipts, like payments made by one department to another and receipts of capital projects or schemes are taken in reduction of the expenditure of the receiving department. The estimates of expenditure included in the demands for grants are for the gross amounts while the estimates of expenditure included in the annual financial statement are the net expenditure as will be reflected in the accounts, that is, after taking into account the recoveries. The expenditure budget documents make certain other refinements like netting expenditure of earmarked receipts so that inflation of receipts and expenditure figures are avoided and there can be a better appreciation of the magnitudes of various expenditure. In separate annexures, guarantees given by Central Government and outstanding as at the end of March, and contributions to International Bodies are shown. Trends of expenditure of Union Government with details of important items of expenditure are also given as a separate annexure. A statement showing the estimated strength of establishment of various

Government departments and provision made therefor is also included in the document.

2.28 **Expenditure Budget, Volume II** gives description of various items of expenditure on major programmes to understand the objectives underlying the expenditure proposals in demands for grants. In this document, the estimates made for a scheme or programme are brought together and shown on a net basis at one place, by major heads.

2.29 Estimates of receipts included in the annual financial statement are further analysed in the document titled **Receipts Budget**. The document gives details of revenue receipts and capital receipts and explains the estimates. Trend of Receipts over the years and details of External Assistance received are also included. This document brings out the asset and liability position of the Union Government. It also provides data on income and expenditure of 'National Small Savings Fund'.

2.30 In addition to the aforementioned explanatory documents which are presented along with the Budget documents by the Ministry of Finance, Outcome Budgets and Annual Reports are also presented by the line ministries / departments to facilitate the understanding of the budget and its outcome along with their detailed demands for grants.

2.31 **Oucome Budgets**, presented separately by each ministry / department are required to show physical and financial aspects of budget in terms of functions, programmes and activities, appraisal reports on each project costing over Rs. 100 crore and a statement on performance of Public Sector Undertakings. **Annual Report** of each ministry / department, giving descriptive account of the activities, is also placed before Parliament to facilitate the discussion on demands for grants.

2.32 Another document which cannot be categorized either as a budget document or as an explanatory document but which facilitates, the budget discussion is the **'Economic Survey'.** This is issued by the Economic Division of the Ministry of Finance, a few days before the placement of budget before the Parliament. This document analyses trends in production, prices, fiscal and monetary credit; industrial policies, balance of payments and other relevant economic factors.

2.33 **The Fiscal Responsibility and Budget Management Act, 2003** and the Rules framed thereunder, which came into force from July 5, 2004, have made it obligatory upon the Union Government to place before the Parliament certain documents along with the annual financial statement and the demands for grants. Notable among these are the Medium term Fiscal Policy Statement, Fiscal Policy Strategy Statement and the Macro-economic Framework Statement. In addition, there are certain disclosures regarding significant changes in accounting standards, policies and practices, receivables and guarantees and statement of assets, which have become mandatory under the FRBM Rules.