

## CHAPTER-3

### Budgetary Process in Government of India

#### *Milestones in Budgetary Process*

3.1 The preparation of the Union budget is kick started with issue of the 'Annual Budget Circular' (specimen at Annexure 'A') by the Budget Division, Department of Economic Affairs, Ministry of Finance. **Budget Circular** normally issued sometime in the last week of August or the first fortnight of September each year, is by way of detailed instructions to the various ministries / departments about the form and content of the **Statement of Budget Estimates (SBEs)** to be prepared by them. The SBEs submitted by the ministries / departments form the basis of the annual financial statement and the demands for grants which are eventually submitted by the Finance Minister to the Parliament.

3.2 Once the proposed SBEs are received in the Budget Division, these are scrutinized and submitted with analytical comments to Secretary (Expenditure). At this stage, SBEs give the budget estimates and revised estimates for non-plan expenditure as well as plan expenditure for the current year and the budget estimates of non-plan expenditure for the next year i.e. the budgeting year. The estimates of plan expenditure for the budgeted year are furnished by the

ministries/departments in the 2<sup>nd</sup> round after discussion on plan projects and schemes with the Planning Commission. **Pre-budget meetings**, chaired by Secretary (Expenditure), are held at this stage to discuss the non-plan estimates with the financial advisers/administrative heads of various ministries/departments. The focal point of such discussion, which normally commence from the last week of October and go on till the end of December, is on fixing the revised estimates and the budget estimates of non-plan expenditure for the current year and the next year respectively, keeping in view the actual expenditure in the first six months of the current year and the future absorptive capacity of the ministry/department concerned. The accounts of actual expenditure up to September, furnished by the Controller General of Accounts, become the most significant point of reference for such discussions.

**3.3 Revised Estimates** are an administrative tool of reallocation of resources between various ministries and departments and set down the upper limit of expenditure for the ministries/departments for the remaining part of the year. It must be noted that the revised estimates do not have the approval of the Parliament and are not by way of legal sanctions. In the ultimate analysis the savings or excess of expenditure of any ministry/department will be calculated with reference to the budget estimates and the supplementary grants, as approved by the Parliament. The observations of the Comptroller and Auditor General of India on the accounts of the Government are with reference to the Budget Estimates, which also form the

basis of *ex-post facto* Parliamentary scrutiny through the Public Accounts Committee. This does not imply that the ministries/departments can flout the ceilings set up through the revised estimates of expenditure. Technically this is possible as it will not be in contravention of any constitutional or legal requirement, but this is not normally done as the ministries/departments will be guilty of breaching fiscal discipline and would be answerable to the Ministry of Finance. In some cases, the revised estimates are set at limits higher than the initial budget estimates approved by the Parliament. Despite the higher limit of expenditure fixed by the Ministry of Finance, the concerned line ministry/department will not be able to expend in excess of the budget estimates unless the same is authorized by the Parliament through the supplementary demands for grants. Thus, expenditure proposals of such ministries/departments (where the revised estimates are higher than the budget estimates) invariably find a place in the third and the final batch of supplementary demands for grant, which are normally submitted before the Parliament in the Budget session. This often leads to bunching of expenditure in the last week of March as the authority to spend beyond the budget estimates is received only by that time.

**3.4** At this stage itself, the revenue earning ministries also furnish details of the revised and budget estimates of revenue receipts likely to be earned by them in the current year and the next year respectively. These estimates are crucial in respect of Department of Posts, Department of Telecommunications, etc. This is a critical input

in determining the deficit of such departments and the extent of budgetary support required by them. The estimates of **non-tax receipts** and recoveries furnished by the ministries /departments are also subject of discussion in the pre-budget meetings conducted by Secretary (Expenditure).

3.5 At the end of the pre-budget meetings and after due approval of Secretary (Expenditure), the RE and BE ceilings in respect of non-plan expenditure and RE ceilings in respect of plan expenditure are conveyed formally to the line ministries/departments. The budget estimates of plan expenditure are finalized only after completion of a similar series of meetings held by the Planning Commission with the financial advisers/administrative heads of various ministries / departments. But, before the Planning Commission holds such meetings, it has to have a firm idea of the total '**Gross Budgetary Support**' for plan activities in the budget. The size of the annual plan budget of the Government is decided by the Ministry of Finance, in consultation with the Planning Commission. It should ideally be in consonance with the objectives and size of the five year plan and the annual plan in operation but is invariably circumscribed by the compulsions relating to acceptable upper limits of the fiscal and revenue deficit. A series of meetings and correspondence between the Ministry of Finance and the Planning Commission, in which even the Prime Minister may intervene as the Chairperson of Planning Commission, help in arriving at the golden figure of the Gross Budgetary Support for plan or the GBS as it is commonly known. Once the GBS is decided, the

Planning Commission is quite clear about the exact size of the cake and is ready to distribute it amongst the various ministries/departments in accordance with the Plan priorities. The Planning Commission holds one to one meetings with the various ministries/departments to review their on going plan schemes and projects to assess the need and extent of continued support. It also examines the new plan schemes and projects proposed to be included by the line ministries in their annual plans and decides whether these merit funding and to what extent. At the end of this exercise the Planning Commission conveys to various ministries/departments the approved budget estimates of plan expenditure and intimates the same to the Finance Ministry as well.

3.6 Once the plan estimates are known the ministries complete their final Statement of Budget Estimates and forward it to the Ministry of Finance for incorporation in the annual financial statement and demand for grants. In the second round, the SBEs are complete in all respects as these include the revised and budget estimates of expenditure under plan as well as non-plan. Besides, these also give the final estimates of recoveries and receipts. The estimates of expenditure as well as receipts are so presented in the SBEs as to distinguish revenue expenditure from the rest of the expenditure and voted expenditure from the expenditure to be charged on the Consolidated Fund.

3.7 On receipt of the final SBEs from all the ministries/departments, the Finance Ministry is ready to estimate fiscal and revenue deficit. This is the time when the

estimates of tax revenue and non-tax revenue start crystallizing. The core budget group consisting of the highest level of policy makers in the Ministry of Finance meets regularly and looking at the commitment of expenditure under plan and non-plan indicates the minimum revenue requirement to keep the fiscal deficit and revenue deficit at an acceptable level. This limit is now largely dependent on the targets specified under the FRBM Act and Rules. While the Act provides that revenue deficit be eliminated by the year 2008 (the target was shifted to 2009 through an amendment) the Rules require that the revenue deficit and the fiscal deficit be reduced by a minimum of 0.5 percent and 0.3 percent of Gross Domestic Product each year so as to ensure that revenue deficit is eliminated by the year 2008 (now 2009) and the fiscal deficit reduced to not more than 3 percentage of the Gross Domestic Product.

3.8 By the end of January, the Revenue Department has a fairly good idea about the minimum tax revenue that needs to be collected to enable the Government to simultaneously meet the expenditure commitments as well as the targets relating to fiscal deficit, revenue deficit, total liabilities etc. in the forthcoming twelve months. As a first step, the revenue that can be collected at the existing tax rates, given the estimated growth of Gross Domestic Product, inflation, tax buoyancy, etc is estimated. Once this is determined the Revenue Department arrives at the figure of **Additional Resource Mobilization (ARM)** and examines various ways and means of attaining the ARM figure. Tax Planning Unit under the Central Board of Direct

Taxes and Tax Research Unit under the Central Board of Customs and Excise examine various proposals relating to direct taxes and indirect taxes respectively, and help the Revenue Secretary in firming up the revised estimates of tax receipts for the current year and the budget estimates for the next year. Once these estimates have the approval of the Finance Minister, the same are conveyed to the Budget Division.

3.9 The revised estimates and the budget estimates of tax receipts form important pieces of the Budget Jigsaw and by the end of January almost the entire picture is clear. A small gap is filled up once the Budget Division firms up the estimates of non-tax revenue receipts, consisting primarily of interest receipts, dividend and profits, external grants, receipts of Union Territories and other non-tax revenue.

3.10 A small piece of the Jigsaw, which is missing even at this stage, is the one dealing with **Gross Budgetary Support from the General Revenues to the Railways**. It is evident that for the last many years the resources of Railways have not been able to keep pace with their expenditure, leaving a gap, which has to be filled up by budgetary support from the General Revenues. Gross budgetary support from the General Revenues to the Ministry of Railways is extended under Plan and is jointly determined by the Finance Ministry and the Planning Commission, in consultation with the Ministry of Railways. This support is treated as a part of capital at charge i.e. investment from General Revenues in Railways and

interest is charged on it. This interest is termed as dividend on capital at charge and the rate of dividend charged is based on the recommendations of the 'Railway Convention Committee' of the Parliament.

3.11 Apart from the gross budgetary plan support, Railways also get subsidy or dividend relief from the General Revenue on unremunerative lines, uneconomic functions, lines of national or strategic importance, etc. This is treated as a part of expenditure of Ministry of Finance under the grant of Department of Economic Affairs. Contribution for Railways Safety works against additional levies on Motor Spirit and High Speed Diesel is also transferred from the General Revenues to the Ministry of Railways from the grant of Department of Economic Affairs.

3.12 It is interesting to note that estimates of expenditure and receipts of Ministry of Finance are prepared under 14 (fourteen) grants. There is one grant each for Departments of Economic Affairs, Expenditure, Revenue and Company Affairs. The other appropriations/grants include Currency, Coinage and Stamps, Payment to Financial Institutions, Interest Payments, Transfers to State and Union Territory Governments, Loans to Government Servants etc., Repayment of Debt, Pensions, Indian Audit and Accounts Department, Direct Taxes and Indirect Taxes. The total expenditure under the various grants of the Ministry of Finance account for more than sixty percent of the total budgeted expenditure of Government of India in any given year. Implications being that when it comes to any expenditure management

measures the Finance Ministry's in-house adjustment are of pivotal importance as it controls almost two-third of the expenditure of the Union Government.

3.13 Throughout the month of January and February suggestions relating to expenditure and taxation keep pouring in for inclusion in the **Budget Speech**. The ministries / departments send proposals relating to new projects to be undertaken and to be included in the speech of the Finance Minister as budget announcements. Sometimes these proposals go beyond the budget estimates, which imply that if incorporated in the budget speech, the provision of funds for such schemes / projects will be made available only through supplementary budgets. It is the prerogative of the Finance Minister to decide the content of his / her budget speech but by and large it has to be in consonance with the budget estimates already approved by the Ministry of Finance for inclusion in the budget estimates. Inclusion of any new commitment in the budget speech, which has not been included in the budget estimates, has the effect of altering the final arithmetic of the budget in terms of estimates of fiscal deficit and revenue deficit, which are derived figures.

3.14 Finance Minister collects inputs for the budget speech as well as budget proposals both formally as well as informally. Several suggestions are received by him through mail, discussion etc. with his cabinet colleagues and fellow Members of Parliament. The Finance Minister also holds meeting with interest groups inviting suggestions. The interaction with the interest groups including members of the

corporate world, economists, public finance analysts is not a mandatory part of the budgeting process and can be dispensed with if the Finance Minister so desires.

3.15 The month of February witnesses final touches being given to the budget proposals and consolidation of essential inputs collected from various sources into budgetary documents and printing of such documents for which the responsibility vests with the Budget Division in the Ministry of Finance. The process of consolidation of budget data has been fully computerized and at this stage National Informatics Center (NIC) lends critical support to the Budget Division. The actual printing of documents takes place in the Budget Press, located in the premises of Ministry of Finance in the North Block itself. For about ten days the Budget Press is completely out of bound for everyone except a select few engaged in consolidation and printing of the budget documents. The whole exercise is conducted in a highly secret atmosphere, under the surveillance of an intelligence agency. Nearly 150 persons who enter the Budget Press around 20<sup>th</sup> of February each year are allowed to come out or interact in any way (including telephonically) with the outside world only after the Finance Minister has completed his budget speech in the Lok Sabha and the provisions of the budget are in the domain of public knowledge.

3.16 **Finance Bill and Appropriation Bills** are essentially Money Bills and require the assent of the President before these can be placed before the Parliament. Thus, after getting all the budget documents readied the Finance Minister approaches the

President, through the Prime Minister, to obtain permission required under article 113 and 117 of the Constitution for placing the annual financial statement and demands for grants along with the Appropriation Bill and the Finance Bill before the Parliament. Having obtained the assent of the President, the Finance Minister is ready to place the budget documents before the Parliament. Conventionally, he briefs the Prime Minister and his other cabinet colleagues securing their approval just before he reads out his budget speech in the Lok Sabha.

#### *Parliamentary Scrutiny of budget documents*

3.17 Conventionally, within a day or two of placement of the Railways Budget before the Parliament the Union Budget (other than Railways) is presented for scrutiny of Parliament. On the day of the Budget, Finance Minister places the annual financial statement, demands for grants, and finance Bill for consideration of the House of People and reads out his budget speech, which outlines the major proposals contained in the budget estimates. These documents are then placed before the Rajya Sabha. It may be interesting to note that the Finance Minister is not bound Constitutionally or legally, to either read or place the budget speech before the Parliament. It is also not a legal requirement to place the other explanatory and supporting budget documents viz. Budget at a Glance, Expenditure Budget Volumes 1 & 2, Receipts Budget, Budget Highlights, Explanatory Memorandum to the Finance Bill and Implementation of Budget Announcements. But, all these

documents are conventionally placed along with the constitutionally mandated documents as they go a long way in demystifying the budget proposals and serve the objective of fiscal transparency.

3.18 The Appropriation Bill, supporting the demands for grants, is placed before the lower house as a part of presentation of budget before the Parliament. The proposals contained in the Finance Bill relating to Direct Taxes are deemed to come into effect on the 1<sup>st</sup> day of the financial year unless otherwise specified. The proposals relating to indirect taxes come into effect from the very next day through a notification to the effect in the official gazette of the Government of India. As against this, the proposals contained in the Appropriation Bill come into effect at a much later date after due deliberations in both Houses of the Parliament.

3.19 During the budget session, within a few days of presentation of the budget, the Parliament goes into recess for about a month, after which the Budget session is resumed. The recess period is utilized for scrutiny of demands for grants of various ministries / departments by their respective Standing Committees. When the Parliament meets after the recess, time is earmarked in both the Houses for general discussion on the budget. The general debate on the budget, which is normally spread over a few weeks in both the Houses ends with a reply by the Finance Minister and submission of the Appropriation Bill for vote in the Lower House. Once the Appropriation Bill is passed by the Lower House, it is sent by the Speaker

to the Upper House for voting and return. If the Bill does not return within 14 days it is deemed to have been passed by the Upper House and is sent to the President for his assent. On receipt of Presidential assent to the Bill, the Appropriation Act is notified in the official gazette by the Ministry of Finance.

**3.20** Parliamentary scrutiny of the Budget does not end with the passing of the Finance and Appropriation Bill. The provisions of the Constitution enable the legislators to monitor even the implementation of the Budget. The Members of Parliament can seek information, raise questions, call attention to special matters relating to implementation of budget and move motions to hold special discussions to draw attention of Parliament to any shortcomings in execution of the budget. The quarterly statements of receipts and expenditure which are now required to be placed before the Parliament under the Fiscal Responsibility and Budget Management Act, 2003 and Rules will strengthen Parliamentary Control over execution of the budget.

**3.21** The Comptroller and Auditor General and the Public Accounts Committee form a part of the oversight arrangement envisaged in the Constitution for budgetary control of Legislature over the executive. The Comptroller and Auditor General places, his observations on the Union Government's Finance and Appropriation Accounts in the form of a report. This report highlights shortcomings in execution of budget by pointing out the savings or excess

expenditure under the various grants. The report on being placed on the table of both Houses of Parliament stands referred to the Public Accounts Committee. The Committee after discussions on the shortcomings pointed out in the report of the Comptroller and Auditor General makes recommendations for setting right the irregularities and improving the system. Thus, even after the budget has been fully executed it is possible for the legislature to exercise *ex-post facto* control and suggest remedial measures.