

CHAPTER-4

Limitations of the Budgetary Process

General Budgetary Framework

4.1 Budget of Government of India is typically an incremental line item budget based on historical or empirical methods of estimation and cash basis of accounting. Time and again, reforms have been attempted to make the Union budget more comprehensive, realistic and a key policy document of the Government. However, it continues to suffer from limitations. **In this chapter we will discuss the budgetary process in government of India, its limitations and suggest steps to make the process more realistic and meaningful within the existing framework.**

4.2 As stated in Chapter 3, the Budget of Ministry of Railways has been separated from the General budget since 1924. The Government of India has a single Consolidated Fund and the expenses of the Ministry of Railways as well as all other ministries and department are met out of it. Finally, the Government maintains a single cash balance with the Reserve Bank of India and revenues earned by the Railways and all other ministries are pooled in this single fund. For a number of years now, the Ministry of Railways has been spending beyond its revenue earnings and the deficit is met from the general revenues by way of budgetary support. This implies that although the Ministry of Finance is responsible for plugging the deficit

of Railways, it has no say in the manner in which the Railways raise their revenues or the extent, nature and direction of their expenditure. Budgetary support to Railways which was of the tune of Rs.2, 588 crore in the year 1999-2000 has increased to Rs.15,875 crore in 2010-11 (Budget Estimate). This does not include the subsidy that goes to the Railways from the General Revenues on uneconomic and unremunerative activities of Railways, undertaken at the behest of the Government, which has increased from Rs.685 crore to Rs.2830 crore in the corresponding period. This implies that over the years, Ministry of Railways has been adding to the overall deficit of the Government, which the Finance Minister has to defend in the Parliament while not having any say in the way the finances of Ministry of Railways are handled. The dichotomy arising out of two separate budgets has become meaningless and serves no purpose other than creating two power centers in the area of budgeting in Government of India. Merger of Railway Budget with the General Budget merits serious consideration to plug this artificial segregation, which at one time may have served a purpose but has since outlived its utility.

4.3 Budgeting is based on the traditional 'bottom-up' approach, which means that all agencies and ministries send requests for funding to the Finance Ministry. These requests greatly exceed what they realistically believe they will get. Budgeting then consists of the Finance Ministry negotiating with these ministries and agencies until some common point is found. Such a system is time consuming and has an inherent bias for increasing expenditure. In this tug of war between the

Ministry of Finance and the line ministries the power equation favours the former. The line ministries in Government of India have time and again made out a case for relaxation of control by the Ministry of Finance. Despite attempts of Ministry of Finance to relax its hold over the project / scheme wise allocation of funds within line Ministries there is little flexibility that the line ministries enjoy. The main reason for this is presence of innumerable line items and rigidity in rules governing re-appropriation and transfer of funds between these line items. As a consequence the month of March witnesses thousands of re-appropriation proposals, seeking approval of Secretary (expenditure), flooding the corridors of Ministry of Finance. The sheer quantum of such proposals makes application of mind in evaluation of these proposals a Herculean task. In addition, delayed decisions on such files add to the March rush of expenditure. **Budget system with fewer line items, more authority for administrative heads of line ministries to move money among line items through a revision of the Delegation of Financial Power Rules is urgently required to make the budgetary process more realistic.**

4.4 The most serious limitation of the budgetary process of Government of India is, perhaps, lack of focus on results. Union budget continues to be input based despite adoption of concepts like output budgeting and Zero Based Budgeting. Accountability is at best measured in terms of compliance with rules and procedures. Attempts to introduce result-based system have not made much headway and successful implementation of the budget by any ministry/department

is still measured in terms of ratio of actual expenditure to budget estimates. This limited measure of accountability is further flawed because what is seen as actual expenditure may only be a release of funds by the ministry to implementing agencies/field formations, the State Governments, Public Sector Undertakings, Autonomous Bodies etc. where the funds might remain unutilized for an unaccounted period. Since compilation of General budget has no organic linkages with performance budgets of individual ministries, the latter have brought about only cosmetic changes in the system.

4.5 A weak attempt at output based budgeting can also be seen in Expenditure Budget Volume II. However, a close look at this document reveals that expenditure proposals accompanied by long descriptive narratives rarely contain quantitative targets. Neither the information furnished in the performance budgets of ministries nor the details given in the expenditure budget volumes I & II are ever taken into consideration before deciding the expenditure ceilings of the ministries. There is, thus, no way of knowing whether the Government is getting value for money it expends.

4.6 The main reason why outcome budgeting failed to become a meaningful exercise in Government of India is absence of any organic links between administrative budgets being presented for approval of Parliament and outcome budgets being merely placed before parliament for perusal. As a result budgetary

allocations in any year are not based on the outcomes of the previous year. A budgetary outlay of each Ministry/Department continues to be independent of its performance as indicated in the outcome budget. In addition the attendant changes that are required for success of outcome budgeting have not taken place. A prerequisite to successful performance budgeting is development of methodology and agencies for quantification of targets and their monitoring and evaluation. There is also a need to move into the realm of accrual accounting and medium term budgeting framework. In absence of these systemic changes the exercise of outcome budgeting will remain a lip service to the cause of moving from outlays to outcomes.

4.7 Another important reason for the slow progress on this front, as pointed out by Arindam Guha (evaluating Public Spending through Outcome Budgeting; Economy and Politics; October 2009) has been the fact that much of the development interventions in India are routed through the state governments. Other than a few progressive states, the key line departments and other organizations in most states are yet to adopt planning and service delivery processes which are oriented around outcomes. There is therefore a need for an appropriate Centre-State institutional framework to standardize a set of outcome/output indicators at the sector (health, education etc.) level and put in place systems and processes for collecting and collating outcome related information together with interventions which are being or are proposed to be used for impacting these outcomes.

4.8 Further, there exists limited knowledge and understanding on the linkage between specific Government interventions and the outcomes they are likely to impact. With multiple programmes operating in the same sector, additional statistical analysis based on past data would need to be conducted to understand the 'cause effect' relationships better.

4.9 In absence of output targets in the budget, there is no way of judging if the current or on-going activities are efficient and effective. Zero Based Budgeting (ZBB), which is a more detailed budgeting exercise wherein fund allocation is not done on the basis of past years, and an executive is required to justify the requirements of funds for every activity, whether ongoing or new was introduced in the year 1987-88 with the specific purpose of weeding out the unproductive and unviable activities. Conceptually, ZBB was a sound experiment and worked well in the initial years. However, today it is almost entirely non-functional. Innumerable plan schemes and projects that have long since outlived their utility continue to appear as line items in the budget. Some schemes which were to be completed during the ninth plan or during earlier plans, continue to linger on and either the Planning Commission continues to support these schemes, albeit reluctantly, or there is pressure on the Finance Ministry to include them under non-plan expenditure.

4.10 In the pre-FRBM Act era budgets suffered another serious limitation in that the budget documents did not give the assumptions underlying the budgetary forecasts. A number of fiscal parameters like Revenue deficit, Fiscal deficit, Primary deficit etc. were expressed as a percentage of the Gross Domestic Product but none of the budget documents of Government of India mentioned the estimated GDP figure. There is no single key factor that can derail the fiscal consolidation programmes more than the use of incorrect economic assumptions. Great care must be taken in making economic assumptions and these assumptions should be explicitly disclosed in the budget documents. Sensitivity analysis should be made of what impact changes in key economic assumptions would have on the budget. The provisions of the FRBM Act 2003 require disclosure of such assumptions in the Medium-term Fiscal Policy Statement but the Act does not provide safeguards against use of unrealistic or optimistic economic assumptions. In India, in order to enhance credibility in the eyes of the stakeholders, it would be good idea to either establish an independent body to recommend the economic assumptions to be used in the budget or to employ the average forecasts made by reliable private sector economic forecasters.

Budgetary Classification

4.11 A discussion on overall limitations of budget formulation in Government of India would be quite incomplete without an analysis of the budgetary classification.

As indicated earlier the budgetary documents give a three-fold classification of budgetary estimates distinguishing between capital and revenue, charged and voted and plan and non-plan estimates. This threefold classification is particularly pertinent in case of expenditure estimates.

4.12 Classification of expenditure between capital and revenue and between charged and voted is a constitutional requirement. There is no ambiguity about the distinction between voted and charged expenditure as the Constitution clearly specifies the items of expenditure which are to be charged on the Consolidated Fund of India. Although the Constitution does not impose any bar over scrutiny of charged expenditure to verify its accuracy, correctness and propriety, such an exercise is usually not undertaken. Thus, all such expenditure which incidentally forms more than 60 percent of the total expenditure is cleared by both the executive and the legislature with virtually no checks or scrutiny. Even in the Parliament such expenditure is rarely discussed. Although the Constitution disallows voting on such expenditure, it puts no bar on discussing such expenditure to ensure its accuracy and correctness. **It is essential that an institutionalized mechanism be devised to ensure scrutiny of charged expenditure to ensure its accuracy, correctness and propriety.**

4.13 The distinction between capital and revenue expenditure is also mandated by the Constitution. The budget documents do not specify the conditions under which

any expenditure can be classified as capital expenditure. Although this distinction is available in other codes/manuals guiding financial business of the Government, it is not free from ambiguity. As per budgetary practices, all maintenance and repair expenditure is to classified as revenue expenditure. But, what happens when such expenditure leads to increase in the life and/or efficiency of an existing asset? Neither the budget documents nor the supplementary codes offer a clear-cut answer to such a question. This is merely one example of various ambiguities inherent in the capital versus revenue classification. This classification has not been reviewed for a long time and there is a need to look into its basis. Immense pressure being exercised by the State Governments, in particular, to review the basis of classification of all grants under the revenue heads is another instance that lends credence to the argument that the classification needs to be revisited. The State Governments argue that classification of all grants transferred from the Centre to the State Governments and from the State Governments to the local bodies as revenue expenditure distorts the actual position and artificially inflates revenue expenditure and consequently revenue deficit, as a substantial part of such grants is utilized by the States/local bodies for creation of assets. Then, there is the larger question of whether all expenditure on health and education should be treated as expenditure on current account despite the fact that it leads to development of productive human assets. To make the budgetary process more realistic and meaningful there is, therefore, a need to revisit the basis of classification between revenue and capital to take care of all such contemporary concerns.

4.14 The third classification of expenditure is between plan and non-plan. As per the current practice, the Ministry of Finance indicates the overall 'Gross budgetary Support' to the Planning Commission and it is the prerogative of the Planning Commission to decide what part of the GBS will go to a particular ministry/department. Ministry of Finance has no say in the matter. On the other hand, the non-plan estimates of expenditure are decided by the Ministry of Finance completely independent of the Planning Commission. Thus, we have a situation where two entities are independently working out portions of budget estimates of various ministries/departments without getting a holistic assessment of the expenditure requirement of these ministries/departments at any stage. Moreover, there are no guidelines that lay down the criterion of classification of expenditure between plan and non-plan in Government. Not only the budget documents but the other manuals and codes on Government finances are also silent about the basis of this classification. The fact that more than two-third of plan expenditure is on revenue account defies the common logic and belief that all plan expenditure is development expenditure. In Government today, plan-expenditure can be best defined as expenditure which is approved by the Planning Commission. It appears that we are keeping alive in our budget documents a classification that serves no purpose except, perhaps, because of presence of the Planning Commission.

4.15 Various committees and task forces have been set up by the Ministry of Finance in the past to codify the basis of classification of expenditure between plan and non-plan. These committees have either not submitted any report or have come up with the suggestion that this classification may be done away with as it does not serve any purpose. In line with the recommendations of the expert groups, the use of classification of expenditure between plan and non-plan, which only adds to confusion and does not serve any purpose, should be done away with. At best it should be restricted to internal MIS reports of ministries and should not find a place in budget documents.

Budgetary Estimates

4.16 Despite various attempts at reforming the system, formulation of budget continues to be a routine activity with the revenues and expenditure being estimated on traditional incremental basis. Estimation of expenditure and revenues suffers from *ad hocism* and is not based on any scientific techniques. As a result the estimates are often unrealistic and inaccurate. This would be evident from the following table, which summarises the position of the finances of the Union Government, covering the budget estimates and actuals in terms of revenue receipts, capital receipts, public account receipts, and total disbursements.

Table 1

Union Government Finances 2007-08 Budgets and Actuals

	BUDGET ESTIMATES	2007-08		DEVIATION FROM BUDGET	DEVIATION PER CENT
		BUDGET ESTIMATES	ACTUALS		
1	Total Receipts of the Union Government (7+8)	2732472	3027696	295224	10.80
2	Revenue Receipts	583647	649426	65779	11.27
	<i>Tax Revenue</i>	405672	441347	35675	8.29
	<i>Non-tax revenue</i>	177976	208079	30103	16.91
3	Miscellaneous Capital receipts	41651	38796	(-) 2855	(-) 6.85
4	Recovery of Loans and Advances	3030	10391	7361	242.94
5	Public Debt receipt	1750984	1868102	117118	6.69
6	Public Account Receipts	353159	460981	107882	30.53
7	Total disbursement by the Union Government	2722471	2892945	170474	6.26
8	Revenue Expenditure	655626	734861	79236	12.09
9	Capital Expenditure	115162	116937	1775	1.54
10	Loans and Advances	9028	11777	2749	30.45
11	Repayment of Public debt	1611646	1604110	(-) 7536	(-) 0.47
12	Public Account Disbursement	331010	425260	94250	28.47
13	Revenue Deficit (10-2)	71978	85435	13457	18.70
14	Fiscal Deficit (13-5)	150948	164962	14014	9.28

Source: Report of the Comptroller and Auditor General of India on the Accounts of the Union Government 2007-08.

4.17 There are significant variations between most of the budgeted figures and actuals each year but the budget documents fail to bring out these deviations. It is not possible to draw any meaningful conclusions from the data given in the budget documents of a particular year as the estimates are given for the current year and

next year while the actuals pertain to the previous year. For comparative purpose the budget estimates of the previous years should also be exhibited along with the actuals of the previous year. In fact, deviations of the actuals from the budget estimates should be highlighted and the reasons for the same explained in the budget documents.

4.18 To ensure an effective Parliamentary financial control, it is imperative that the principles of recognition of expenditure and receipt are consistent in the Budget Documents and Finance and Appropriation Accounts. Figures for revenue and fiscal deficits as indicated/derived from the Finance Accounts have, however, continued to be different from those being depicted in Budget at a Glance and some of the papers accompanying Budget Documents. This difference has been due to inclusion/exclusion of some of the transactions on receipts and expenditure side. While these are indicated in the accompanying documents of Budget papers, it may nonetheless be important to indicate these upfront.

4.19 Let us move beyond the macro consideration of classification and accounting consistency etc to the micro aspects of preparation of statements of Budget Estimates (SBEs) by the various ministries/department, based on which the demands for grants are prepared by the Ministry of Finance and presented to the Parliament for approval. While preparing the statement of budget estimates, there is a tendency on the part of the ministries/departments to net out certain expenditure against

earmarked receipts before allowing it to enter the budget documents. One example of netting of expenditure is the write-off of loans, interest, penal interest etc due from the Public Sector Undertakings. There is a tendency to keep such transactions out based on the logic that budget is prepared on cash basis. In recent years the revenue receipts foregone by the Government on account of such write-offs has been rising sharply. Thus, it is important that such transactions should be routed through the budget. This will help in ascertaining more accurately the budgetary support from General Revenues to Public Sector Undertakings, which for the purpose of preparation of the Union Budget are not considered to be a part of the Government.

4.20 The budget of Government of India is based on the doctrine of lapse i.e. the unspent amounts under each grant lapse on the last day of the financial year and can not be carried forward to the next year. Another underlying principle is that all revenues earned by any ministry / department or government entity have to first enter the consolidated fund wherefrom they can be allocated back to the concerned ministry / department through parliamentary appropriation. Contrary to these accepted principles, there is a tendency on the part of the ministries / departments to either hold back the revenues earned by them, rather than route the same through the consolidated fund, or to create reserve funds in the Public Account, to which huge amounts are transferred at the beginning of the year so that these funds do not lapse on 31st March. There are several such funds in operation and, of late

increasingly large amounts are being transferred to these funds. Such reserve funds should be avoided as they have the effect of fragmenting the consolidated fund and result in dilution of control of the legislative as well as Ministry of Finance over execution of the budget. Once the funds are transferred to these reserve funds they move out of the purview of the overall budget monitoring mechanism. These funds are also used as places for parking of resources and go against the accepted doctrine of lapse.

4.21 Public Sector Undertakings, Autonomous Government organizations, non-Government organizations are some of the alternatives sources used by ministries / departments to park funds. Most ministries like Rural Development, Health, Agriculture etc. do not hesitate to hastily transfer funds to states without exercising due checks and controls when confronted with the possibility of surrendering savings. The States in turn transfer the funds to local bodies, autonomous organizations, and non-government organizations. Presently, there is no mechanism to ascertain the unspent balances lying with these organizations. Isolated attempts are sometimes made by the Finance Ministry to collect information about unspent balances lying unutilized with such organizations. There is a need make such an exercise an integral part of the process of budget making by incorporating the details of unspent balances in the budget documents.

4.22 Year after year, the reports of the Comptroller and Auditor General point out how a chunk of the allocations are utilized by the ministries/departments in the month of March or even on 31st of March in order to avoid surrender of unspent balances. Comptroller and Auditor General has repeatedly cast doubts about efficacy and propriety of such expenditure. In fact, in his Report No. 1 of 2004 on the accounts of the Union Government the Comptroller and Auditor General has stated that rush of disbursements, particularly in the closing month of the financial year is to be regarded as a breach of Financial regularity and should be avoided.

4.23 The problem of creation of non lapsable-reserve funds, March rush, parking of funds and, hasty transfers to state governments without exercising due diligence are all linked to the fact that budgetary sanctions are valid for one year and lapse thereafter. In order to overcome these problems budgeting should move into the multi-year framework. The appropriations can continue to be obtained on annual basis but rolling plans or forecasts may be given for two years in addition to the year for which the budget is being presented. This will reduce the uncertainty of the line ministries/departments regarding continuity of budgetary support for on-going schemes/projects.

4.24 Over the years, the link between the Statement of Budget Estimates and the demands for grants is weakening. There was a time when the detailed demands for grants prepared by various ministries were vetted in the Budget Division. The

object of this exercise was to ensure that the detailed demands for grants are in tune with the statement of budget estimates. Now this system has been discontinued and the Ministry of Finance has no say in preparation of the detailed demands. Taking advantage of this some ministries introduce several line items in the detailed demands making token provision of Rs. 1 lakh for each item. It is a trap door that needs to be closed because it is on this token provision that the ministries rest their argument for supplementary grants during the course of the year.

4.25 More than eighty percent of Government's revenue expenditure in any given year is on five major items i.e. Interest Payments, Defence, Subsidies, Wages & Salaries and Pensions. Estimation of expenditure on each of these five items suffers from lack of transparency. In budget 2010-11, out of the total estimated expenditure of Rs. 1108749 crore, the expenditure on Interest Payment is estimated to be of the order of Rs. 248664. This being a charged item of expenditure escapes scrutiny by the executive as well as legislature. More details should be incorporated in the budget to show how this figure has been arrived at and the reasons for increase in such liability. Similarly, greater transparency is required in exhibition of defence expenditure, which is estimated at Rs. 147344 crore in 2004-05. There is ample scope of providing more details about defence estimates without compromising on issues of national security.

4.26 There is an urgent need for demystification of expenditure on subsidies. In the year 2004-05, explicit subsidies to be extended by the Government are estimated

to cost the exchequer Rs. 116224 crore i.e. more than 10 percent of total expenditure. In addition to the explicit subsidies, the Union government also bears expenditure in the nature of implicit subsidies. Budgetary support to financial institutions and Banks, inadequate return from its investment in public sector undertakings and inadequate recovery of user charges from the social and economic services provided by the Government are examples of implicit subsidies. The taxpayers have a right to know the rationale behind explicit subsidies and the extent of implicit subsidies, thus, the budget documents must carry the necessary information on both types of subsidies.

4.27 The total estimated expenditure of the Government on wages and salaries is not indicated at one place in any of the budget documents. While, one can get some idea about the estimated wages and salaries bill of a single ministry or department, there is no way to know how much the Government is likely to spend on wages and salaries of its employees in a particular year and what has been the trend of such expenditure. The government repeatedly announces its intention of reducing the wage bill and reducing its size but there is no way of knowing from the budget if the Government has succeeded in doing so. One of the annexure to the expenditure budget volume 1 attempts to give the Department-wise estimated strength of establishment and provision therefor but figures furnished in this annexure are both incomplete and often inaccurate. There is a need to have a fresh look at the

accounting of employee's cost and depiction of the same to ensure that such information is readily available from the budget documents.

4.28 Fiscal experts the world over are of the opinion that even within the cash based system of accounting budgets need to move into the realm of accrual basis of estimating pension liability of the Government. Presently, the pension estimate included in the budget of Government of India merely indicates the amounts, which will need to be actually paid as pension and retirement benefits in the course of the budgeted year. The budget does not attempt to give any indication of the actual accrued liability of the Government at the end of the financial year. Pension liability needs to be estimated and provided for on an accrual basis to make the budgeting exercise more realistic.

4.29 Another liability that needs to be stated more accurately and explicitly is the contingent liability of the Government of India. Guarantees given by Government are exhibited in an annexure to expenditure volume I. The disclosure is highly limited as no mention is made about any other contingent liability of the Government such as counter guarantees, letters of comforts issued by government, legal claims against the government etc. All significant contingent liabilities should be disclosed in the budget where feasible, the total amount of contingent liabilities should be disclosed and classified by major category reflecting their

nature; historical information on defaults for each category should be disclosed where available.

4.30 Estimates of revenue, besides suffering from *ad hocism*, are shrouded in secrecy. Inadequate empirical database and unscientific projection techniques characterize the forecasts of tax revenue as well as non-tax revenue. There is a crying need for greater transparency in revenue projections, particularly tax revenue which constitutes more than three fourth of the total revenue receipts of the Government of India. The secrecy that shrouds the tax estimates creates uncertainty as well as an unfair advantage for those who somehow manage to break through the veil and get a glimpse of the proposals. Provisions of Provisional Collection of Taxes Act, 1931, which enable the Finance Bill proposals to become effective immediately on introduction, reduce the scrutiny of tax proposals to a mere post-mortem exercise. This also is the root cause of the innumerable amendments that are normally carried out to the Finance Act in the wake of debate in the Parliament. It is absolutely essential that the secrecy shrouding the tax proposals should be reduced to the barest minimum and bulk of the tax proposals being considered for inclusion in the budget should be posted in advance on the web site of the Finance Ministry inviting open public debate. More indefensible is the need to keep the expenditure estimates secret. All expenditure estimates should be posted at the web site at the proposal stage and comments of stakeholders invited thereon.

4.31 While the database for tax projection is inadequate, it is virtually non-existent for estimation of non-tax revenue, resulting in superficial tapping of the immense potential of this source of revenue. There is tremendous scope for increasing the non-tax receipts of the Government through better estimation of revenues from emerging sources like the license fee and spectrum fee in the Telecom Sector.

Supplementary/Excess Demands

4.32 Supplementary budgets are indicators of accuracy or otherwise of the budgetary estimates. Ideally, there should be no supplementary budgets as they distort the budgetary process and cast a shadow on reliability of the budget estimates. It is obviously not practical to reach the ideal position but keeping the supplementary budgets to the minimum is an inherent part of realistic budgeting. Government of India has been routinely going to the Parliament with three supplementary budgets each year for a number of years now.

4.33 The total amounts approved by the Parliament through supplementary demands for grants have been substantial, varying from Rs. 30,678 crore in 1999-2000 to Rs. 193151 crore in the year 2007-2008. The cash outgoes have been relatively small but, even technical and token supplementaries, which result in reallocation of resources between different grants or different sections of the same grant, point

towards the inherent weakness of the budget estimates and must be avoided to the extent possible.

4.34 The Comptroller and Auditor General's Report on the accounts of the Union Government for the year 2007-08 points out that in 25 cases relating to 25 grants/appropriations, while supplementary provisions aggregating to Rs. 65887.93 crore were obtained during 2007-08 in anticipation of higher expenditure, the final expenditure was less than even the original grants/appropriations. The entire amount of supplementary provision was unnecessary pointing to deficient budgeting.

4.35 The government should try and restrict supplementary demands for grant by setting up an upper limit in terms of percentage of total estimated expenditure beyond which supplementary demand may not be proposed to the Parliament. Cash supplementaries should not be included in the first batch of supplementary demands for grants. Any additionality sought through supplementary budgets should be matched by additional revenues and while presenting the supplementary demands for grants the Finance Minister should inform the Parliament about the possible impact of the same on the budgetary estimates.

4.36 Supplementary budgets are undesirable but not unauthorized. As against this, excess expenditure is both undesirable and unauthorized. Article 114(3) of the Constitution provides that no money be withdrawn from the Consolidated Fund of

India (CFI) except under appropriations made by law passed in accordance with the provisions of this Article. Further, General Financial Rules (GFR) 52(3) stipulates that no disbursements be made which might have the effect of exceeding the total grant or appropriation authorised by Parliament for a financial year except after obtaining a supplementary grant or an advance from the Contingency Fund. During 2007-08, there was an excess disbursement of Rs. 171.32 crore in four segments of four grants/appropriations in civil ministries and i.e. Rs. 71.19 crore in one segment of a grant in Defence.

4.37 Although the Constitution provides for a mechanism for regularization of excess expenditure over the amounts approved by the parliament, any excess expenditure in a democratic set up is contrary to the principal of Parliamentary control and good governance. Excess expenditure, whether small or large, violates the fundamental principle of legislative control over executive in the budgetary process and must be avoided at all cost. The system of punitive action needs to be strengthened to ensure that those guilty of such expenditure do not get away with it lightly.

Accounting of budgetary transactions

4.38 A very important pre-requisite of sound budgetary practices is consistency in accounting treatment of budgetary transactions. A close look at budget documents

of recent years reveals inconsistency in treatment of certain transactions, which are large enough to make a material difference in determining whether the budget estimates present a true and fair picture of Government's financial intent. These inconsistencies also make it difficult to draw meaningful comparisons and study trends of significant fiscal parameters. The number of footnotes appearing in the recent years in the top-table of the supporting budget document titled 'Budget at a Glance' bear testimony to this contention. A glaring example of this is the treatment of receipts of the Union Government on account of pre-payment of debt by the State Government under the Debt swap scheme. In the Budget Estimates 2003-04 receipts from State Government on account of Debt Swap Scheme were included under the head 'Recoveries of Loans' as a part of the Capital Receipts of the Union Government. Correspondingly, an equivalent amount (Rs.46,602 crore) was included under non-plan expenditure of the Union Government on Capital Account as 'repayment to National Small Savings Fund. This implies that the transaction was budgeted for in such a manner so as to be fiscal deficit neutral. If we look at the budget estimates of the year 2004-05 we see that receipts from State governments on account of Debt Swap Scheme have been included under the head Capital Receipts, Recoveries of Loans but have not been included under non-plan expenditure of the Government as repayment to National Small Savings Fund. This implies that in the year 2004-05 the transaction, receipt from States on account of Debt Swap Scheme, were not be fiscal deficit neutral as in the year 2003-04. In fact the Fiscal Deficit got reduced to the extent of these receipts. Without going into the merit of whether the

Government should have treated the transaction as fiscal deficit neutral as in 2003-04 or used the receipts towards improving its fiscal deficit as in 2004-05, it can be safely said that there has been inconsistency in treatment of the same transaction which makes it difficult to draw meaningful comparison between budget estimates of fiscal deficits in the two years. **There should be consistency in treatment of same transaction over different years and even if the Government has some compelling reasons to alter the treatment of the transaction the rationale behind the same should be clearly and explicitly mentioned in the budget documents for the sake of consistency and transparency.**

4.39 The problems of inconsistent treatment often arise because of weak links between budgeting and accounting. Ideally, whenever a new transaction has to be routed through the budget its accounting procedure should be well defined. The Government should be quite clear as to how the new transaction is going to be accounted for in its finances before the transaction actually finds place in the budget. But this does not happen since working out the accounting procedure is a tedious and time consuming process and new budget initiatives can not be kept out of the budget just because the underlying accounting procedure has not been worked out. As a result, these transactions are accounted for in the budget in a provisional and adhoc manner, often with the stipulation that the matter would be set right once the accounting procedure is delineated. This leads to difference in treatment of the same transaction over budget estimates of different years. It is important that the

inconsistency, which arises in the process, should be clearly explained in the budget documents. In fact a summary of relevant accounting policies should be disclosed in the budget reports along with disclosure of any deviation from generally accepted accounting practices. If a change in accounting policies is required, the nature of the charge and the reasons for the charge should be fully disclosed. Information for previous reporting period should be adjusted, as far as practicable, to allow comparisons to be made between reporting periods.

Budgetary Transparency

4.40 The OECD Best Practices for Budget Transparency include (i) issue of periodical, Comprehensive and accurate fiscal reports; (ii) Specific disclosure of economic assumptions, tax expenditure, financial liabilities and financial assets, non-financial assets, employees pension obligations, contingent liabilities and; (iii) Integrity Control and accountability through well defined accounting policies, dynamic systems of internal control, external audit and public & parliamentary scrutiny.

4.41 The IMF transparency code on the other hand lays emphasis on (i) clarity of role and responsibility of government; (ii) public availability of information on all government activities; (iii) absence of extra- budgetary activities; (iv) open budget preparation, execution and reporting and; (v) independent assurance of integrity.

Budgetary process in Government of India, by and large, meets all the requirements of fiscal transparency of the IMF code. Government is clearly distinguishable from the rest of the economy for the purpose of budgeting. Within the Government there is clear segregation of policy and management role. With dismantling of the Oil Pool Account and Steel Development Fund etc. the extra budgetary activities of the government have become negligible. Government of India regularly publishes important data and stakeholders have access to information on Government activities. The requirement of specification of fiscal policy objectives in budget documents, assessment of sustainable fiscal policy and provision of economic assumption is now mandated by the FRBM Act. In fact, while presenting the final budget since the year 2004-05 the Finance Minister has been placing such information before the Parliament along with the annual financial statement in form of a document titled "Statements laid before the Parliament in accordance with the provisions of the FRBM Act, 2003". Budget of Government of India appears to be wanting in transparency when evaluated against the more stringent OECD yardstick.

4.42 Adherence to provisions of the FRBM Act takes care of requirement relating to disclosure of key economic assumption, medium term sustainability etc, but to meet the OECD yardstick budget will have to be modified to give adequate accurate and comprehensive disclosure about financial liabilities and financial assets, non-financial assets, employees pension obligations etc. which presently do not find a

place in the budget documents. In addition, the systems of internal control, external audit, public and parliamentary scrutiny and accounting will require strengthening. A system of Government accounting standards needs to be evolved and adherence to these standards should become mandatory for all Governments. The system of internal control, needs to be comprehensively revamped. The mechanism of discussing and acting upon the reports of the Comptroller and Auditor General requires urgent rejuvenation to make external audit more effective and meaningful.

Parliamentary Scrutiny

4.43 An essential prerequisite of meaningful budgeting is adequate parliamentary scrutiny of the budget. The procedure for parliamentary scrutiny is prescribed by the Constitution and the Rules of conduct of business in the two houses of Parliament. Despite this, we have reached a situation where successive budgets get approved by the Parliament with minimal discussion in both the Houses. Such a situation renders the concept of legislative control over executive in budgetary matters meaningless. In a democracy the accountability of the executive to people is through the Parliament, it is, therefore, crucial that scrutiny of the budget is not bypassed by the Parliament. There is an urgent need to put in place a legal framework that will ensure that the budget is discussed by at least a minimum number of Members of the Parliament for a minimum number of hours before it can be put to vote.

4.44 Parliamentary scrutiny of execution of budget and outcome of budget is equally important. The requirement of placement of quarterly statement of receipts and expenditure by the Government before the Parliament under the FRBM Act is a major step forward in strengthening the mechanism of parliamentary scrutiny of execution of the budget. This scrutiny will be further facilitated if the budget documents specify the quarterly targets of receipts and expenditure with which the actuals can be compared. In absence of quarterly targets, quarterly analysis of receipts and expenditure is essentially an exercise in the abstract.

4.45 Parliamentary scrutiny of budgetary outcomes is through the Public Accounts Committee which examines the report of the Comptroller and Auditor General India on the Finance and Appropriation Accounts of the Union Government and makes recommendations thereon. Over the years such scrutiny has been gradually diminishing as number of reports being issued by the Comptroller and Auditor General is increasing but the Public Accounts Committee is taking up fewer reports for discussion.