

## CHAPTER-7

### Summary of Recommendations

#### *Change in Budgetary Format and Process : Need of the Hour*

7.1 While discussing current budgetary process in India in chapter 5, suggestions have been made on various aspects. In this chapter, these and certain other general suggestions are being enumerated to point to the direction in which government budgeting in India would need to move to become more meaningful, comprehensive, topical and transparent.

#### *Specific Suggestions*

7.2 Existence of separate budget for Railways has long outlived its utility. Efficient utilization of resources in this key infrastructure brooks no further delay. Therefore, merger of Railway Budget with the General Budget merits serious consideration to plug this artificial segregation.

7.3 Budget system with fewer line items, more authority for administrative heads of line ministries to move money across line items through a comprehensive revision

of the Delegation of Financial Power Rules is urgently required to make the budgetary process more realistic and facilitate better resource utilization.

7.4 Considerable care must be taken in making economic assumptions based on which budgetary estimates have been framed. Budget documents should also reflect a sensitivity analysis outlining the likely impact of variations in key economic assumptions on the budget. 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 autonomous institutions / economic forecasters.

7.5 It is essential that an institutionalized mechanism be devised to ensure scrutiny of charged expenditure to verify its accuracy, correctness and propriety while maintaining desired levels of secrecy in key sensitive outlays.

7.6 To make the budgetary process more realistic and meaningful, there is a need to revisit the rationale and the basis of classification between revenue and capital to address various contemporary concerns.

7.7 In line with the recommendations of various 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, this

segregation should be restricted to internal MIS reports of ministries and should not find a place in budget documents.

7.8 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.

7.9 In recent years the revenue receipts foregone by the Government on account of write-offs and waivers of interest and loans to PSUs and other autonomous organizations has been rising sharply. Thus, it is important that such transactions are fully and regularly routed through the budget. This will help in ascertaining more accurately the budgetary support from General Revenues to Public Sector Undertakings, etc.

7.10 Creation of reserve funds out of departmental receipts outside the Consolidated Fund of India must be avoided as they have the effect of fragmenting the consolidated fund and result in dilution of control of the legislative as well as supervision of Ministry of Finance over execution of the budget. Once resources are transferred to these reserve funds they move out of the purview of the overall budget monitoring mechanism. These reserve funds are also used as places for parking of moneys and go against the accepted principle of lapse.

7.11 There is a need make the process of collecting information about unspent balances lying unutilized with various organizations an integral part of the process of budget making by incorporating the details of unspent balances in the budget documents.

7.12 The necessary organic links between the administrative budget and the outcome budget should be established to enable the Government to move from outlays to outcomes. A pre-requisite to successful outcome 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.

7.13 Appropriate Centre-State institutional framework to standardize a set of outcome/output indicators at the sector (health, education etc.) level should be put in place along with 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.

7.14 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. The fiscal policy strategy statement is a very positive and welcome step which can well be used by the Government as a stepping stone to move towards a medium term framework of budgeting in future.

7.15 The umbilical chord between the SBEs and the Detailed Demands for Grants must be restored urgently. Currently, this link has witnessed major rupture leading to rise in demands for supplementary grants during the course of the year based on token provisions introduced indiscriminately in Detailed Demands for Grants by Ministries concerned.

7.16 The taxpayers have a right to know the rationale behind explicit subsidies and the extent of implicit subsidies. The budget documents must carry the necessary information on both types of subsidies.

7.17 There is a need to have a fresh look at the accounting of employees' cost and its adequate depiction in the budget documents to facilitate a more detailed appreciation of the Government's efforts for rightsizing its cadres.

7.18 Pension liability needs to be estimated and provided for on an accrual basis to make the budgeting exercise more realistic. Ideally, the budget should be insulated

from the ballooning pension liabilities through appropriate funding mechanisms to be operated under an institution like the Pension Fund Regulatory and Development Authority.

7.19 All significant contingent liabilities should be disclosed in the budget wherever feasible. Guarantees extended by the Government including those invoked should be fully disclosed and classified by major categories reflecting their nature. Historical information on defaults for each category should be disclosed where available. Formats prescribed by Government Accounting Standards Advisory Board / FRBM Rules must be adopted for exhibition of contingent liabilities.

7.20 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.

7.21 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. A Special Task Force should be

set up to look into measures of mopping up revenues from unconventional sources emerging in the wake of IT/electronics revolution and opening up of the economy. The terms of reference of the Task Force may also include recommendations on user charges and fees for providing public goods.

7.22 While tax refunds should be clearly disclosed in the budget documents to improve transparency, the interest paid thereon should be treated as a separate item of expenditure and exhibited in the budget documents as such. The estimated cost of key tax expenditure (i.e. revenue foregone on account of concessions and waivers) should be disclosed as supplementary information in the budget.

7.23 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 normally 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.

7.24 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.

7.25 There should be consistency in treatment of budgetary transactions over different years. Even if the Government has some compelling reasons to alter the treatment of any transaction, the rationale behind the same should be clearly and explicitly mentioned in the budget documents for the sake of consistency and transparency. In case of extraordinary transactions, explicit and detailed information should be furnished in the budget documents along with the likely impact of such transactions on the liabilities of the Government.

7.26 A summary of relevant accounting policies should be disclosed in the budget documents 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 same should be fully disclosed. Information for previous reporting periods should be adjusted, as far as practicable, to allow comparisons to be made between reporting periods.

7.27 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, which is ineffective in most ministries, 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.

7.28 The move to accrual accounting in Government of India as well at State level, being spear-headed by the C&AG and supported by the Controller General of Accounts at the centre should be expedited. In the intervening period, Government should attempt to draw up a realistic asset-liability statement as envisaged in the FRBM Rules and account for some of its liabilities like pension liability and depreciation liability on an accrual basis in its accounts as well as budget statements.

7.29 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. Guillotine beyond a certain percentage of total expenditure should not be permitted.

7.30 The Parliamentary scrutiny of execution of budgets has strengthened as a result of quarterly statement of Receipts and Expenditure, which are to be placed before Parliament under the FRBM Act. This scrutiny will become more meaningful if the budget documents specify the quarterly targets of receipts and expenditure with which the actuals can be compared. The possibility of introducing quarterly exchequer control, as is prevalent in the Ministry of Railways, should also be explored.

7.31 Vote on Account as permitted under Article 116 of the Constitution is being routinely used by the Union Government. This has been used in recent past to periods extending up to six months. Routine use of Vote on Account mechanism should be avoided and the maximum period / maximum amount for what authorization can be obtained under this mechanism should be restricted and codified. A solution to this may lie in placing the budget before the Parliament three months ahead of the beginning of the financial year as against one month as is the current practice.

7.32 The interaction with the interest groups including members of the corporate world, economists, public finance analysts though not a mandatory part of the budgeting process has been useful in imbibing a cross-section of views on budget making. Institutional mechanism should be put in place to ensure this consultation process is undertaken mandatorily.

7.33 There should be a mechanism to ensure that budget proposals, which have not been accounted for in the budget estimates do not find place in the budget speech of the Finance Minister.

7.34 Union Cabinet is apprised of budget details for approval at the last moment. Now since it is proposed to bring key budgetary proposals under public debate

before budget, it should be possible to deliberate the same in the Union Cabinet well in advance in the true spirit of Parliamentary democratic functioning.

---