

BLOCK 3

GOVERNMENT BUDGETING

UNIT 6 GOVERNMENT BUDGETING: CONCEPT, FEATURES, TYPES, FUNCTIONS, AND PRINCIPLES*

Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Budget: Concept
- 6.3 Government Budget: Objectives
- 6.4 Government Budget: Features
- 6.5 Government Budget: Principles
- 6.6 Types of Budget
- 6.7 Government Budget: Functions
- 6.8 Conclusion
- 6.9 Glossary
- 6.10 References
- 6.11 Answers to Check Your Progress Exercises

6.0 OBJECTIVES

After going through this unit, you should be able to:

- Explain the meaning and the concept of government budget;
- State the objectives of budget;
- Discuss the features of budget;
- Describe the principles and types of budget; and
- Elaborate on the functions of budget.

6.1 INTRODUCTION

Budget is an important planning tool that facilitates implementation of public policies. It links proposed expenditure to future activities. It is an important exercise in government undertaken by the executive. It serves as a tool of planning, management, control, and accountability. Public funds are a key resource which are the repository of government. It needs to be spent in a cautious manner. Budget is an instrument to derive maximum public value from the activities for which money is allocated. Hence the budgetary systems management is a key component of public finance. This unit introduces the concept of budget in the context of government and orients the learners with its objectives, features, functions, and types.

* Contributed by Dr. Anupama Puri Mahajan, Former Post-Doctoral Research Fellow (Public Administration), Himachal Pradesh University, Shimla.

6.2 BUDGET: CONCEPT

Budget is a statement that contains a forecast of revenues and expenditure for a period that is generally one year. It is a comprehensive plan of action that provides direction for the achievement of policy objectives laid down by the government. A government budget is a document, which presents the government's proposed revenues and expenditure for a financial year that is ratified by the Parliament/legislature and approved by the President or the Chief Executive. The Finance Minister of the country usually presents the budget.

The word budget originated from an old French word, 'bougette' which meant 'leather bag' derived from the Latin word 'leather bag' or a 'knapsack' of Gaulish origin. Sir Robert Walpole initiated the practice of presentation of budget and fiscal policy for the first time in Great Britain.

In India, the term 'budget' has not been used in the Indian Constitution though the process is usually called budgeting. The term used is 'Annual Financial Statement'. It is one of the many documents of a budget, which are presented by the Finance Minister. The budget is usually presented every year in the last week of February.

A government budget is a statement of the expected expenditure of the government and the sources of financing these expenditures during a financial year.

A budget provides information about the:

- plans, programmes, projects, schemes, and activities pertaining to the current year and proposals for the ensuing year;
- sources of finance;
- receipts and expenditure for the previous year; and
- economic and accounting data relating to the performance of various agencies of the government.

6.3 GOVERNMENT BUDGET: OBJECTIVES

A government budget has been defined as a statement showing estimated receipts and expenditure of the government during a fiscal year beginning on April 1 and ending on March 31 of the subsequent year. It is the government that takes decisions about proposed activities at all levels and requires funds to execute them. The funds are allocated through the instrument of budget, which is passed by legislature, parliament, civic bodies, etc. A budget has the power to steer the economy in a direction provided by the government. It is the most significant economic policy tool to translate the government's policies into executive action in areas that it needs to function.

Given below are some of the objectives of government budgeting:

1. **Accountability:** A government budget empowers citizens to hold public institutions accountable to ensure effective and efficient utilisation of funds. Therefore, it generates confidence in people that the money is being used for the purposes they were appropriated for.
2. **Outcomes:** The purpose of budgeting through its processes also exhibits accountability of the concerned officials/managers with respect to the outcomes

accomplished that are pre-decided in the budget. It monitors the progress of schemes and projects to assess their success.

3. **Efficiency and Economy:** The budgeting process has its methods and ways to ensure that the revenues collected, and allocated resources are being or have been spent in an economical manner.
4. **Performance Evaluation:** The laws ensure that the government is accountable for its actions. Performance evaluation through budgeting ascertains that the funds spent have achieved the targets that had been fixed. Financial reporting helps in this to assess performance of the governments pertaining to its policies and administration.
5. **Reallocation of Resources:** Over the years, as a part of budgeting process, performance evaluation has been the basis for framing the next fiscal year's budget estimates. Thus, this exercise helps the government to reallocate resources to optimise social welfare.
6. **Redistribution of Income:** The government's budgeting and its policies help in steering funds in a direction. It works for redistribution of income to attain some level of balanced economic development of society. It can increase or decrease taxation levels for a specific group or on certain commodities.
7. **Economic Stability:** A government budget aims for maintaining sustainable economic status in the country by making use of its revenue and expenditure policy.
8. **Economic Growth:** Lastly, the government tries to give an impetus to the economic growth by allocating funds and especially by investing in the economic and social infrastructure.

6.4 GOVERNMENT BUDGET: FEATURES

Most of the government budgets have certain essential features that include:

1. **Comprehensiveness:** A budget is, strictly speaking, a financial plan which sets forth the complete monetary requirements of a government for a definite period in advance and in doing so, balances expenditure needs with the anticipated income. Comprehensiveness in a budget is based on the rule of unity, which states that there must be a single fund and all money collected must be put into the Consolidated Fund. This simplifies the government transactions with efficiency.
2. **Balanced:** An essential principle is to balance the revenue and expenditure. However, in the present-day democracies, the governments are getting digressed from the characteristic of a balanced budget to meet the needs of the people through deficit financing, public debt, and public borrowing.
3. **Budget Estimates are on Cash Basis:** The money which is included in the budget is that which is realised/ received or spent during that period.
4. **The Budget Cycle:** The budgeting procedures involve:
 - Preparation of estimates keeping in view the socio-economic needs of the people;

- Examining estimates with respect to the recorded expenditure data;
 - Evaluation of the government's income of the past year;
 - The preparation of the budget by the budgeting agencies;
 - The enactment of the bill by the legislative body; and
 - The execution of the budget as per the appropriated funds by the administrative bodies.
5. **Annuality:** Most budgets are annual financial plans which require voting at regular intervals. However, it is a continuous process in which one budget is being prepared while the other is being executed.
 6. **Rule of Lapse:** The budget being annual, it implies that any unspent balance at the end of the financial year, lapses and cannot be spent by the government. Fresh requisition and sanctions are needed.
 7. **Predetermined Objectives:** A budget cannot be prepared without having well-laid and defined objectives to be achieved.
 8. **Flexibility:** In many cases, projects face shortage of funds due to time or cost overruns, increase in the price of raw materials, etc. Since the budgets are an annual feature, there are provisions made to allocate more funds if required to implement the projects to achieve the defined targets.
 9. **Accuracy:** A budget is a precise annual financial statement that is based on accuracy of estimates and expenditure incurred in the past year. The budget as far as possible is to be accurate and precise. Hence, a budget fixes the goals and targets in advance so that estimates are prepared with accuracy which are finally approved by the legislative bodies. (Mahajan, Sajeew Kumar and Anupama Puri Mahajan, 2014, *Paraphrased*).

6.5 GOVERNMENT BUDGET: PRINCIPLES

A government budget is based on principles of sound budgeting and financial management from which its characteristics and functions are derived. They are given below:

1. **Comprehensiveness:** Comprehensiveness implies a holistic approach to determine issues, comprehending all the risks and assessing the weaknesses in the institutional framework to achieve the desired targets. It also includes the budgeting office to look for the ways to improve the budgeting procedures to align and determine the government policy. Comprehensiveness also means that a budget must include all the fiscal operations of the government while ensuring that policy decisions having financial implications are made against the background of hard budget constraints and in competition with other demands. Choosing the most appropriate policy instrument to achieve a particular policy objective implies balancing the current and capital expenditure decisions.
2. **Discipline:** It is imperative that discipline is adhered to along with economy in the budgeting process and that the budget should absorb only the resources necessary to implement government policies.

3. **Legitimacy:** A budget must be ratified by the legislature to agree to the policies that had been initially agreed upon. Legitimacy also means that as far as possible decisions made during the budget process should decide how to make the best use of inputs.
4. **Accountability, Transparency, and Information:** There are interlinkages between accountability and transparency. They require that decisions with the anticipated results and the costs, be accessible, clear, and communicated to the wider community. Transparency also requires that the decision-makers have all the relevant information to make decisions.
5. **Predictability:** A budget is formulated by an aggregation of estimates that are prepared by the departmental agencies. Predictability is important for efficient and effective implementation of policies and programmes. A stable macro and strategic policy and funding of existing policy requires a timely flow of funds to programmes and projects.

Principles laid down by the Organisation for Economic Cooperation and Development (OECD)

The OECD laid down recommendations on budgetary governance, the process of formulating the annual budget, overseeing its implementation, and ensuring its alignment with public goals, setting out ten principles. These provide concise overview of good practices across the full spectrum of budget activity. It aims to give practical guidance on designing, implementing, and improving budget systems to make positive impact on citizens' lives.

The ten principles are:

1. Manage budgets within clear, credible, and predictable limits determined by fiscal policy.
2. Align budgets with medium-term strategic priorities of the government.
3. Design the capital budgeting framework to meet national development needs with economy and coherence.
4. Facilitate accessibility of budget documents to all by placing them in public domain.
5. Promote citizen participation in budgetary debates.
6. Preparation and presentation of reliable and accurate account of the public funds to the legislative body.
7. Execution of the budget must be proactively planned, managed, and monitored.
8. Integration of the budget process with the components of performance, evaluation, and value for money.
9. Taking cognisance of fiscal risks by prudently identifying, assessing them, and managing long-term sustainability.
10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) Explain the concept of government budget.

.....

- 2) State the objectives of government budget.

.....

- 3) What are the principles of budgeting in government?

.....

- 4) Discuss the features of budget.

.....

6.6 TYPES OF BUDGET

The budget is not only a statement of income and expenditure but is also a plan of action that indicates the programmes, and various activities and their operationalisation. Over time its complexion is changing. The budget as envisaged traditionally is not just a financial document. It also focuses on performance and outcomes. There are different types of budget that we shall now discuss. We shall also examine the types of union budget in India. They are:

Planning Programming and Budgeting System (PPBS)

This integrates planning and programming with the budget. It defines the objectives and identifies and evaluates the alternatives and chooses amongst the alternatives. This budget attempts to assess the effectiveness of each programme and activity with the output. It integrates planning with budgeting through programmes. This was experimented in USA but could not be properly implemented in many countries including India.

Performance Budgeting

This emphasises on examining the purposes or objectives for which funds are provided. It correlates the financial, physical aspects of each programme and activity and establishes a relationship between corresponding inputs and outputs. It is a programme of action for any given year that clearly indicates the tasks to be achieved, means and costs of achieving them. The thrust of performance budgeting is to provide output-oriented budget information within a long-range perspective so that resources can be efficiently and effectively allocated. It categorises the functions and programmes of government in tune with its policy objectives and lays down

performance indicators for each programme or activity. This facilitates the assessment of costs and outputs of policies.

Zero – based Budgeting (ZBB)

This requires that organisations initially need to assess and justify their activities. Then those activities that are to be taken up are viewed afresh and accordingly the prioritisation of funds is done. In a way all budget requests are to start from base zero that is from scratch, and all the proposed activities for which money is asked are to be justified and programmes are to be ranked based on performance. The objective of ZBB is to re-evaluate all the activities every year when budget provisions are made. This helps in elimination or reduction or increasing or readjusting the funding of certain activities. It makes use of scientific methods of studying the cost-benefit aspects of projected expenditure that helps in appraising all new activities and programmes.

There are certain contemporary approaches to budgeting such as gender-based, outcome and green budgeting which shall be discussed in unit 7 of this course.

Now we shall discuss the types in which Union budget is presented in India.

REVENUE BUDGET

We shall first discuss the revenue budget. A revenue budget includes all current “receipts” such as taxation, surplus of public enterprises and expenditures of the government. The revenue receipts of the government include the revenue collected through taxes and other receipts including the items of expenditure incurred from such revenue.

Revenue Receipts: Revenue receipts comprise the income made by the government from all the sources without generating any liability or a decrease in assets. The revenue receipts have been classified into two categories – tax revenue and non-tax revenue.

- i. Tax Revenue:** Tax revenue is the income generated and received by the government through its taxes and duties. Taxes are of two types:
 - a. Direct Taxes:** Direct taxes are those, which an individual has to pay without shifting its burden to any other individual or entity, and its non-payment is a punishable offence. Some examples of direct taxes are income tax, property tax, corporation tax, estate duty, etc. No gain or benefit is accrued to the payer of the direct tax.
 - b. Indirect Tax:** Indirect taxes are those which are imposed on commodities and services, and they impact the individual’s income when he/she consumes it. Unlike direct taxes, the burden can be transferred to someone else. Examples of indirect taxes are custom duties, sales tax, service tax, GST etc.
- ii. Non-Tax Revenue:** There are revenue receipts from other non-tax sources also.

Sources of Non-Tax Revenue

Given below are the sources of non-tax revenue:

- a. Fees:** This includes the fees citizens pay for availing different services availed such as the registration of property, birth, death, etc.

Government Budgeting

- b. Penalties:** Rules/regulations violations have to be handled by penalties and fines.
 - c. Profits:** Profits accruing from public sector undertakings are considered as a source of non-tax revenue of the government.
 - d. Gifts and Grants:** Gifts and grants from various organisations within India and from abroad or international organisations like UNICEF, UNESCO, etc.
 - e. Special Assessment Duty:** This duty is levied by the government on citizens gaining because of some infrastructural development.
- iii. Revenue Receipts:** Revenue receipts include proceeds of taxes and other duties levied by the centre, interest and dividend on investments made by the government, fees and other receipts for services rendered by the government. These imply the government's cash inflow.

Revenue Expenditure

Revenue expenditure is that expenditure which is incurred for the day-to-day administration of government departments and for the provision of basic infrastructural services to the public. This also includes development and non-development expenditure of the union government. Thus, expenditure that does not culminate into assets are considered as revenue expenditure.

Some of the expenses incurred by the government that are included in the revenue expenditure are given below:

- Use of goods and services;
- Agricultural and industrial development, education, health, social services, and research on science;
- Defence and Civil Administration;
- Exports and External Affairs;
- Grants to state governments (which might be utilised for asset building);
- Loan interest payments that were made in the previous year; and
- Subsidies

CAPITAL BUDGET

The capital budget considers receipts and expenditure on capital account, as its part, to be proposed for the ensuing fiscal year.

Capital Receipts

Capital receipts are those receipts which generate a liability or a decrease in assets. Funds are raised through borrowings, loan recoveries and assets disposal.

Components of Capital Receipts

The main components of capital receipts are:

- i. Market Loans:** Market loans are raised by the government from the public by floating bonds and securities.
- ii. Borrowings:** The government resorts to borrowings from the Reserve Bank of India and other financial institutions by selling Treasury Bills.

- iii. **Foreign Loans:** The government facilitates loans and aid from foreign countries and international agencies like the International Monetary Fund, World Bank, etc.
- iv. **Schemes:** Funds are raised from small saving schemes like the National Savings Scheme, Provident Fund, etc.
- v. **Loan Recoveries:** Capital receipts include loan recoveries from the States, Union Territories, and others.

Capital Expenditure

An expenditure that is proposed to generate assets with a wide span is capital expenditure.

Therefore, the above-mentioned are the components of a budget and it is essential to understand these before we discuss the budgeting process in subsequent units.

6.7 GOVERNMENT BUDGET: FUNCTIONS

A budget functions as a statement of the policies of the government to align the goals and their implementation. Budget is a policy statement. It lays down the government's policy which is translated into projects, plans and activities priorities of the government. Many governments publish a document called, 'Budget Policy Statement'. The items that are placed in the Annual Financial Statement indicate the goals the government intends to pursue. A government budget acts as a helpful tool to determine the fiscal policy by formulating plans.

Given below are the functions of a government budget:

1. **Planning:** The budget is a planning tool. It helps the public administrators in planning government operations. Budget provides a plan of expenditure for the ensuing year by indicating the projects and programmes to be undertaken.
2. **Accountability:** Budget acts as a tool of accountability. It ensures legislative control over the executive for spending the money approved heads and purposes.
3. **Responsibility and Control:** A budget ensures responsibility and popular control through the application of the budgetary procedure. It lays down plans and the means to implement them with efficiency and effectiveness. In India, legislative control is exercised by various financial committees of Parliament.
4. **Predictions:** A budget helps in making predictions based on the past year's incurred expenditure. Forecasting considers actions and targets of all stakeholders to achieve socio-economic growth.
5. **Communication:** A budget acts as a communication tool by disseminating information on implementation and outcomes of various activities, plans and programmes. A budget is a powerful aid to citizens and taxpayers as they are made aware of the amount of money that has been sanctioned for specific purposes. It is a valuable source of public information which the media and civil society organisations use to keep a watchful eye over the government.
6. **Reduction of Inequalities:** A budget aims to reduce the inequalities between income and wealth. Inclusive development can be achieved only through its

budgetary policy that provides for various forms of taxation and redistributing the revenue into social welfare programmes.

Thus, the above-mentioned functions of a budget lead to reduction in the regional disparities and a rise in economic growth.

Check Your Progress Exercise 2

Note: (i) Use the space given below for your answers.

(ii) Check your answers with those given at the end of the unit.

1) Explain the types of budget.

.....
.....
.....

2) What are the functions of government budget?

.....
.....
.....

6.8 CONCLUSION

A government budget has evolved over years to become an annual financial statement that has the characteristics to realise the policies into action through projects and plans. A country's socio-economic progress can be achieved by the mechanism of budgeting. Many scholars and international agencies have done research studies to improve the budgeting procedures around the globe. They have framed guidelines and principles to be followed by governments in preparing, enacting, and executing the budget.

6.9 GLOSSARY

Consolidated Fund of India: This is constituted under Article 266 (1) of the Indian Constitution includes revenues, which are received by the government through taxes and expenses incurred in the form of borrowings and loans.

Goods and Services Tax (GST): It is an indirect tax (or consumption tax) used in India on the supply of goods and services. It is a multi-stage, destination-oriented tax imposed on every value addition. It is comprehensive in nature and applied on sale of goods and services.

6.10 REFERENCES

Aronson, J. R. (1985). *Public Finance*. USA: McGraw Hill Inc.

Buck, A. E. (1929). *A Discussion of Budgeting Practice in the national State and Local Governments of the United States*, Harper and Brothers Publishers, New York and London.

Chand, S. N. (2008). *Public Finance* (Vol. II). New Delhi, India: Atlantic Publishers and Distributors (P) LTD.

Chauhan. M.S. (2011). *Public Finance – Issues and Problems*. New Delhi, India: Global Publications.

Goel, S. L. (2008), *Public Financial Administration*. New Delhi, India: Deep and Deep Publications.

Mahajan, S.K. & Mahajan, A.P. (2014). *Financial Administration in India*. Delhi, India: PHI Learning Private Limited.

Shaw, A. (Ed.). (2007). *Budgeting and Budgeting Institutions*. The World Bank. Retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/6667/399960PAPER0Bu10082136939C301PUBLIC1.pdf?sequence=1>

6.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) Your answer should include the following points:

- A government budget is a government document, which presents the government's proposed revenues and expenditure for a financial year that is ratified by the legislature and approved by the President or the Chief Executive.
- In India, the term 'budget' has not been used in the Indian Constitution though the process is usually called budgeting. The Indian term used is 'Annual Financial Statement'. It is one of the many documents of a budget, which are presented by the finance minister.
- It provides information about the plans, programmes, projects, schemes activities pertaining to the current year and proposals for the ensuing year, sources of finance, receipts and expenditure for the previous year and economic and accounting data relating to performance of different government agencies.

2) Your answer should include the following points:

- Accountability
- Outcomes
- Efficiency and economy
- Performance evaluation
- Reallocation of resources
- Redistribution of income
- Economic stability
- Economic growth

3) Your answer should include the following points:

- Comprehensiveness

Government Budgeting

- Discipline
- Legitimacy
- Accountability, transparency, and information
- Predictability
- Contestability

4) Your answer should include the following points:

- Comprehensive financial plan
- Balances the revenue and capital expenditure
- Budgetary procedure
- Annuality
- Predetermined objectives
- Flexibility
- Accuracy

Check Your Progress Exercise 2

1) Your answer should include the following points:

- Planning Programming Budgeting System
- Performance Budgeting
- Zero – based Budgeting
- Revenue and Capital Budgets

2) Your answer should include the following points:

- Planning
- Accountability
- Responsibility and control
- Forecast
- Communication
- Reduction of Inequalities

UNIT 7 CONTEMPORARY APPROACHES TO BUDGETING (GREEN BUDGETING AND GENDER BUDGETING)*

Structure

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Green Budget: Concept and Importance
- 7.3 Paris Collaborative on Green Budgeting
- 7.4 Green Budgeting Initiatives in India
- 7.5 Gender Budget: Concept and Importance
- 7.6 Gender Budgeting Initiatives in India
- 7.7 Towards Effective Gender Budgeting
- 7.8 Conclusion
- 7.9 Glossary
- 7.10 References
- 7.11 Answers to Check Your Progress Exercises

7.0 OBJECTIVES

After going through this unit, you should be able to:

- Explain the concept and importance of green budget;
- Discuss the Paris Collaborative on green budgeting;
- Describe India's initiatives on green budgeting;
- Explain the concept and importance of gender budgeting; and
- Examine the measures towards effective gender budgeting .

7.1 INTRODUCTION

In the preceding Unit, we have discussed types of budgets such as performance budgeting, zero based budgeting, etc. Some contemporary approaches towards budgeting are also gaining prominence. Presently we are witnessing various environmental issues of climate change and global warming and the associated side effects posing serious threat to human, animal lives, biodiversity and so on. This is necessitating efforts on various fronts to tackle the problem. One of the ways is to integrate ecological dimensions into budgetary frameworks that facilitate allocation of revenues towards sustainable measures to preserve nature. This approach is

* Contributed by Dr. Anupama Puri Mahajan, Former Post-Doctoral Research Fellow (Public Administration), Himachal Pradesh University, Shimla.

adoption of green budget. Budget as a tool of economic and social policy needs to have a gender perspective in addressing the needs of all in society. Green and Gender based budgets are new forms of budgeting. This unit orients the learners with the concept, importance, and various dimensions of green and gender budgets.

7.2 GREEN BUDGET: CONCEPT AND IMPORTANCE

Budgeting is one the most powerful tools with the governments to implement national policies on environment. Governments need to become more accountable for their environmental commitments and support these in moving towards sustainable and resilient societies. One of the ways is to incorporate environmental dimensions into fiscal frameworks including the annual budget document, evaluation of tax and expenditure policies.

Green budget implies the allocation of certain amount of public expenditure towards environmental sustainability initiatives in the budget document. It aims at reduction of expenditure in unsustainable sectors.

Green budgeting helps governments in achieving environmental goals by:

- Evaluating environmental impacts of budgetary and fiscal policies;
- Assessing their coherence towards the delivery of national and international commitments; and
- Contributing to informed, evidence-based debates and discussions on sustainable growth.

Green budget means adding ‘green’ component to the budget. It is a budget which is socially just and ecologically sustainable. It focuses on environmental considerations in the budgetary allocations, shifting subsidies, allocating more funds for reduction of carbon emissions, clean and renewable energy systems, and so on. Green budget can meet the environmental challenges of climate change, develop clean energy resources, and sustain nation’s lands, water, and other natural resources. Green budgeting encompasses a variety of practices that aim at identifying and assessing elements of a public budget that affect the country’s environmental policy.

Green budgeting implies a process in which all the dimensions of sustainable development (ecological balance, social progress, and economic growth), are completely integrated in one single policy that is budget document. It has to comprehensively and consistently analyse government revenue and expenditure to ensure sustainable development.

With the growing global concern for sustainable environment from the world fraternity, several countries have begun the process of green budgeting. It is one area where governments through some measures can influence the interaction between humans and environment by discouraging environmental damage. The government’s environmental conservation organisations and the civil society organisations working on ecological issues can come together to chalk out the programmes for green budget.

Green budget is important in today’s world to preserve our natural resources and to protect it for our future generations. It doesn’t not imply that we have to study only

the funds allocated to environmentally important areas in the budget of our economy by government but also an integrated effort to ascertain that no wasteful or undesired use of natural resources is being done. Development and environment need to be balanced instead of being pitted against each other. It is not necessary that we can have only one or the other. Studies show the adverse effects of climate change creating havoc on many fronts in several countries. These need to be managed before we reach a situation where damage control would also become impossible.

Green budgeting is relatively a new concept in India and even though it was included in the union budget 2018-2019, there are still miles to go. India is one of the most vulnerable nations as far as climate change issues are concerned like floods, drought, landslides, sea-level rise, etc. It has far reaching effects on farming, food security, deforestation, water resources, marine biodiversity, and livelihoods. This results in a slow-down in the economic growth of a country. Green budgeting can be considered as an instrument which integrates all environmental policies to cater to the above mentioned problems.

7.3 PARIS COLLABORATIVE ON GREEN BUDGETING

The Paris Collaborative was convened by the OECD (Organisation for Economic Cooperation and Development), working in close partnership with governments and experts to co-design practical and pragmatic approaches. It is a cross country and inter sectoral initiative on green budgeting. It was launched at One Planet Summit on 12 December 2017 in Paris. Its focus areas include:

- Identification of priorities in research and gaps;
- Sharing of data, expertise, and information to promote policy based applicable research and implementation.
- Helping in aligning national and international policy design;
- Preparing a framework for coherent research ;
- Exchanging research results so that awareness can be raised to increase accountability of environmental policy imperatives; and
- Developing cross-national indicators of progress against various international environmental goals.

Objective of the Paris Collaborative

The Paris Collaborative aims to design new, innovative tools to assess and bring improvements to orient the national expenditure and revenue processes with climate and other environmental goals. France and Mexico have joined the Collaborative. It is a step forward in achieving a central objective of the Paris Agreement on Climate Change as well as Aichi Biodiversity targets and the United Nations' Sustainable Development Goals.

Green Budgeting Framework

A green budget aims at progressively integrating environmental costs and benefits into medium and longer-term fiscal planning and financial reporting. The approach to this should be on the existing public financial framework of the country. It is

envisaged to have the following:

1. Strong strategic framework that spells out priorities and strategies.
2. Green budgeting tools that help gather evidence on how budget measures impact environment. This gives a green perspective to spending and performance measures.
3. Reporting system that facilitates dissemination of the impact of green budgeting to all the stakeholders.
4. An enabling budgetary framework that provides a strong facilitating environment for green budgeting. This includes establishing links between strategic planning and budgeting, having focus on outcomes and close engagement with civil society.

The Collaborative members have initiated the green budgeting methodologies since 2018 in their national budget processes.

7.4 GREEN BUDGETING INITIATIVES IN INDIA

The integration of green budget into the fiscal budget is a step towards maintaining ecological balance and integrating it into every aspect of the economy and ensuring that there is no wasteful use of natural resources. Development vs. environment is often treated as a binary choice. Environment and climate experts say that it is high time for the budget to reflect a sustainable path to progress because preservation of our natural wealth is the only way to ensure robust economic growth in the years to come. The green initiatives include rainwater harvesting, creation of infrastructure for solid waste disposal and wastewater treatment plants, and management of household waste etc.

India since 2016, initiated green initiatives in its union budget. The government allocated Rs. 150 crores for National Afforestation Programme to discourage the practice of creating “dirty coal” by augmenting clean energy cess to Rs. 200 from Rs. 100 per tonne of coal to fund the clean environment initiatives. There was an increase in focus on organic farming with an approved budgetary fund of around 400 crore. Sustainable groundwater management programme was initiated under the Paris climate summit commitment.

The Government of India in its short-term budget presented in 2020 has refabricated its short-term objectives to medium-term objectives within the framework of Agenda 2030 as enunciated through sustainable development goals (SDGs). The budget has specifically included SDG goals related to oceans and coasts, to river and water bodies, renewable energy etc.

India has been following the Paris Collaborative strategy as a commitment to Paris Agreement. The strategy includes reallocating investments towards the green economy. Green economy leads to a marked decrease in the risks of adverse effects of climate change, water scarcity and energy depletion. There have been some robust efforts to implement green budgeting. One such is Green India Mission under National Action Plan for Climate Change (NAPCC) that aims to protect, restore, and enhance India’s diminishing forest cover. It encompasses several activities such as revival of grasslands, wetlands, increasing forest cover etc.

The union budget of 2021 laid major emphasis on clean energy through several measures such as increasing capital to Solar Energy Corporation of India (SECI), and Indian Renewable Energy Development Agency (IREDA). Also, proposals were announced to launch a comprehensive Natural Hydrogen Energy Mission for generating hydrogen from green power resources. The development of green hydrogen as an energy source has been emphasised. Other measures such as wastewater treatment, segregation of garbage at source, reduction of single-use plastic, etc., have been proposed.

Several states initiated green budget initiatives. Delhi's 2018-2019 budget presented a 26-point plan as a Green Plan as a part of its budget. In a report of the finance minister, taking stock of the progress of its 26 programmes, it declared that 21 of the green programmes were on track. The project to increase greenery was "in full swing" and tree plantation was well under way. Its plan for installing solar panels on the roof of 500 government schools was about to complete.

Karnataka developed its State Action Plan on Climate Change (KSAPCC) in 2015 as part of its green budget to encourage environmental sustainability among government departments. The state-run Environment Management Policy and Research Institute (EMPRI) submitted a report in 2019-2020 which focused on increasing government expenditure on the implementation of green projects in the green budget. Each sector has been given a different standard for green expenditures, for example, planting of 200 trees per km of roads built and use of plastic waste in road construction. The EMPRI has also suggested that the Urban Development Department, which has a higher proportion of green components due to its expenditure on sanitation, drinking water and public transportation systems, implement rainwater harvesting in towns apart from Bengaluru, adopt desalination of saline water, and take measures for reduction of unaccounted flow of water in drinking water systems. Recently in February 2021, the government of Karnataka announced that green budget shall be taken up to make up for the ecological losses in the state.

The state of Punjab has also initiated efforts in introduction of green budgeting to focus on environmental concerns, preservation of forest cover, wildlife etc. If such policy measures can be included in the budgets of all States, aligning with the union budget, and taking local initiatives, then green budgeting can help the nation to grow economically in a clean and green way.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

1) Explain the concept of green budgeting in India.

.....
.....
.....

2) Elaborate on the Paris Collaborative on green budgeting and its objectives.

.....
.....
.....

7.5 GENDER BUDGET: CONCEPT AND IMPORTANCE

A budget is the most comprehensive statement of a government's social and economic plans and priorities. It is a tool of economic and political aspirations and policies of the government. Implementing commitments towards gender equality requires measures to incorporate a gender perspective in planning and budgeting frameworks and concrete investment in addressing gender gaps. Gender Responsive Budgeting is not about creating separate budgets for women or increasing public expenditure on women's programmes. Gender budgeting seeks to ascertain that the collection and appropriation of public funds are effectively done to promote gender equality and women's rights. It seeks to evaluate specific needs for different gender and make budgetary adjustments within the available resources with the government. It is preparing budgets or analysing them from a gender perspective.

Gender Budget has been defined by the International Monetary Fund as an approach to budgeting that uses fiscal policy and administration to promote gender equality and development. The fiscal authorities at any level of government can assess the needs of men and women, identify the key outcomes or goals, plan, allocate and distribute funds; and monitor and evaluate achievements. A gender responsive budget attempts to work for everyone by ensuring gender-equitable distribution of resources and providing equal opportunities to all.

A gender analysis of government budgets offers a new tool for ensuring a better match between the government's policy commitments and development outcomes for women, recognising the underlying gender inequalities and redressing them through allocation of public resources. At the face of it, budget is gender-neutral and the public expenditure and revenue are not intrinsically gendered. However, gender-neutrality should not allow the budgetary policies to ignore gender specific needs. Budgetary policies can have different impacts on different genders. A gender-sensitive budget aims at examining budgetary resource allocations through a gender lens. It is not a separate budget for women but is a dissection of the government budget to establish its gender-specific impact and to translate gender commitments into budgetary commitments.

Gender budget's importance arises from its approach that recognises the differentiated impact of budget on all equally and utilises policy guidelines and tools to prepare a gender sensitive budget with a focus on reducing gender inequalities.

Debbie Budlender (2006) prescribed a five-step framework for gender budgeting. It comprises:

- 1) Analysis of situation for women, men, girls and boys;
- 2) An assessment of the extent to which the sector's policy addresses the gender issues and gaps described in the first step;
- 3) An assessment of the adequacy of budget allocations to implement the gender-sensitive policies and programmes / that are identified;
- 4) Monitoring whether the money was spent as planned, what was delivered to and to whom; and

- 5) An assessment of the impact of the policy/programme/scheme and the extent to which the situation described in step 1 has changed.

7.6 GENDER BUDGETING INITIATIVES IN INDIA

At global level also countries have adopted gender budget. Australia was the first country to launch its pilot women's budget programme in Parliament in 1984. The Philippines model continues to be one of the most institutionalised initiatives in the world. Similar such efforts have been made in several countries.

In India, gender budgeting was formally adopted in 2005. In March 2007 a Charter for Gender Budgeting Cells (GBCs) was issued by the Department of Expenditure, Ministry of Finance, outlining the composition of GBCs and their functions. In 2010, the Planning Commission clarified that "Women Component Plan" should no longer be used as a strategy either at the centre or at the state level and gender responsive budgeting or gender budgeting must be adopted. In 2012, the erstwhile Planning Commission urged the State Finance Departments to set up GBCs and include the need for gender budgeting as a part of their annual plan.

The gender budget has two parts. Part A includes schemes with 100 per cent allocation for schemes such as widow pension schemes, girls hostel scheme and so on. Part B has schemes for which 30 per cent of funds are allotted such as mid-day meals scheme, rural livelihoods mission, bio-gas programme etc. The priority programmes in this budget were the schemes on nutrition, anganwadis and women employment.

In 2013, the Ministry of Women and child Development issued guidelines to States to provide a roadmap towards institutionalising gender budgeting at state level. Over the last 16 years since the adoption of gender budgeting, there has been a six-fold increase in gender budget from 24,241 crore to 1,43,462 crore in 2020-21. Since its inception, allocations in part B accounted for two thirds of the total gender budget. Gender budgeting must incorporate a careful benefit-incidence analysis. The focus must be on what benefits have come out of the actual outlays.

The Ministry of Women and Child Development, Government of India in 2007, formulated the Handbook/Manual for trainers of Government of India Ministries and Departments to ensure consistent and uniform understanding of concepts and application of gender budgeting across government ministries and departments. It proposes the use of a participatory approach in training and mentoring in this area through workshops etc.

7.7 TOWARDS EFFECTIVE GENDER BUDGETING

Gender budget aims at allocation of resources in an inclusive manner and having gender-specific impacts. It can be made effective through:

- Assessing outcomes of budgetary allocations and determining inputs.
- Capacity building.

- Accountability mechanisms.
- Clear – cut frameworks of new approaches to budgeting.

In India, the Finance Commission (FC) has the highly important task of working out devolution formulas for vertical and horizontal transfers of the divisible pool of financial government resources according to Article 280 of the Constitution. Gender principles are not a criterion for such transfers but there are three areas where gender can be one. They are:

- i. Vertical Segregation:** The vertical transfers can be based on gender equality by earmarking minimum resources from the divisible pool although it may not represent the principle of gender budgeting. In any case, it will promote gender responsiveness among budgetary allocations.
- ii. Horizontal Perspective:** The FC can include indicators of gender inequality to motivate states for better performance. It can do so on similar grounds as the Fourteenth FC did with making climate change as criteria. Gender criteria can be included as low female labour force participation in India has ill-effects on economic growth.
- iii. Specific Purpose Transfers:** It can make special purpose transfers also to encourage gender equality across the States.

The WEF has also laid down six specific ways of achieving gender budgeting:

- 1) Legal requirements:** Gender budgeting must be provided legal status to ensure its continuity.
- 2) Finance Ministry's leadership:** This is needed to ensure sustainability of gender budgeting.
- 3) Key players:** The key players are to be civil society, other ministries, Parliament, and the academia to get main resolutions passed.
- 4) Alignment of goals:** The national gender equity plans must be aligned with sustainable development goals.
- 5) Taxes:** Revenue policy must be gender neutral.
- 6) Participation by all levels of government:** There must be participation of all levels of government by involving citizens to discuss spending priorities and hold governments accountable.

Gender budgeting being a contemporary approach to budgeting is to be given an impetus for implementation. Political will and leadership, bureaucratic commitment, capacity building, collaboration is some of the key factors required for ensuring its effectiveness.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) Explain the concept of gender budgeting.

.....

- 2) What measures can be taken for effective implementation of gender budget?

7.8 CONCLUSION

The world is amid a disturbing period of increasing consumption, population, and environmental degradation. From global warming to biodiversity loss to patterns of sprawling land consumption, the environmental trends are increasingly alarming. Green budgeting is a new concept of budgeting that helps steer the economy towards a sustainable path. Green budgeting is the answer to the problems of environmental degradation so that economies start working towards its preservation. Investment in natural resources, clean and renewable energy, organic farming, reduction in carbon emissions, etc., are steps towards a green economy through green budgeting.

In India, the union government and state governments have directly or indirectly included gender responsive budgeting in their budgeting exercise. They are making efforts to allocate budgetary funds for women-oriented developmental programmes to bridge the gender gap. However, the ranking of India regarding gender budgeting has been very low since 2017. Fiscal devolution is one of the main steps that the government can take so that funds go directly for the purpose at the local levels of government. The practice of gender budgeting is still in its infancy and has a long way to go.

7.9 GLOSSARY

Aichi Biodiversity Targets: These were adopted on 29 October, 2010, in Nagoya the capital of Aichi (the prefecture) of Japan. These are a set of global targets under Strategic Plan for Biodiversity 2011-2020. It is a 2010 supplementary agreement to the 1992 Convention on Biological Diversity.

Benefit Incidence Analysis: It is a technique that assesses the impact of government spending or subsidies on various activities on different socio-economic groups.

Climate Change: It is the long-term alteration of temperature and typical weather patterns in a place caused largely due to human activity such as burning fossil fuels like coal, carbon, natural gas.

Global Warming: It is a gradual increase in the overall temperature of the earth's atmosphere generally attributed by increased levels of carbon dioxide and other pollutants.

Green Hydrogen: It is hydrogen fuel that is created by using renewable energy instead of fossil fuels.

Rain Water Harvesting: It is the collection and storage of rain that runs off from roof tops, parks, roads, open ground, etc. This water runoff can be either stored or recharged into ground water.

7.10 REFERENCES

Budlender, D. (2006). *Engendering Budgets: A Practitioner's Guide to Understanding and Implementing Gender - Responsive Budgets*. Retrieved from https://read.oecd-ilibrary.org/commonwealth/social-issues-migration-health/engendering-budgets_9781848597990-en#page5

CBGA. (n.d.). Gender Responsive Budgeting. Retrieved from <https://www.cbgaindia.org/research/gender-responsive-budgeting/>

Dhameja, A. & Mishra, S. (Eds.). (2016). *Public Administration, Approaches and Applications*. New Delhi, India: Pearson India Education Services Pvt. Ltd.

Ministry of Women & Child Development. (n.d.). Budgeting for Gender Equity. Retrieved from <https://wcd.nic.in/gender-budgeting>

National Institute of Public Finance and Policy. (2014). Gender Budgeting in India. Retrieved from https://www.nipfp.org.in/media/medialibrary/2014/11/GENDER_BUDGETING_IN_INDIA_1.pdf

Paris Collaborative on Green Budgeting. Retrieved from <https://www.oecd.org/environment/green-budgeting/>

Rao, M.M. (2019). Departments need to spend more to meet green targets. *The Hindu*. Retrieved from <https://www.thehindu.com/news/national/karnataka/departments-need-to-spend-more-to-meet-green-targets/article27008307.ece>

The Energy and Resource Institute & The Global Green Growth Institute. (2015). *Green Growth and Sustainable Development in India – Towards the 2030 Development Agenda, Summary for Policy makers*. Retrieved from https://www.teriin.org/projects/green/pdf/National_SPM.pdf

The Hindu. (2018). Most Green Budget projects on track. Retrieved from <https://www.thehindu.com/news/cities/Delhi/most-green-budget-projects-on-track/article24455722.ece>

UNFCCC. (2016). India and the US Commit to Swiftly Implement Paris Agreement. Retrieved from <https://unfccc.int/news/india-and-the-us-commit-to-swiftly-implement-paris-agreement>

Union Budget. Retrieved from <https://www.indiabudget.gov.in/>

World Economic Forum. (2018). The Global Gender Gap Report, 2018. Retrieved from https://www3.weforum.org/docs/WEF_GGGR_2018.pdf

World Economic Forum. (2019). How governments can use gender budgeting to improve equality. Retrieved from <https://www.weforum.org/agenda/2019/03/do-the-math-include-women-in-government-budgets>

7.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) Your answer should include the following points:

- Green budget implies the allocation of some part of public expenditure towards

environmental sustainability initiatives in the budget.

- Green budgeting can be considered as an instrument which integrates all environmental policies to cater to the ecological problems.
- Green budget focuses on environmental considerations in the budgetary allocations, shifting subsidies, allocating funds for clean and renewable energy systems etc.
- It is a process in which all the dimensions of sustainable development (ecological balance, social progress and economic growth) are integrated in one policy.

2) Your answer should include the following points:

The Paris Collaborative aims at:

- Identification of priorities in research and if there any gaps;
- Sharing of data, expertise, and information to promote policy based applicable research and implementation;
- Helping in aligning national and international policy design;
- Preparing a framework for coherent research instead of contrasting research outputs;
- Exchanging research results so that awareness can be raised to increase accountability of environmental policy imperatives; and
- Developing cross-national indicators of progress against various international environmental goals.
- The objective of Paris Collaborative is to design new, innovative tools to assess and bring improvements to orient national expenditure and revenue processes with climate and other environmental goals by aligning the national budgeting frameworks.

Check Your Progress Exercise 2

1) Your answer should include the following points:

- Gender budgeting means that the budget seeks to ascertain that the collection and appropriation of public funds is effectively done to promote gender equality and women's rights to empower women. It seeks to evaluate different needs for different genders and make budgetary adjustments with the available resources with the government.
- Gender budgeting has been defined by the International Monetary Fund as an approach to budgeting that uses fiscal policy and administration to promote gender equality and girls' and women development. The fiscal authorities at any level of government can assess the needs of all in the society, identify the key outcomes or goals, plans, allocate and distribute funds; and monitor and evaluate achievements.

2) Your answer should include the following points:

Measures for effective implementation of gender budgeting:

Government Budgeting

- Legal requirements;
- Finance Ministry's leadership;
- Key players;
- Alignment of goals;
- Taxes; and
- Participation of all levels of government.



UNIT 8 GOVERNMENT BUDGETING IN INDIA: PREPARATION, ENACTMENT AND EXECUTION (ROLE OF MINISTRY OF FINANCE)*

Structure

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Budget Formulation
- 8.3 Budget Enactment
- 8.4 Budget Execution
- 8.5 Role of Ministry of Finance
- 8.6 Conclusion
- 8.7 Glossary
- 8.8 References
- 8.9 Answers to Check Your Progress Exercises

8.0 OBJECTIVES

After going through this unit, you should be able to:

- Explain the steps in budgetary cycle;
- Describe the phases in budget formulation;
- Discuss the process of budget enactment; and
- Explain the procedure of budget execution.

8.1 INTRODUCTION

The budget formulation, enactment and execution are important phases of budgetary cycle. The executive is responsible for budget preparation, while the enactment is a legislative procedure. The Constitution of India vests powers with the parliament/legislature to ensure budgetary control, so that no public resources are spent without parliament/legislature's approval. Budget execution involves the utilisation of allocated funds to implement government's policies. In the entire process the ministry of Finance has a key role. This Unit attempts to orient the learners with the various steps involved in budget formulation, execution, and enactment.

* Contributed by Dr. Anupama Puri Mahajan, Former Post-Doctoral Research Fellow (Public Administration), Himachal Pradesh University, Shimla.

8.2 BUDGET FORMULATION

In India, the financial year commences on the 1st April and ends on 31st March. Usually, the union budget is presented to the parliament on the last day of February. The budget formulation process is similar in the state governments. The budget division of the Ministry of Finance has the primary function to prepare and submit the budget to the legislature for approval along with the supplementary and excess demands of states and union territories.

Generally, there are three stages in budgetary cycle:

1. Preparation of the budget
2. Budget Presentation and Enactment
3. Budget Execution

These three stages shall now be discussed.

i) Budget Preparation

The budget preparation procedure is given below:

In almost all countries, estimates are an integral point in the budgetary preparation procedure. To understand this, it is imperative that we understand first, the three types of budget making authorities.

- a. **Legislature:** A committee of legislature is requested by the executive to prepare the legislative type of budget. Even though the legislature prepares as well as approves the budget, the executive has more competence to prepare it.
- b. **Executive:** Most of the parliamentary democracies follow the executive type of budget as after the legislative approval, it is the executive which is responsible for its implementation.
- c. **The Board or Commission:** This system of budget making is mostly prevalent in the USA where the Board or a Commission prepares and executes the budget.

Preparation and Consolidation of the Estimates by the Heads of Ministries/ Departments

In India, every September/October, about six months prior to the fiscal year's commencement, the administrative agencies initiate the process of preparation of budget estimates. It is as given below:

1. **Dispatch of Circulars:** The finance ministry sends circulars and forms to the drawing and disbursing officers of various ministries/departments to initiate the process of formulating the estimates of the projected expenditure for the ensuing fiscal year.

Requisites of the Estimate Forms

The estimate forms essentially include the following requisites:

- a. The actuals of the previous year.
- b. The sanctioned budget estimates for the current year.

- c. Revised estimates of the current year.
- d. Proposed budget estimates for the ensuing year (with an explanatory note for the increase or decrease).
- e. Actuals of the current year (available at the time of estimates preparation)
- f. Actuals for the corresponding period of the previous year.

2. Consolidation and Scrutiny

The heads of the departments and ministries and departmental controlling officers scrutinise and consolidate the received estimates from the drawing and disbursing officers. The administrative ministry corroborates these estimates with the policy laid down by the department to achieve pre-set goals. Outdated schemes can be scrapped, and funds reallocated to more useful ones. While scrutinising and consolidating such budget estimates, following three points need to be considered:

- i. **New Continuing Schemes:** This involves an evaluation of new continuing schemes which need to be completed prior to funds allocation.
- ii. **Lumpsum:** Allocation of lumpsum amount for a scheme is not advised.
- iii. **The Period for the Funds:** Only the fiscal year in consideration is considered while making provision for the funds and not the entire amount needed for a certain period for the scheme.
- iv. **New Schemes:** Before the allocation of funds for new schemes, a proper assessment of the schemes must be done with approval.

3. Factual Verification by the Comptroller and the Auditor General of India

All estimates are submitted to the Comptroller and the Auditor General of India (CAG) by departments to check them for their factual accuracy. The CAG being the repository of such facts makes its comments on the budget estimates.

4. Consolidation by the Finance Ministry: The next step of consolidation and scrutiny of budget estimates is done by the Finance Ministry's budget division from the financial perspective. It sees to it that no duplication takes place and estimates are made keeping in mind economy to utilise judiciously its limited funds. New expenditure is scrutinised strictly to ascertain its worthiness in keeping with the national plans. It consults the NITI Aayog (earlier Planning Commission) in this regard.

New Schemes: The Departments/Ministries submit new schemes to the finance ministry through budget estimates and considers its decisions as final. In case of a dispute, it is referred to the union cabinet, in which case its decision would be considered final.

5. Approval by the Cabinet

The consolidated budget is submitted to the cabinet by the Finance Ministry before presenting it to the Parliament. It is done in three parts:

- i. **Standing Charges:** These include the pay, allowances, and honoraria of permanent establishments and office contingency which are sent to the Budget Division directly by the administrative ministry for their scrutiny.

- ii. **Continuing Schemes:** Such schemes are primarily examined by the Department of Expenditure itself with respect to their level of progress to estimate its progress and outputs to be accomplished in the ensuing year.
- iii. **New Schemes:** The new schemes are put under the scanner for every little detail to assess their utility and effect by the financial advisers of the respective departments.
 - a. The Finance minister and the NITI Aayog (erstwhile Planning Commission) make a detailed examination of the schemes to evaluate the estimates of expenditure.

The Finance ministry consults the Central Board of Direct Taxes to prepare estimates of revenue. While preparing receipt estimates, the following points are given due importance:

- i. **Actual Realisation:** The actual realisation expected of receipts and payments must be included in the receipt estimates.
- ii. **Data:** Relevant data must back the estimation of receipts.
- iii. **Analysis:** All accruing taxes that currently exist along with duties, fees, etc. must be analysed.

The finance minister prepares the final Finance Bill to be presented in the Parliament and it is considered a confidential document.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) Discuss the steps involved in budget preparation.

.....
.....
.....

- 2) Describe the procedure involved after the preparation of budget estimates.

.....
.....
.....

8.3 BUDGET ENACTMENT

This is the second stage of the budgeting process. It includes the discussion of the budget in the legislature and passing of the finance bill which becomes an Act. This stage commences with formal legal discussions as per parliamentary rules which shall be discussed in detail in this section.

As we know since the legislature holds the purse strings, the budget estimates have to be authorised by the Parliament. On the other hand, the rates of taxation cannot be increased by the Parliament but can surely be reduced. The President's/Governor's approval is essential to introduce the expenditure estimates in the legislature. Generally, the railway budget is presented a few days before the general budget,

though the railway Budget forms a part of the general budget, and its figures are included in it.

Budget Enactment Procedure

The steps involved in the budget enactment are described below:

Presentation to the Legislature

The budget speech of the finance minister comprises two parts:

1. **Part A:** The finance minister presents the financial statements of the previous and current year's and the ensuing year's estimates.
2. **Part B:** In the Part B of the budget speech, the Finance minister presents the detailed accounts of tax proposals and other measures to increase revenue levels for the projected expenditure estimates in the ensuing year.

Steps in Budget Enactment

There are six stages or steps through which the budget goes through in the legislature/parliament, which are discussed below:

1. Presentation of the Budget
2. General Discussion
3. Scrutiny by Departmental Committees
4. Voting of Demands for Grants
5. Passing of the Appropriation Bill
6. Passing of the Finance Bill

These steps are discussed in brief below:

1. Presentation of the Budget: In India the practice has been that the budget used to be presented in two parts namely, railway budget and general budget. The railway minister would present the railway budget prior to the general budget presentation, presented by the finance minister on the last working day of February. However, since 2016, the two parts of the budget have been merged into one and is presented together.

The budget speech in the Lok Sabha precedes the laying of the budget in the Rajya Sabha which discusses it, as it does not have the power to vote on the demand for grants. The other documents presented along with the budget are:

- An Explanatory Memorandum on the Budget
- An Appropriation Bill
- A Finance Bill comprising tax proposals
- Annual Reports of Ministries
- Economic Classification of the budget

The Economic Survey is presented to the Lok Sabha a few days prior to the presentation of the budget in respect of the grant proposed for each ministry. The

condition is that the finance minister may include in one demand, grants proposed for two or more ministries or departments or make a demand in respect of expenditure which cannot readily be put under ministries.

2. General Discussion-Statement of Demand for Grants

Secondly, each demand shall contain, first, a statement of the total grant proposed and then a statement of the total detailed estimate under each grant divided into items. No discussion on budget takes place on the day it is presented to the House. Budgets are discussed in two stages—the general discussion followed by detailed discussion and voting on the demands for grants. The whole process of discussion and voting on the demands for grants and the passage of the appropriation and finance bills are to be completed within a specified time.

As a result, often the demands for grants relating to all the ministries/departments cannot be discussed and demands of some ministries get guillotined i.e., voted without discussion. The Minister of Parliamentary Affairs, after the presentation of the Budget, holds a meeting of leaders of parties/ groups in Lok Sabha for the selection of ministries/departments whose demands for grants might be discussed in the house. Based on decisions arrived at this meeting, the government forwards the proposals for the consideration of the Business Advisory Committee. After considering the proposals, it allots time and recommends the order in which the demands might be discussed. It is generally left to the government to make any change in the order of discussion.

During the general discussion, the House is at liberty to discuss the budget as a whole or any question of principles involved therein but no motion can be moved. The scope of discussion is confined to an examination of the general scheme and structure of the budget, whether the items of expenditure ought to be increased or decreased, the policy of taxation as expressed in the budget and in the speech of the finance minister. The finance minister or the railway minister has the right of reply at the end of the discussion.

2. Scrutiny by Standing Committees

With the creation of departmentally related standing committees of Parliament in 1993, the demands for grants of all the ministries/departments are required to be considered by these committees. After the general discussion on the budget is over, the House is adjourned for a fixed period. During this period, the demands for grants of the ministries/ departments are considered by the committees. These committees are required to make their reports to the house within specified period without asking for more time and make separate report on the demands for grants of each ministry.

Discussion on Demands for Grants: The demands for grants are presented to Lok Sabha along with the annual financial statement. These are not generally moved in the house by the minister concerned. The demands are assumed to have been moved and are proposed from the Chair to save the time of the House. After the reports of the standing committees are presented to the House, it proceeds to the discussion and voting on demands for grants, ministry-wise. The scope of discussion at this stage is confined to a matter which is under the administrative control of the ministry and to each head of the demand as is put to the vote of the house. It is open to members to disapprove a policy pursued by a particular ministry or to suggest measures for economy in the administration of that ministry or to focus attention its attention to specific local grievances.

3. Voting

The third step is the voting of demand for grants, where the demands are presented ministry-wise. The legislators are made available the annual reports and other relevant documents for every ministry while voting is done. The Speaker makes the ministry-wise timetable for the process after coordinating with the members of the legislature. The general budget comprises 109 demands, out of which 106 pertain to civil expenditure and 3 for defence expenditure. After the voting for demands is completed, the demands become grants.

At this stage, cut motions can be moved to reduce any demand for grant but no amendments to a motion seeking to reduce any demand is permissible.

Cut motions

When the general budget is put to discussion, the legislators get a chance to do that in detail through cut motions to bring out any loopholes in the administration. Generally, in practice the cut motions are not passed due to the simple reason that the government has the majority on the floor. But cut motions promote transparency.

Policy cut motion: This cut motion represents the withholding of approval for any policy on which the demand for grant is based. The amount of the demand can be reduced to Re 1 and a substitute policy can be suggested.

Economy cut motion: This motion aims at effecting economy in the proposed estimates. The amount of the demand can be reduced to a certain amount, or an item can be omitted.

Token cut motion: This motion's objective is to register dissatisfaction against a specific demand and can ask the amount of the demand be reduced by Rs. 100.

Conditions of Admissibility of a Motion

The conditions of admissibility of a motion that must be met are given below in brief.

It should:

- Relate to one demand only.
- Be clearly expressed and must not be defamatory.
- Be restricted to one particular subject;

In addition, cut motion is not to:

- Contain any proposition to amend or repeal any existing law.
- Address a union government subject.
- Be connected to any expenditure charged on the Consolidated Fund of India.
- Concern any issue sub-judice.
- Raise a question of privilege.
- Be a repetition of a matter already taken up in the same session.

The Speaker decides whether a cut motion is or is not admissible and may disallow any cut motion when in his/her opinion it an abuse of the right of moving cut motions is or is

calculated to obstruct or prejudicially affect the procedure of the House or is in contravention of the Rules of Procedure of the House. It is a well-established parliamentary convention that cut motions seeking to discuss the action of the Speaker or relating to Speaker's Department or matters under the control of Speaker are not allowed. Likewise, cut motions relating to the office of the Vice-President (who is also ex-officio chairman of Rajya Sabha) are not admissible. Cut motions relating to matters under consideration of a Parliamentary Committee are not admissible. Cut motions are not admissible if they ventilate personal grievances, or if they cast aspersions on individual government officials.

Token cuts seeking to discuss inadequacy of provision in respect of a particular demand are, however, in order. Normally members of ruling party do not table cut motions.

Lastly, all demands for grants are voted, as soon as the time scheduled for its passing lapses, as a guillotine motion. A Guillotine Motion or 'Guillotine order' is the common name for an allocation of time motion which is a British House of Commons procedure that can be used to restrict the time set aside for debate during the passage of a bill through the House.

4. Consideration and Passing of the Appropriation Bill

It is mandated that "no money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law." Hence, an appropriation bill is placed in the legislature. It is the sum of voted demands and charged expenditure. Once the appropriation bill is passed, the money becomes available to the executive agencies to carry out their activities. The procedure followed in passing the appropriation bill is the same as any other bill barring any amendment.

The appropriation bill on getting the assent from the President of India becomes an Act.

Vote -on-Account

This process generally continues until the end of April, but the problem lies in the fact that the government departments need money after 31st March, at the end of the financial year to incur expenditure on various activities.

The Constitution allows a vote-on-account to the Lok Sabha to provide funds in advance for the estimated expenditure which finally becomes a part of the appropriation bill. This is passed after the completion of the general budget discussion for two months for a sum total of not more than one-sixth of the total appropriation bill amount.

5. Consolidation and Passing of the Finance Bill

Rule 219 of the Rules of Procedure and Conduct of Business in Lok Sabha, states that a 'Finance Bill' means the bill ordinarily introduced in each year to give effect to the financial proposals of the Government of India for the next financial year and includes a Bill to give effect to supplementary financial proposals for any period. No amendments to existing laws can be made in this bill except the taxation proposals.

After the voting has been concluded by the House on all demands for grants, the ways and means of raising funds (revenue) to meet the proposed expenditure are considered. The income side of the budget is dwelled upon by passing the finance

bill. This is the second part of the budget. The finance bill includes:

- Imposition;
- Remission; or
- Regulation of taxes.

It has to be ratified by the parliament prior to any implementation of proposals, which are usually tabled along with the budget. The proposals can relate to:

- New taxes;
- Any increase in taxes; and
- Revision of any tax.

Discussion

The finance bill entails a full-length discussion while debating it. The members of the Parliament discuss issues related to general administration or the financial policy. Then

- The bill is referred to a select committee of the Parliament.
- The select committee returns the finance bill with its suggestions and remarks.
- Discussion of the bill of every clause takes place.
- The members can move an amendment for a decrease but not for an increase .
- Voting on the bill takes place which becomes an Act.

The finance bill, after it has been passed in the Lok Sabha, is sent to the Rajya Sabha. The Rajya Sabha does not have the power to make any changes to it or to reject it but has to send it back with its suggestions within 14 days. It is mandated under the Provisional Collection of Taxes Act, 1931, that the Parliament has to pass the finance bill with the approval of the President within 75 days from which the bill was introduced. The President gives his/her assent. The finance bill and the appropriation bill together constitute the Annual Financial Statement (Budget).

8.4 BUDGET EXECUTION

The budget execution is the final phase of the budgetary procedure in India which involves the utilisation of allocated funds to implement the government's policies. It is only natural to consume the apportioned funds, but it is not necessary that a good budget will lead to its effective execution. The changes that are made during the financial year should be such that they should be coherent with the original policy aims so that there is no adverse effect on the performance of agencies and project management. Micromanagement environment and the capabilities of the agencies to execute the budget affect the successful implementation of the budget. The execution of the budget involves the collection of taxes, and revenues, the services performed by the Treasury and Finance Departments, auditing and controlling of accounts.

The process of budget execution is given below:

- The execution of budget starts with the passing of finance and appropriation bills. The ministries can incur expenditure only with that amount which has

been apportioned. Till the ratifications are done, the government can use those funds for which vote on account has been done.

- The execution of budget is done on the expenditure and revenue sides.
- The machinery responsible for the execution of the budget on the expenditure part of the budget consists of a system of a) controlling officers b) competent authorities who issue financial sanctions c) drawing and disbursing officers d) payments and accounts.
- The incurring of expenditure is to have high standards of financial propriety as per General Financial Rules (GFR) 2005.
- The execution of budget on revenue side involves a) collection of revenues b) custody of collected funds; and c) distribution of funds.
- The Department of Revenue has control over the machinery entrusted with collection of taxes through Central Board of Direct Taxes and Central Board of Excise and Customs.
- There are two types of Financial Advisers- External and Internal. The External Financial adviser renders advice on behalf of Ministry of Finance. The Internal Financial Adviser's function is to assist the ministry/department in the exercise of powers delegated to it.
- The scheme of Integrated Financial Adviser (IFA) entrusted with the overall responsibility of formulation of budget of the department, managing transfer of funds, control, and supervision etc., was created in 1975. In 2006, the role of IFA was expanded with wide ranging financial administration functions.
- The accounts of the various ministries are prepared as per the laid down procedures. These accounts are audited by the Comptroller and Auditor General of India. We shall be discussing in detail the accounting and auditing aspects in subsequent units of this course.

8.5 ROLE OF MINISTRY OF FINANCE

In the entire process from budget formulation to enactment the, Ministry of Finance plays a key role. The activities relating to preparation of budgetary estimates, consolidation of estimates of revenues and expenditure and presenting in the form of annual financial statement is the function of the Ministry of Finance.

It has the responsibilities of:

- Advising on fiscal and monetary policies;
- Raising the financial resources to meet the expenditure targets;
- Examining the desirability of the demands of various ministries and departments;
- Consolidation and scrutiny of budget estimates;
- Preparation of appropriation and finance bills in consonance with constitutional provisions;
- Review of standing charges, outgoing schemes, new projects;

- Preparation of economic classification of budget;
- Scrutinising all proposals of spending departments;
- Maintaining the financial discipline;
- Ensuring compliance with the budgetary laws;
- Enforcing effective control of budgetary expenditure;
- The Ministry of Finance with various departments and divisions has an important role in the gigantic task of budgetary cycle from preparation to execution. Its main concern is to ensure a proper balance between revenues and expenditure and judicious use of public resources.

Check Your Progress Exercise 2

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) Explain the process of budget enactment in India.

.....
.....
.....

- 2) What are the phases in budget execution?

.....
.....
.....

8.6 CONCLUSION

Government budgeting involves a lot of accounting and financial planning not only for the administrative needs but also for the welfare of the people. A government budget cannot be regarded as just an estimation of its receipts and expenditure but also acts as a tool for meeting administrative needs and securing socio-economic goals in the best public interest. The role of government budgeting has changed now with changing activities. When financial outlays are presented regarding developmental schemes, physical goals are also presented to accomplish the same within the stipulated time to be cost-effective.

8.7 GLOSSARY

Charged Expenditure: This is the expenditure which under various articles of the Constitution of India is charged on the Consolidated Fund of India and is not subject to the vote of parliament/ legislature.

Economic Classification of Budget: It is a system of classification of revenues into various categories and administrative, economic, and functional classification of expenditure.

Guillotined Voting: Under this voting on demands is done without discussion in one lot.

Standing Charges: These include the pay, allowances, honoraria of permanent establishments and office contingency which are sent to the budget division directly by the administrative ministry for their scrutiny.

8.8 REFERENCES

Mahajan, S.K. & Mahajan, A.P. (2014). *Financial Administration in India*. Delhi, India: PHI Learning Private Limited.

Mahajan, A.P. (2015). *Himachal Pradesh Financial Administration*. Shimla, India: Minerwa Publishing House.

8.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) Your answer should include the following points:

- Preparation and Consolidation of the Estimates by the Heads of Ministries/ Departments.
 - Dispatch of Circulars by the finance ministry to the drawing and disbursing officers every September/October to initiate the process of formulation of budget estimates.
 - The forms are to include
 - i) Actuals of the previous year.
 - ii) Sanctioned budget estimates for the current year.
 - iii) Revised estimates of the current year.
 - iv) Proposed budget estimates for the ensuing year.
 - v) Actuals for the current Year.
 - vi) Actuals for the corresponding period of the previous year.
 - The process of consolidation and scrutiny of budget estimates.

2) Your answer should include the following points:

- Factual verification of budget estimates by the Comptroller and Auditor General of India.
- Consolidation by the Finance Ministry.
- Approval by the Cabinet. The consolidated budget is submitted to the Cabinet by the finance ministry before presenting it to the legislature. It is presented to the Cabinet in three parts:
 - a. Standing Charges
 - b. Continuing Schemes
 - c. New Schemes
- Presentation by the finance minister in the Parliament.

Check Your Progress Exercise 2

1) Your answer should include the following points:

- The steps involved in the budget enactment are described below:
 - Presentation to the Legislature.
- The budget speech of the finance minister comprises two parts:
Part A and Part B
 - Steps in Budget Enactment.
- There are six stages or steps through which the budget goes through in the Legislature, which are discussed one by one:
 1. Presentation of the Budget.
 2. General Discussion.
 3. Scrutiny by Departmental Committees.
 4. Voting of Demands for Grants.
 5. Passing of the Appropriation Bill.
 6. Passing of the Finance Bill.

2) Your answer should include the following points:

- Once the finance and appropriation bills are passed, execution of the budget starts. The executive department gets a green signal to collect the revenue and start spending money on approved schemes.
- Execution of budget is done on the expenditure and revenue sides.
- The machinery responsible for the execution of the budget on the expenditure part of the budget consists of a system of a) controlling officers b) competent authorities who issue financial sanctions c) drawing and disbursing officers d) payments and accounts.
- The incurring of expenditure is to have high standards of financial propriety as per General Financial Rules (GFR) 2005.
- The execution of budget on revenue side involves a) collection of revenues b) custody of collected funds; and c) distribution of funds.
- The Department of Revenue has control over the machinery entrusted with the collection of taxes through the Central Board of Direct Taxes and Central Board of Excise and Customs.
- The External and Internal Financial advisers assist the ministry/department in exercise of delegated financial powers.
- The Integrated Financial Adviser (IFA) is entrusted with overall responsibility of formulation of budget, managing transfer of funds etc.
- The accounts of the various ministries are prepared as per the laid down procedures these accounts are audited by the Comptroller and Auditor General of India.

