UNIT 8 INDIAN BUDGETARY SYSTEM

Structure

8.0 OBJECTIVES

After studying this Unit you should be able to:

- explain the evolution of budgeting system in India
- state the principles underlying the budgetary process
- discuss the rationale for the financial year
- identify the various dimensions of practical budget making; and
- describe budget cycle.

8.1 INTRODUCTION

Even though budgeting in ancient and medieval India was known not only in its essentials but in fairly great detail, modern budgetary practices started taking shape with the governance of the country being taken over directly by the British Crown. Broadly, the evolution of budgeting has passed through three stages. Firstly, the budgeting system was a sub-system of the British administration. The financial objectives were subordinate to the limited objectives of the colonial power. Control of expenditure and accountability were the hallmarks of this period. Secondly, with the attainment of Independence, the developmental priorities of the nation superseded the limited objectives of the British Raj. In the third phase, a planning-orientation has been sought to be imparted to the budgetary exercises. These three phases correspond to the systems known as incremental budgeting, performance budgeting and zero base budgeting respectively. The system described in the following sections is that which is currently practised and is the end result of all the budgetary innovations introduced with varying degrees of success.

In this unit, we will discuss the evolution of budgeting system in India, principles of budgeting and rationale of the financial year. The various steps of budget making and budgetary cycle shall also be focused in the unit.

8.2 EVOLUTION OF BUDGETING SYSTEM IN INDIA

Kautilya's Arthashastra, which describes the administration during Mauryan period makes reference to an excellent budget system with very detailed, minute rules about the maintenance, preparation, submission and scrutiny of accounts. Every year, the Finance Minister made a note of the opening balance in the Treasury, of all current expenditure, including capital projects in hand (Karaniya) as well as those which had been completed (Siddham). Along with this there was a detailed statement of receipts from all sources; and also a statement of the closing balance anticipated at the end of the year. Full and precise accounts were kept of all receipts and outgoings, on Revenue and Capital accounts; plans were also prepared and included in the budget of all proposed new and profitable expenditure for investment.

The accounts included estimates for the coming year, and the actual results of the year just ended. The entire Cabinet sat in a conclave, so to say, to scrutinise them and to pronounce upon their accuracy, fullness and satisfactory nature in all respects. And their business was not only to verify the actual figures, to tally expenditure with outlay by vouchers and receipts, they also had to see that full value was received for every pie spent; that the clerks, officers and departmental heads had done their duty honestly and efficiently. A system of fines or rewards helped to make the system very effective. The rewards as well as punishments fell as much upon clerks as upon the superior officers, inspectors or even the Auditor-General.

The rulers of the Delhi Sultanate and the Mughal empire also continued a financial system not very different from the Mauryan system.

With the advent of the British rule, the Indian financial administration came effectively under the control of the East India Company. Till 1833, the presidencies of Bengal, Bombay and Madras were quite independent in finance and there was hardly any centralised financial system. This position changed with the Charter Act of 1833 which vested the superintendence, direction and control of all the revenues in the Governor General of India-in-Council.

The main activity of the East India Company being territorial expansion, expenditure on costly wars mounted. Huge sums were remitted to England on account of interest payable on Indian debt, interest on investment on Railways, civil and military charges supposed to have been incurred in England on behalf of India, including the expenses on the maintenance of the Office of East India Company in India. That the Governors of the three presidencies hardly had any powers can be seen from the fact that no governor could create a permanent post carrying a princely salary of more than Rs. ten per month.

Following the first war of Independence, in 1857, there was chaos in financial administration. With the takeover of the Indian administration by the Crown, the financial system came to be fashioned on the lines of the system prevailing in England. Imperial objectives dictated a highly centralised system of financial and administrative control. As we have discussed in Unit 2, the first budget was formally introduced in India in 1860 by Sir James Wilson, the then Finance Member of the Governor-General-in-Council. There was at that time no elected legislature in India. The budget was also not presented to the British Parliament. The budget, however, made the Viceroy/Governor-General-in-Council accountable to the Secretary-of-State-in-Council in London who, as a member of the British Cabinet, looked after Indian affairs. The Secretary of State became the fountainhead of all authority. He delegated powers to the Governor-General of India. The powers had to be exercised within the ambit of rules and regulations which had to be strictly followed.

According to Thavaraj, the basic features of the financial system in India during the period 1858-1935 were:

i) The Secretary-of-State-in-Council was the chief regulator of the financial system;

ii) Governor-General-in-Council exercised delegated financial authority;

iii) Finance Department was the custodian of Indian finances; and

iv) Controller General had combined responsibility for Indian Audit and Accounts.

The Secretary of State controlled Indian finances through :

a) acceptance of the Indian budget;

b) regulation and control of expenditure through voluminous rules, regulations and codes; and

c) through numerous executive orders.

The budgetary system, more or less, retained these features in spite of the reforms introduced by Lord Mayo in 1870, Lord Lytton in 1877, Lord Rippon's Quinquennial Settlements of 1882 and Lord Curzon's Reforms, 1904. The scene, however, changed significantly following Montague-Chelmsford Reforms of 1919. From 1921 onwards, the Central Legislative Assembly, with a non-official majority, was for the first time given the right to discuss and pass the annual budget of the Government of India in respect of 'non-reserved' subjects, as also to pass the Finance Bill embodying taxation proposals. The Governor-General was, however, empowered to "certify" the financial proposals in the event of their rejection by the legislature.

Before these reforms were introduced, the provincial governments had to seek the approval of the Central Government for every rupee spent. The Montague-Chelmsford Reforms for the first time introduced realistic provincial autonomy. Central and provincial heads of revenue were clearly demarcated. Consequently, the importance of the supervisory role of Finance Member over the provincial finance departments declined considerably and vanished altogether after 1935. The Secretary of State, however, did not suffer any diminution in his supreme authority after the 1919 reforms. Nothing of significance could happen without his knowledge. But he intervened only when the imperial interests were in jeopardy.

The Government of India Act, 1935, delivered a body blow to his powers. Except for the control over the services, the Secretary of State gave up direct exercise of most of his powers. The Governor General and the Governors exercised special powers and prerogatives over what were called reserved subjects which together with charged items were outside the purview of legislative financial control. They could also restore a demand rejected or reduced by the legislatures. Again, no expenditure could be incurred even if it was duly authorised by the legislature unless it was included in a schedule of expenditure authenticated by the Governor-General or the Governor.

Thus the system of financial control, both at the time of budget formulation and approval for incurring expenditure, turned out to be very rigid, rule-oriented and complex. This system naturally inhibited and suppressed any popular initiative towards change and development. Understandably, the control over financial administration was a necessary adjunct of the fundamental imperial objectives. It was never meant to facilitating solutions to national problems. It was this system, with all its distortions and rigidities, which India inherited from the British.

8.3 PRINCIPLES OF BUDGETING

The essential principles generally observed in government budgeting in India are:

i) Principle of annuality. The budget should be on an annual basis; this leads to another rule "the rule of lapse". The operation of this rule leads to a rush of expenditure towards the end of the year. However it has the merit of enforcing parliamentary sanction—which is always for an amount for a specific period after which it must be obtained again. This implies that if the funds voted are not used by the end of the financial year, the unspent balance lapses.

ii) The government budgets are on cash basis.

iii) There should be one budget for all financial transactions of the government. In the absence of one common budget it would be difficult to assess the true financial position of the government. Railways and other public enterprises, however, have separate budgets. In the case of railways, total receipts and expenditure are incorporated in the Central Government Budget. The estimates of capital and loan disbursement and also the extra budgetary resources for financing the plans of public enterprises are also shown in the Central Budget.

iv) The budgeting should be gross and not net. Gross transactions, both in the case of receipts and expenditure of each department, should be shown. It is not permissible to deduct any receipt accruing to the department from the charges of collection or any other expenditure. This is intended to ensure that the parliamentary control over expenditure is meaningful. In the absence of this provision, the budget coming up before the Parliament would be reduced only to the net deficit, if any.

v) Budgeting should be close. It should not be guess work or guess estimates which result in wide fluctuations and can lead to improper allocation of funds, supplementary grants.

vi) The form of estimates should correspond to the accounting heads since the estimates eventually get converted into actual accounts of receipts and expenditure.

8.4 FINANCIAL YEAR

When the first modern budget was presented in 1860, the financial year adopted by the government was from 1st May to 30th April. Beginning with the year 1866, however, the financial year was changed to April-March, in conformity with the practice in England. This practice has been the subject of debate and various committees and commissions which examined the issue have been critical of it. The Administrative Reforms Commission in its Report on Finance, Accounts and Audit observed.

> "The financial year starting from the 1st of April is not based on custom and needs of our nation. Our economy is still predominantly agricultural and is dependent on the behaviour of the principal monsoon. A realistic financial year should enable a correct assessment of revenue, should also synchronise with a maximum continuous spell of working season and facilitate an even spread of expenditure. For centuries, people in India have become accustomed to commence their financial year on the Diwali day. This practice has its roots in their way of life. The business community and other sections of society start the Diwali day with the feeling that they have finished with the old period of activity and have embarked upon a new one. It is, therefore, appropriate that the commencement of the financial year should be related to Diwali and in order to prescribe it in terms of a date, we have recommended that the 1st November should be the beginning of financial year."

The commission also thought that a budget year commencing on the 1st November would be better suited for the transaction of Parliamentary business. It is normally argued that the effect of south-west monsoon, which is responsible for over 90 per cent of the total annual rainfall in India, would be known by September, and the likely agricultural production during the year can be estimated fairly accurately. The commercial and industrial activities are also largely dependent on the performance in the agricultural sector. Besides, the monsoon months can be utilised for budget formulation and the critical fiscal parameters can be decided upon in the light of anticipated level of economic activity in the ensuing year.

Under the present arrangements, soon after the expenditure sanctions reach the executing agencies, the onset of monsoon renders it difficult to start construction of the budgeted works. These works have to wait till the rains are over. The speed of works is affected because of the intervention of monsoons when barely the preparatory work of projects has been completed. The delayed execution of works results in the rush of expenditure towards the end of the year leading to surrender of funds at the close of the financial year.

Essentially a budget year should help in performing the following functions:

i) making a fairly accurate estimates of revenue;

ii) making a fairly accurate estimates of expenditure;

iii) it should facilitate an efficient execution of projects; and

iv) the budget calendar should be convenient to the legislators and administrators.

Different dates have been suggested by the various experts who have examined the question of financial year. These are 1st July, 1st October, 1st November or 1st January. While there is a merit in each one of these suggestions, none of these can reconcile the conflicting criteria proposed. Considering only the criterion of better predictability of revenues, no single budget year provides enough scope for the various states to make a realistic assessment for both Kharif and Rabi crops. Rabi crops are very important for some of the states. The estimation of total agricultural production would, therefore, remain a guess work.

It has, therefore, been argued that the balance of advantage lies in not disturbing the present fiscal year. The database of the economy relates to the existing financial year and any dislocation in this year will lead to statistical, accounting and administrative problems. One has to weigh the advantages of changing over to a different fiscal year against the disadvantages inherent in such a switchover. And one has to remember that there is no general agreement on the alternative fiscal year. The only practical approach, therefore, is to continue with the present financial year.

Check Your Progress 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) Highlight the basic features of the financial system in India during the period 1858-1935.

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2) State the essential principles of government budgeting in India.

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3) What are the functions of a budget year?

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8.5 THE BUDGETARY PROCESS

With the attainment of Independence, the objectives, the policy framework and the environment of financial administration underwent a radical change. The conflict between popular will and aspirations and the policy and procedures which had characterised financial administration in the country disappeared overnight. Even though the basic features of the Government of India Act, 1935, with regard to financial administration, were retained, there was no fundamental disharmony between these instruments and the national priorities. These instruments could be and were refashioned according to the changed objectives.

The budgetary processes in India follow the procedure laid down in Articles 112 to 117 of the Constitution. Accordingly, annual budget of the Union, called the Annual Financial Statement of estimated receipts and expenditure, is to be laid before both Houses of the Parliament in respect of every financial year.

The Budget shows the receipts and payments of government under three parts in which government accounts are kept:

i) Consolidated Fund,

ii) Contingency Fund, and

iii) Public Account.

Consolidated Fund of India

All revenues received by government, loans raised by it, and also its receipts from recoveries of loans granted by it form the Consolidated Fund. All expenditure of government is incurred from the Consolidated Fund and no amount can be withdrawn from the fund without authorisation from the Parliament.

Contingency Fund

Occasions may arise when government may have to meet urgent unforeseen expenditure pending authorisation from the Parliament. The Contingency Fund is an Impress placed at the disposal of the President to incur such expenditure. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency Fund is recouped to the fund. The corpus of the fund authorised by the Parliament, at present, is Rs. 50 crore.

Public Account

Besides the normal receipts and expenditure of government which relate to the Consolidated Fund, certain other transactions enter government accounts, in respect of which government acts more as a banker; for example, transactions relating to Provident Funds, small savings collections, other deposits etc. The moneys thus received are kept in the Public Account and the connected disbursements are also made therefrom. Generally speaking, Public Account funds do not belong to government and have to be paid back some time or the other to the persons and authorities who deposited them. Parliamentary authorisation for payments from the Public Account is, therefore, not required.

Charged Expenditure

Under the Constitution, certain items of expenditure like emoluments of the President, salaries and allowances of the Chairman and the Deputy Chairman of the Rajya Sabha and the Speaker and Deputy Speaker of the Lok Sabha, salaries, allowances and pensions of Judges of the Supreme Court and the Comptroller and Auditor-General of India, interest on and repayment of loans raised by government and payments made to satisfy decrees of courts etc; are charged on the Consolidated Fund. These are not subject to the vote of Parliament. The budget shows the charged expenditure separately in the Consolidated Fund.

Government budget comprises:

i) Revenue budget; and

ii) Capital budget

Revenue Budget

It consists of the revenue receipts of government (tax and non-tax revenues) and the expenditure met from these revenues. The estimates of revenue receipts shown in the budget take into account the effect of the taxation proposals made in the Finance Bill. Other receipts of government mainly consist of interest and dividend on investments made by government, fees, and other receipts for services rendered by government.

Capital Budget

It consists of capital receipts and payments. The main items of capital receipts are loans raised by government from public which are called Market Loans, borrowings by government from Reserve Bank and other parties through sale of Treasury bills, loans received from foreign governments and bodies and recoveries of loans granted by Central Government to State and Union Territory governments and other parties. Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares etc. and loans and advances granted by Central government to State and Union Territory governments, government companies, corporations and other parties. Capital budget also incorporates transactions in the Public Account.

Demands for Grants

The estimates of expenditure from the Consolidated Fund included in the budget and required to be voted by the Lok Sabha are submitted in the form of Demands for Grants. Generally, one Demand for Grant is presented in respect of each ministry or department. However, in respect of large ministries or departments, more than one demand is presented. Each demand normally includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, grants to State and Union Territory governments and also loans and advances relating to the service. Where the provision for a service is entirely for expenditure charged on the Consolidated Fund, for example, interest payments, a separate appropriation, as distinct from a demand, is presented for that expenditure and it is not required to be voted by Parliament. Where, however, expenditure on a service includes both 'voted' and 'charged' items of expenditure, the latter are also included in the demand presented for that service but the 'voted' and 'charged' provisions are shown separately in that demand.

Plan expenditure forms a sizeable proportion of the total expenditure of the central government. The Demands for Grants of the various ministries show the plan expenditure under each head separately from the non-plan expenditure. The document also gives the total plan provisions for each of the ministries arranged under the various heads of development and highlights the budget provisions for the more important plan programmes and schemes.

A large part of the plan expenditure incurred by the central government is through public sector enterprises. Budgetary support for financing outlays of these enterprises is provided by government either through investment in share capital or through loans. The budget shows the estimates of capital and loan disbursements to public sector enterprises in the current and the budget years for plan and non-plan purposes and also the extra-budgetary resources available for financing their plans.

The Railways and Telecommunication services are the principal departmentally-run commercial undertakings of government. The budget of the Railways and the demands for grants relating to Railway expenditure are presented to parliament separately. However, the total receipts and expenditure of the Railways are incorporated in the Central Budget. The demands for grants of the Department of Telecommunications are presented along with other demands of the central government.

8.6 BUDGETARY CYCLE

In order to allow time for the executive and legislative processes to go through, budgeting is geared to a cycle. The process of approval is very significant in a responsible form of government. The cycle consists of four phases:

Preparation and submission;

Approval;

Execution; and

Audit

At any given point of time, several cycles would be in operation and would be overlapping. Nevertheless, various segments of a cycle have different operational life.

Budget Preparation

In India, budget preparation formally begins on the receipt of a circular from the Ministry of Finance sometime during September/October, that is, about six months before the budget presentation. The circular prescribes the time-schedule for sending final estimates separately for plan and non-plan, and the guidelines to be followed in the examination of budget estimates to be prepared by the department concerned

The general rule is that the person who spends money should also prepare the budget estimates. Budget proposals normally contain the following information:

i) Accounts classification

ii) Budget estimates of the current year

iii) Revised estimates of the current year

iv) Actuals for the previous year; and

v) Proposed estimates for the next financial year (which is the budget proper).

Budget estimates normally involve :

a) Standing charges or committed expenditure on the existing level of service. This can easily be provided for in the budget, as it is more or less based on a projection of the existing trends.

b) New expenditure which may be due to :

   i) expansion of programmes involving expenditure in addition to an existing service or facility; and

   ii) new service for which provision has not been previously included in the grants.

While (b) (i) can be estimated with reference to progress made and the likely expenditure during the next financial year, budget provision for (b) (i) and (ii) cannot be made unless the scheme relating to it is finally approved.

The budget estimates prepared by the ministries/departments according to budget and accounts classification are scrutinised by the Financial Advisors concerned. The plan items of the Central Budget are finalised in consultation with the Planning Commission and are based on the Annual Plan.

Parliamentary Approval
The estimates of expenditure prepared by ministries/departments are transmitted to the Ministry of Finance by December where these are scrutinised, modified where necessary and consolidated. The estimates of revenue are also prepared by the Finance Ministry and thus the budget is finalised. The budget is presented to the Parliament generally on the last working day of February. In the first stage, there is a general discussion on the broad economic and fiscal policies of the government as reflected in the budget and the Finance Minister's speech. This lasts about 20-25 hours.

In the second stage, there is a detailed discussion on the demands for grants, usually in respect of specific ministries or departments. Each demand for grant is voted separately. At this stage members of parliament may move motions of various kinds. Generally these are policy cuts, economy cuts, and token cuts. The policy cut motion seeks to reduce the demand to rupee one and is indicative of the disapproval of general or specific policy underlying the service to which the demand pertains. The motion for economy cut is to reduce the proposed expenditure by a specified amount. A token cut in a demand is moved to reduce it by a nominal amount say Rs. 100 and may be used as an occasion to ventilate a specific grievance. Since it is never possible to accommodate a detailed discussion on each demand for grant separately, the demands that cannot be so discussed are clubbed together and put to the vote of the Parliament at the end of the period allotted for discussion.

Though the budget is presented before both Houses of Parliament, the demands for grants are submitted only to the lower house. Demands for grants, are the executive's requisitions for sanction to spend, and only the lower house can have a say in the matter. While the legislature can object to a demand for grant, reject it or reduce it, it cannot increase the same. It may also be mentioned here that since no demand for a grant can be made except on the recommendations of the President or the Governor (in the case of State), private members cannot propose any fresh items of expenditure. If this were allowed it would necessitate revision of receipts and consequently the budget and sometimes may lead to improper appropriation of public funds.

Even after the demands for grants have been voted by the Parliament, the executive cannot draw the money and spend it. According to the Constitutional provisions, after the demands for grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amount so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill. The Appropriation Bill after it receives the assent of the President becomes the Appropriation Act. Thus, without the enactment of an Appropriation Act, no amount can be withdrawn from the Consolidated Fund.

Since the financial year of the government is from 1st April to 31st March, it follows that no expenditure can be incurred by the government after 31st March unless the

Appropriation Act has been passed by the close of the financial year. This is generally not possible as the process of discussion of the budget usually goes on up to the end of April or the first week of May. Thus, in order to enable the government to carry on its normal activities from 1st April till such time as the Appropriation Bill is enacted, a Vote on Account is obtained from Parliament through an Appropriation (Vote on Account) Bill.

The proposals of government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are submitted to Parliament through the Finance Bill. The members can utilise the occasion of discussion on the Finance Bill to criticise government policies, more specifically the proposals regarding the taxation and tax laws. In certain cases, taxation proposals take effect immediately. Since, however, passing of the Finance Bill may entail a time lag, a mechanism under which the taxation proposals take effect immediately pending the passing of the Finance Bill exists in the form of Provisional Collection of Tax Act, 1931, which empowers the government to collect taxes for a period of 75 days till the Finance Bill is passed and comes into effect.

The budget of the Central Government is not merely a statement of receipts and expenditure. Since Independence, with the launching of five year plans, it has also become a significant statement of government policy. The budget reflects and shapes, and is in turn shaped by, the country's economic life. A background of the economic trends in the country during the current year enables a better appreciation of the mobilisation of resources and their allocation as reflected in the budget. A document, Economic Survey, is prepared by the government and circulated to the members of Parliament a couple of days before the budget is presented. The Survey analyses the trends in agricultural and industrial production, money supply, prices, imports and exports and other relevant economic factors having a bearing on the budget.

Execution of the budget

The execution of the budget is the responsibility of the executive government. The procedures for execution of the budget depend on the distribution and delegation of powers to the various operating levels. As soon as the Appropriation Act is passed, the Ministry of Finance advises spending Ministries/Departments about their respective allocation of funds. The controlling officers in each ministry/department then allocate and advise the various disbursing officers. The expenditure is monitored to ensure that the amounts placed at the disposal of the spending authorities are not exceeded without additional funds being obtained in time.

Thus the financial system broadly consists of the following levels:

a) controlling officers; normally the head of the ministry/department acts as the controlling officer;

b) a system of competent authorities who issue financial sanction;

c) a system of drawing and disbursing officers; and

d) a system of payments, receipts and accounts.

The Department of Revenue in the Ministry of Finance is in overall control and supervision over the machinery charged with the collection of direct and indirect taxes. Such control is exercised through the Central Board of Direct Taxes and the Central Board of Indirect Taxes. These Boards exercise supervision and control over the various operational levels which implement different taxation laws. The Reserve Bank of India is the central banker of the government. The nationalised banks and the network of treasuries are also performing the service of collection (receipts) and disbursement of funds.

Audit

The executive spends public funds as authorised by the legislature. In order to ensure accountability of the executive to the legislature, public expenditure has to be audited by an independent agency. The Constitution provides for the position of the Comptroller and Auditor General of India to perform this function. It is his/her duty to ensure that the funds allocated to various agencies of the government have been made available in accordance with law; that the expenditure incurred has the sanction of the competent authority; that rules, orders & procedures governing such expenditure have been duly observed; that value for money spent has been obtained and that records of all such transactions are maintained, compiled and submitted to the competent authority. This is the last stage in completing the budgetary cycle (for details see units no. 22 and 23).

Check Your Progress 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) Distinguish between revenue and capital budget.

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2) State the phases of the budgetary cycle.

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3) What are the main functions involved in the execution of the budget?

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8.7 LET US SUM UP

Although, in ancient India, a fairly developed budgetary system was prevalent, it is only after the British Crown took over from the East India Company in 1860 that a modern budget was introduced. The Secretary of State in the Council was the chief regulator of the financial system in India and the Governor General in the Council exercised delegated financial authority. Finance Department was the custodian of Indian finances. As we have discussed in the unit many reforms were introduced, particularly in 1919 and later in 1935.

The system of financial control which India inherited in 1947, turned out to be very rigid, rule-oriented and complex. Necessarily it was an adjunct of the fundamental imperial objectives rather than an instrument to solve national problems.

The budgetary process under the Constitution follows the procedure laid down in Articles 112 to 117. The budget shows receipts and payments under three parts in which government accounts are kept; these are Consolidated Fund, Contingency Fund and Public Account. The budget comprises Revenue Budget and Capital Budget. The budget estimates of expenditure which are to be voted by the Lok Sabha are submitted in the form of Demands for Grants. Generally, one Demand for Grant is presented in respect of each ministry or department.

The budgeted expenditure is also classified as plan and non-plan. Bulk of the expenditure represents standing charges or committed expenditure and is non-plan. A large part of the plan expenditure incurred by the Central Government is through public sector enterprises.

These are the four stages in the budgetary cycle. viz; preparation, approval, execution of the budget and audit. Preparation of the budget usually begins on the receipt of a circular from the Ministry of Finance during September/October. It contains information relating to the budget estimates of the current year, revised estimates, actuals for the previous year and the proposed budget estimates for the next financial year.

The budget is presented to the Parliament on the last working day of February. A general discussion is followed by a detailed discussion on each demand for grant. The Parliament may reduce or reject but may not increase any budgetary provision which is subject to its vote. After the Parliament has voted the demand for grants, an Appropriation Act has to be passed by it to enable the government to withdraw money from the Consolidated Fund of India. The executive spends the money in accordance with the powers delegated to the operational levels. Finally, the expenditure is audited by the Statutory Audit to ensure that the public funds have been used as authorised and that rules and regulations have been observed.

8.8 KEY WORDS

Reserved Subjects : The Montague-Chelmsford Reforms introduced the division of subjects at the provincial level into reserved and transferred subjects. The reserved subjects included important departments which were in charge of councillors who along with the Governor were responsible to the Secretary of State and British Parliament. The transferred subjects were in charge of ministers who were responsible to the provincial legislature.

Rule of Lapse : This is a budgetary principle which implies that no part of the grant which is unspent by any department/ministry in any year can be carried forward to the next year.

Secretary of State : The Act of 1858 ended the rule of East India Company and Indian administration was brought directly under the British Crown. This Act created the Office of the Secretary of State who was a Cabinet minister in the British Cabinet entrusted with the responsibility of managing affairs in India on behalf of the Crown.

Supplementary Grants : If original estimates in budget are insufficient to carry on any activity, additional funds are sought by the government from the Parliament in the course of the financial year through supplementary grants.

Vote-on-Account : Even though the financial year starts on 1st April, the budget takes some time to be passed. So, to meet the expenditure that will be incurred in the first few months of financial year till the budget is passed, the Parliament/legislature is required to pass vote on account which is an advance grant.

8.9 REFERENCES

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8.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points :

- Remote control through Secretary of State.

- Delegated financial authority to Governor General in Council.
- Centralised financial control in the Finance Department.
- Complex rules, regulations and procedures.

2) Your answer should include the following points :
   - Principle of annuality.
   - Rule of Lapse.
   - The government budgets are on cash basis.
   - Principle of one budget for all financial transactions of the government.
   - Budgeting should be gross and not net.
   - Budgeting should be close.
   - The form of estimates should correspond to the accounting heads.
3) Your answer should include the following points :
   - Making a fairly accurate estimates of revenue and expenditure.
   - Facilitate an efficient execution of projects.
   - Budget calendar should be convenient to the legislators and administrators.

Check Your Progress 2

1) Your answer should include the following points :
   - Revenue budget consists of the revenue receipts of government (tax and non-tax revenues) and the expenditure met from these revenues. Revenue receipts include interest and dividend on investments made by government, fees and other receipts for services rendered by government. Revenue expenditure is for normal running of government departments and various services, interest charges on debts incurred etc. It does not result in creation of any assets.
   - Capital budget consists of capital receipts and payments. Capital receipts include loan raised by government from public, borrowings, external loans etc. Capital payments comprise capital expenditure on acquisition of assets like land, building etc., loans and advances given by central government to states and union territories etc.
2) Your answer should include the following points :
   - Preparation and submission of budget estimates by ministries/department.
   - Parliamentary approval.
   - Execution of the budget by government audit.
3) Your answer should include the following points :
   - Collection of revenues.
   - Custody of the collected funds, and
   - Distribution of funds.