ESSENTIALS OF THE

BUDGET PROCESS

OF THE STATE GOVERNMENT

By

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Foreword

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Centre for Budget Studies
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Prologue

I take great pleasure in introducing this booklet. It is an endeavor towards demystifying the entire budget process of the State Government. I would like to thank Mr. Shashikant Karnik for his efforts in authoring this booklet in a simple and reader friendly form and Mr. Madhav Godbole for his exhaustive foreword.

It was in late 1997 that Vidhayak Sansad set up the Centre for Budget Studies. The Centre studies the present budget against the background of budget allocations over the past five years. The thrust of the Centre is to highlight the trends in Government allocation and expenditure vis-à-vis the marginalised sections of the society like tribals, scheduled castes, women and children; social welfare sectors like education, public health, water supply, transport and roadways and rural development, including agriculture, allied services and irrigation. The Centre is also involved in an in-depth study of the allocations in the Tribal Sub-Plan, which is a separate budget for each department to be spent in tribal areas, primarily for tribal welfare.

The aim of the Centre is not limited to the study of the budget, but to provide the information to opinion makers, legislators - MLA's/ MLC's and Government administration and the public at large, so that there is a demand for pro-public, welfare oriented budgeting.

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FOREWORD

There is an urgent need to demystify the budgets, whether of the Central or State Governments. It is also necessary to do away with a great deal of secrecy surrounding the preparation of the budget, except in respect of taxation proposals. The whole process of budget-making should be as open as possible. The *pros* and *cons* of the issues in various sectors of the economy, soft and hard options which are open to the government and thereby to the society at large, need to be debated by people. Unfortunately, at present, the mystique about the budget continues even after it is presented to Parliament and/or Legislature and it remains a preserve or a domain of only a few who can understand its intricacies.

Budget of state government must be distinguished from that of a private or public limited company. It is not a mere exercise in the balancing of books of account. It is not a document prepared by an accountant for an accountant. It has large implications for the rate of growth of development, human resource development, reduction of poverty, provision of safety net for the poor and underprivileged, and so on. Every member of the public has, therefore, a vital stake in what finds a place in the budget and what gets omitted therefrom.

It is necessary to remember that, howsoever detailed may be the guidelines for the formulation of a budget, there is many a slip between the cup and the lip in the preparation of the budget as also its implementation. As a result, often, there are large shortfalls in revenue, savings in expenditure, excess expenditure without authorisation of the Legislature, non-surrender of grants, and unauthorised diversion of funds from one purpose to another. Any study of the budget must take note of these weaknesses in a budget. Often budget makers live in a make-believe world by over-estimating revenues and under-estimating expenditures.

The time-honoured practice of giving excessive attention only to the raising of additional revenues and neglecting the scrutiny of expenditures, their efficiency, productivity, *inter-se* priority, and over-lap, has led to large and galloping increase in public expenditures. The budget-makers often seem to proceed on the assumption that the state can lay claim to unlimited resources at the cost of other competing users of these resources. This has led to crowding-out of other users such, as the private sector which may in fact, be more productive and efficient. The most important part of the budget, therefore, comprises the expenditure proposals.

Expenditure proposals need to be scrutinised carefully during the budget formulation itself. Such an effort was made by Government of Maharashtra during 1986-89 by introduction of zero base budgeting. This implied not admitting in the budget any expenditure as given or sacroscant. Each department was asked to justify why the given expenditure needed to be continued in the following year. This led to rigorous scrutiny of all expenditures so as to close down schemes and programmes which had out-lived their utility, were cost-ineffective, had not been well-received by the public and so on, so as to divert the resources to more productive uses. The staff was also redeployed, wherever necessary, to reduce establishment expenditure. Unfortunately, for want of strong public support, this experiment was given up by the government to appease the vested interests and powerful lobbies.

The booklet brings out that, normally, capital expenditure is expected to be met out of borrowed funds and accumulated cash balances including surplus revenues of previous years. The recent experience shows that this is far from true. All State Governments as also the Centre are running large deficits on revenue account. Surpluses on capital account are used to finance these deficits! Governments are borrowing even to meet revenue expenditure. Capital expenditures which are being financed from borrowed capital are, in most cases, not expected to give returns which would be adequate to service the loans. Thus the whole context in which budgets are framed has undergone a qualitative change.

Same is true in respect of categorisation of expenditure as Plan and Non-Plan. This classification has led to a number of problems in practice. Just as not all Plan expenditure is, by definition, necessarily productive or developmental, not all Non-Plan expenditure is non-developmental and therefore of low priority. This classification has resulted in neglect of Non-Plan developmental expenditure, in particular. It is high time the expenditure is classified as productive and non-productive, irrespective of whether is Plan or Non-Plan.

The budget is supposed to present a complete and correct picture of the financial position of government. In practice, this is not necessarily true. In keeping with the changing times, it is now necessary to look at some aspects which have so far been glossed over in formulation of the budget. One of these relates to the contingent liabilities of the State Government such as guarantees given by the State Government for the repayment of loan and payment of interest by entities such as co-operative sugar factories, co-operative spinning mills, state sector enterprises and so on. The Government of Maharashtra, for example, has given guarantees for the timely payment by the state electricity board to ENRON and other private power producers for the guaranteed off-take of their power. This contingent liability must be reckoned with in assessing the financial health of the State Government. Yet another new development is the large recourse taken by the State Government agencies to borrowing from the market. The repayment liabilities of these, which are guaranteed by the State Government, too need to be specifically taken note of.

The documents which facilitate scrutiny of public expenditures include the economic survey of the state which provides the setting in which the budget is to be implemented; review of the performance of public sector enterprises (PSEs); subsidies given through the budget of the State Government during the preceding year as also the subsidies given through the PSEs; and, to some extent, the performance budgets of the administrative departments. It is unfortunate that the Government of Maharashtra has discontinued the practice of presenting the review of performance of the PSEs and review of subsidies at the budget session of the Legislature. These documents are now placed on the table of the Legislature at its monsoon session. These documents can provide useful insights for the analysis of the budget. It is unfortunate that much use has not been made of these documents, so far, to question the government closely on its failures.

It has to be admitted that the original objectives underlying presentation of performance budget, by each administrative department, to the Legislature at its budget session, before the grants for that department are taken up for discussion, have been frustrated as preparation of these budgets has become a mindless form-filling exercise. These budgets running into thousands of pages mostly provide routine information and are hardly a useful tool to judge the efficiency and productivity of the work of the departments. There is a strong case for recasting the formats for performance budgets so as to make them more purposeful, focused and concise.

Increasingly Parliament and Legislatures find less and less time to discuss the budget demands in any department. In fact, demands of a large number of ministries and departments are guillotined in a routine manner. It was, therefore, felt that it was necessary to evolve a committee system for the detailed examination of the budget.

The Standing Committees of Parliament are doing a fairly satisfactory job of scrutiny of the budget proposals of the ministries before these are taken up for discussion by Parliament. Their reports can provide valuable insights in any analysis of the Central Government budget. Unfortunately, the objective of referring the State budget proposals to the estimates committees of the respective Legislatures, before departmentwise discussion is taken up by the House, has not served any purpose, in most cases, as estimates committees have failed to make any in-depth examination of the proposals. Otherwise, the reports of the departmental sub-committees of the estimates committee, presented to the Legislature, could have provided useful inputs in the understanding of the state budget.

Credit rating of State Governments by credit rating agencies such as Credit Rating and Information Service India Ltd. (CRISIL) is yet another useful development in terms of getting insights into the State Government budget. Often, State Governments get such rating done by more than one agency. The reports of such credit rating agencies can be yet another useful tool in the analysis of budget.

It is unfortunate that the budgets of local self-government institutions such as *zilla parishads*, municipalities and municipal corporations evoke hardly any public debate and discussion. It is as necessary to study the annual financial statements of the local bodies, as the state budgets, if the work and performance of these institutions is to be supervised carefully by the society. This is all the more important in view of the 73rd and 74th amendments of the Constitution by which the sphere of activity of these bodies has been enlarged considerably.

Against the above background, this effort to create greater awareness among people and non-government organisations of matters pertaining to state budget needs to be welcomed. Shri. S.S.Karnik needs to be commended for preparing such a lucid and readable booklet.

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ESSENTIALS OF THE BUDGET PROCESS OF THE STATE GOVERNMEMT

(I) INTRODUCTORY

In a society every individual or a group of individuals (say a family) or organisations (private or public) formed with some specific objectives in view need to incur expenditure for the fulfilment of their objectives. These entities, depending on their size, characteristics and some of their functions have one or more sources of income out of which to meet the expenditure. Every prudent management - be it an individual or an organisation - is alert in the matter of keeping its expenditure within the money becoming available from the identified resources. At the same time, in order that there is an assured supply of money on appropriate occasions to meet the reasonable (optimum) level of expenditure, such management is actively engaged in exploring and exploiting measures for additional mobilisation of resources. In order that the income and expenditure in a given period shall be in full conformity with each other it is necessary that an advance plan is drawn up both in regard to the income and the expenditure for a given period of time - usually for one year. Such an advance plan prepared at the beginning of an year is termed "annual budget".

In the case of individuals or families, it may not be necessary to follow any streamlined process to formulate the plan. Especially when the identified sources of income can amply take care of all expenditure needs and ensure a fair amount of savings for a rainy day, no great effort is necessary to formulate an advance plan. In fact, advance planning in many cases is often dispensed with. Be that as it may, but it must be remembered that whether it is budgeting for an individual, a group of individuals or an organisation, the basic principle is the same and that is, to limit the expenditure to the known sources of income and to ensure that sufficient resources are mobilised during the course of the year, to meet fully the commitments on account of accurately estimated levels of optimum expenditure.

(II) STATE BUDGET

The basic principle discussed earlier, is applicable to the budgetary process of the government (Central and State) also. This paper tries to bring out the salient features of the budgetary process followed in the framing of the budget of the State Government.

Process of budget formulation is a highly streamlined exercise and is governed by a well-defined set of rules. These rules have been prepared within the framework of the various articles of the Constitution of India.

Presentation of annual budget is a mandatory function of the State Governments. In pursuance of article 202 of the Constitution, the Governor of a State is required to lay before the State Legislature, annually a statement of the estimated receipts and expenditure of the State Government for the

financial year (1st April to 31st March). This statement is termed the 'Annual Financial Statement', and comprises the following:

1) Statement indicating the sums required to be spent during the financial year, on purposes of public interest;
2) Estimates of revenue and receipts expected to be received by the Government during the year

and

3) Statement showing the financial position of the Government.

Besides the Article 202, the other Articles relevant to the budgetary process are the Articles 204, 266 and 267 of the Constitution.

According to Article 266, all revenue received by Government, all loans raised by Government or money received in repayment of loans are required to be credited to the Consolidated Fund of the State. Similarly all the expenditure of the State Government is incurred by debit to the Consolidated Fund of the State. This expenditure can be incurred only after following the set procedure in accordance with the Appropriation Act to be passed by the State Legislature as laid down in Article 204 of the Constitution. This means that when the budget is passed by the Legislature, monetary limits are set by it on the extent of the expenditure and the purposes on which it is to be incurred during the year.

Principles of budgeting

Based broadly on the statutory and other requirements of the Constitution and rules made pursuant to these requirements, the essential guiding principles of budgeting can be summed up as follows:

i) Principle of annuality

Presentation of budget is in respect of the ensuing financial year only. The grants authorized by the Legislature are valid for one financial year i. e. upto the 31st March of that financial year only and cannot be carried forward to the next year. Consequently, the unutilized grants lapse at the end of the financial year.

ii) Principle of comprehensiveness

Budget shall be comprehensive i. e. it shall include the estimate of all foreseeable items of receipts and expenditure, contain full information on current schemes and programmes, performances in various fields of activities and present a complete and correct picture of the financial position of Government.

iii) Principle of specificness and clarity

All items of receipts and expenditure shall be specific. Making of lumpsum provisions should be avoided. This facilitates proper scrutiny at all levels and helps all concerned to keep a watch over progress of actuals and in exercising budgetary control.

iv) Principle of gross budgeting

This principle has its basis in the Article 204 (3) of the Constitution which prohibits withdrawal from the Consolidated

Fund of the State except under appropriation made by law passed in accordance with the Constitutional provisions. This necessitates authorisation of gross expenditure notwithstanding the receipts or recoveries adjustable under the same expenditure head as reduction in expenditure. This is a preventive tool to check misuse of money accrued through large recoveries.

v) Principle of accuracy

Gross under-estimation and over-estimation are serious budgetary irregularities. Thus not only the budget provisions should be comprehensive and cater for all items of receipts and expenditure, but should be only so much as are absolutely necessary, neither more nor less. This will of course be subject to variations resulting from unforeseen developments or circumstances.

vi) Principle of non-diversion of funds authorised for specific purposes

It is not permissible to divert the funds authorized under one grant / appropriation to meet excess expenditure elsewhere.

vii) Principle of periodic review and corrective action

The estimating officers, controlling officers and administrative departments are expected to be watchful as regards progress of actuals on both receipt and expenditure sides. Periodic reviews are expected to be taken and estimates need to be updated and orders obtained at appropriate levels and time to revise the estimates with a suitable follow-up action.

The first five of the above mentioned principles operate at the formulation stage while the last two need to be followed subsequently while operating the budget.

(III) STRUCTURE OF BUDGET

Pursuant to the requirements of the Articles 266 and 267 of the Constitution, the basic structure of Government budget and accounts classification has been designed as follows -

(A) Consolidated Fund of the State.

(B) Contingency Fund of the State.

(C) Public Account.

(A) Consolidated Fund of the State (Part I of the Accounts)

This is the first and the most important part of the Government accounts. All the tax and non-tax receipts are credited and all expenditure of Government is debited to the Consolidated Fund of the State. The Consolidated Fund of the State has been defined in the Article 266 (1) of the Constitution. According to that definition "all revenues received by Government, all loans raised by Government by issue of treasury bills, loans or ways and means advances and all money received by Government in repayment of loans" form one consolidated fund to be entitled the **"Consolidated Fund of the State"**.

As stated earlier in chapter II, all expenditure of the State Government is incurred by debit to the Consolidated Fund of the State. However, prior approval of the Legislature is necessary for incurring this expenditure. For this purpose, it is necessary to follow the procedure laid down in Article 204 of the Constitution. Accounts of all the receipts credited to and expenditure met from the Consolidated Fund of the State are required to be kept in the manner and format prescribed for all the State Governments and the Central Government by the Comptroller and Auditor General of India (CAG).

The Consolidated Fund is divided into two sections: **Receipts Section** and **Expenditure Section**.

Receipts Section

This comprises **(a) revenue receipts** and **(b) receipts under debt heads**.

(a) Revenue receipts: - The revenue receipts are broadly classified into two sections

1) Tax revenue comprising for example, sales tax, profession tax, stamp duties, state excise, taxes on vehicles, State's share in Central taxes, land revenue, electricity duty etc.
2) Non-tax revenue which includes for example -

    (i) Interest receipts and dividends,

    (ii)Departmental receipts such as recoveries of fees from Government educational institutions, hospitals etc, sale of jail manufacture, receipts from

Government printing presses, sale of lottery tickets, audit fees of Cooperation Department, receipts from Government milk schemes, Forest Department, mining, Irrigation Department etc.

(iii)Grants-in-aid from the Government of India and other bodies like National Co-operative Development Corporation etc.

(b) Receipts under debt heads: - These comprise internal debt of the State Government i. e. open market borrowings, loans from the Central Government and other bodies, receipts on account of repayment of loans advanced by the State Government.

Expenditure Section

The Expenditure is either **'Charged'** or **'Voted'**. 'Charged' expenditure as defined in the Constitution is that which is charged on the Consolidated Fund of the State and is not subject to the vote of the Assembly. This expenditure can, however, be discussed in both the Houses of the Legislature. Governor's establishment, decretal charges, etc, are some of the examples of 'charged' expenditure. All other expenditure is subject to the vote of the Assembly.

The expenditure section comprises

(a) Revenue expenditure

(b) Capital expenditure

and

(c) Expenditure under debt heads.

(a) Revenue expenditure - The expenditure on Legislature, State administration, tax collection, debt servicing and interest payments, pensions, grants-in-aid to various institutions, and also expenditure on current consumption of goods and services of the departments of Government on activities of non-capital character are booked as revenue expenditure.

(b) Capital expenditure - This is the expenditure incurred by Government with the object of either acquiring or creating assets of a material and permanent character or with a view to reducing recurring liabilities. Examples are acquisition of land, construction of buildings, roads and bridges, irrigation and power projects, purchase of equipment and machinery, stocks of food grains and other commodities, investments in share capital etc.

The receipts of capital nature which get applied as a set-off against capital expenditure are also exhibited under the capital disbursement head as deduct entries signifying reduction in expenditure. These receipts generally arise from sale or disposal of capital assets.

Normally capital expenditure is expected to be met out of borrowed funds and accumulated cash balances including the surplus revenues of previous years.

(c) Expenditure under debt heads - This section includes provisions on account of repayment of Central and other loans, repayment of ways and means advances, market loans etc. It also includes provisions made for loans and advances paid by the State Government for various purposes.

(B) Contingency Fund of the State - (Part II of the Accounts)

This is in the nature of an imprest. The Government under its authority of Article 267 of the Constitution establishes it by giving a debit to the Consolidated Fund. The corpus of the Fund is drawn upon by the Government to meet expenditure of an emergent and urgent nature which could not be foreseen at the time of the framing of the annual budget estimates and which is so urgent that it cannot wait till the following session of the Legislature in which prior approval to the expenditure would normally have been obtained by presenting supplementary demands. Expenditure met from the Contingency Fund is got approved by the Legislature post facto by presenting supplementary demands which explain in detail the urgency of the expenditure.

Example:- Emergent expenditure necessitated by a natural calamity like floods, is incurred by withdrawing an advance from the Contingency Fund. The expenditure is brought to the notice of the Legislature subsequently through a supplementary demand.

(C) Public Account (Part III of the Accounts)

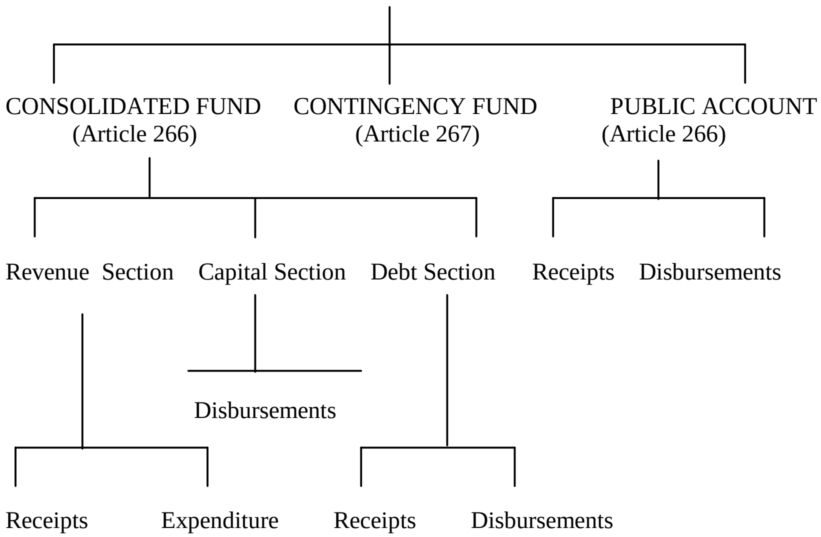
The scope of Public Account is defined in Article 266 of the Constitution. This section records transactions in respect

of which Government functions as a banker. Here the Government incurs the liability to repay the money received or has a claim to recover the amount paid. For example, the money deducted from the salaries of employees as provident fund subscriptions gets credited to the Public Account (Receipt side) and all payments to employees out of their provident fund accumulations are debited to the Public Account (Disbursement side). Similarly Deposits received from works contractors for public works, irrigation projects, etc are credited to the Public Account and when the deposits are returned the payments are made by debit to the Public Account. The Government thus has only the custody of the accumulations in the Public Account and has no ownership over them. Consequently for payments out of the Public Account, unlike as in the case of the Consolidated Fund of the State, no approval of the State Legislature is necessary.

Besides what is mentioned above, the Public Account also records transactions in respect of the Reserve Funds. The contribution to the various Reserve Funds made through expenditure provisions in the Consolidated Fund appear on the Receipts side of the Public Account. The expenditure met from the Reserve Funds appears on the Disbursement side of the Public Account, transferred from the Consolidated Fund by deduct entries.

The chart at the end of this chapter illustrates at a glance the basic structure of Government budget/Accounts classification.

Basic structure of Government Budget / Accounts Classification



(IV) ACCOUNTING STRUCTURE

The Article 150 of the Constitution provides that the accounts of the Union and State Governments need to be kept in such form as the Comptroller and Auditor General of India (CAG) may with the approval of the President prescribe. The broad format of the Government accounts discussed in the previous chapter comprises the three divisions: The Consolidated Fund of the State, the Contingency Fund and the Public Account. The sectoral classification under the three divisions has been prescribed by the CAG. These consist of sectors / sub-sectors, major / sub-major heads of account, minor heads, sub-heads and detailed heads.

The sectors, sub-sectors, major and sub-major heads and minor heads have been prescribed by the CAG and are required to be uniformly adopted by the Union Government and all the State Governments. Below the minor heads are sub-heads, which can be opened by the State Governments in their own discretion and according to the needs. It will be seen that on the expenditure side under each section, viz. Revenue, Capital and Debt Heads the classification is a five-tier one as shown below

1) Sectors / Sub-sectors
2) Major / Sub-major Head indicates the function
3) Minor Head indicates the programme
4) Sub-head indicates the scheme or activity
5) Detailed Head indicates the object of expenditure

The CAG has identified over ninety standard objects of expenditure. Each of the detailed heads is to be denoted by one of these standard objects of expenditure. Where the nature of expenditure is such as cannot be covered by one of the standard objects of expenditure it falls under the category of "others" !

Example - Women and Child Welfare Department

1. Sector	**B. Social Services**
Sub-sector	**(g) Social Welfare and Nutrition**
2. Major head	**2235, Social Security and Welfare**
3. Minor head	**02 Social Welfare**
4. Sub head	**102 Child Welfare**
5. Detailed head	**01 Salaries**
	51 Diet charges etc.

A complete list of major and sub-major heads and minor heads under various sectors / sub-sectors in the Consolidated Fund and the Public Account has been issued by the Government of India and is updated from time to time.

(V) PREPARATION OF THE STATE BUDGET

As mentioned earlier, presentation of the annual budget of the State Government is a Constitutionally mandatory function of the Governor of the State. This function is discharged by order and in the name of the Governor by the Finance Department of the State. In Maharashtra, the secretariat or Mantralaya as it has been renamed consists of a total of 28 administrative departments including the Maharashtra Legislature Secretariat. All these Departments barring certain exceptions have under their control different heads of departments, which in their turn have a number of heads of offices spread all over the State. Thus every State Government office in or outside the State of Maharashtra through its head of department comes under the administrative control of one of the administrative departments in the Mantralaya. This background is explained with a view to enable a clarity of perception of the budget preparation process.

The budget exercise for a financial year commences in the month of August / September of the earlier year. Thus preparations for the budget of the financial year 1999-2000 started in August / September 1998 with the issue of a circular

from the Finance Department addressed to all the State Government offices in the State or outside the State laying down a detailed time-table and guidelines for finalizing various stages of budget preparation at various levels such as, heads of offices / heads of departments / administrative departments / Planning Department / Finance Department etc. As the budget presentation is a time-bound programme, this calendar or time-table has to be adhered to meticulously.

Keeping the time factor in view, the heads of offices prepare the estimates of standing charges relating to all of their activities of a non-plan nature, and forward them to their respective heads of departments. (The estimates of standing charges pertain only to the non-plan component as the estimates in regard to the Annual Plan are considered subsequently, as would be explained later.) The heads of departments scrutinize the estimates, modify them where necessary, consolidate the estimates received from the various heads of offices under their control and thereafter send them (along with the estimates for their own office) to the administrative departments. The administrative departments scrutinize and consolidate the estimates received from all the heads of departments under their control and along with the estimates pertaining to the departmental establishment at Mantralaya send them to the Finance Department (Budget wing).

In the Finance Department the estimates of standing charges (non-plan) received from the various administrative departments, are scrutinized and modified where necessary after due consultation with the administrative departments concerned. The expenditure estimates under all Departments are then consolidated to arrive at the figure of estimated expenditure of continuing nature on non-plan account for the entire State, for the new financial year.

Simultaneously with the exercise for estimating the non-plan standing charges, estimates of revenue and receipts from various sources are also prepared in the budget wing of the Finance Department. These estimates comprise tax receipts, non-tax receipts and grants-in-aid, receipts under public debt and recovery of loans and advances. The budget estimates of tax receipts are based on existing rates of taxes, the progress of actuals during the year current and the trend of actuals in the past. In framing these estimates increase or reduction in rates not sanctioned by Government are not taken into account. Estimates of receipts from the Central Government on account of share in Central Taxes viz. Income Tax, Excise Duties and other grants are based on the criteria approved by the Finance Commission quinquennially. Estimates under other non-tax sources are also framed with due regard to the progress of actuals and other known factors affecting the receipts.

The net effect of the estimates of standing charges and those of the receipts, is termed the forecast on account of non-plan standing charges and receipts, which would either be a surplus if the receipts exceed the expenditure, or a deficit *vice-versa.* If the forecast reveals a surplus, it becomes one of

the sources for financing the Annual Plan and new schemes under Non-plan.

Side by side with the forecast finalisation the Annual Plan preparation is under way, which is a function of the Planning Department which functions under the control of the Planning Sub committee of the Cabinet. In the process of Annual Plan preparation the Finance Departments has an important role to play which is estimation of the resources for the Plan which needs to be got cleared by the Adviser to the Planning Commission. After a series of meetings between the Planning Commission and the State Government (Planning and Finance Departments) the Plan size is finalised and the extent of Central assistance in the form of loans and grants becomes known.

All administrative departments frame, in respect of their 'Plan' schemes, estimates of standing charges under 'Plan' and also new items under 'Plan', with due regard is the sectoral allocation communicated to them by the Planning Department after the Plan size is finalised. The administrative department forward their estimate of the Planning and the Finance Department for scrutiny and approval. After approval they are incorporated in the budget proposals of the department for the year.

Taking into account the overall resources position, the State Government earmarks funds to enable the departments to take up new schemes of urgent and essential nature in the non-plan section.

After taking into account all these factors the picture of the budget for the financial year emerges which may either indicate a surplus or a deficit or the budget may be more or less a balanced one. While a surplus or a balanced budget presents no problems, a deficit in the budget necessitates adoption of corrective measures to remove the imbalance. These measures inevitably involve additional mobilization through higher taxation or economy measures, streamlining of administration, a better-orchestrated tax collection effort etc. What measures are adopted is dictated by the policy decisions taken at the highest level. These crucial decisions are embodied in the speech made by the Finance Minister while presenting the budget to the State Legislature.

Revised Estimates

After the budget is presented at the beginning of the year, many developments take place during the course of the year which necessitate a review and revision of the budget. This is a regular exercise undertaken during the course of the year and based on the anticipated excess expenditure or savings made under different grants, the revised estimates are prepared. These are backed by supplementary demands in the Budget Session, wherever these estimates revealed expenditure in excess of the sanctioned grants. Where savings are foreseen, the administrative departments are required to surrender them in good time in accordance with the time-table laid down for

the purpose. Similar revised estimates are prepared in respect of the receipt head also.

(VI) NON-PLAN AND PLAN EXPENDITURE

The resources raising capacity of the State Government decides the size of the Five Year Plans and the Annual Plans of the State. While it is not intended to discuss the details of the planning process here, a quick reference to the essentials of the planning process would be quite in order. The Planning Department of Mantralaya co-ordinates all the work relating to the formulation of the Five Year Plans and the Annual Plans of the State. There are two high level bodies at the State level namely the Planning Sub Committee of the Cabinet (PSC) and the State Planning Board (SPB). The Chief Minister is the Chairperson for both these bodies while the Ministers for Planning and Finance are the members of these bodies. The PSC has only the ministers holding key portfolios and representing various areas of the State as members. The SPB has non-official membership also. While the PSC takes all final decisions in the matter of Planning in the State; the SPB has an advisory role to play. The Planning Department of Mantralaya, which has general control over all items relating to planning in the State, is subordinate to the PSC.

As indicated earlier, concurrently with the preparation of the non-plan budget estimates, the size of the Annual Plan is finalized in consultation with the Planning Commission, and its sectoral allocations are finalized. The total outlay of the Annual

Plan consists of two parts. One part is met from the financial resources of various statutory bodies viz. Maharashtra State Electricity Board, Maharashtra State Road Transport Corporation, Irrigation Development Corporations, Maharashtra State Road Development Corporation and the loans from the Life Insurance Corporation of India to he various local bodies in the State for their water supply Schemes. This outlay is outside the budget of the State. The rest of the outlay is provided in the Budget. For example the Annual Plan of Maharashtra for 1998-99 comprises the following:

	Rs. (Crores)
Resources of the Statutory bodies	5200 .73
State Budgetable outlay	6400 .00
Total Annual Plan outlay 1998-99	11600 .73

In addition to the above-mentioned budgetable outlay provision is also made in the budget with equal credit for Central Plan and Centrally Sponsored Schemes and outlays being met from the assistance made available by the Central bodies like the National Co-operative Development Corporation etc.

As a part of the process of democratic decentralisation in Maharashtra the State Government decided to adopt the policy of balanced development on the basis of district as a unit of planning for formulation of five year and annual plans. Accordingly District Planning is being implemented in the State since 1974. This is being done through the medium of the

District Planning and Development Councils (DPDCs). Every DPDC is headed by the liaison Minister concerned with the district with the Collector of the district as the member - Secretary, and consists of all elected members of the State Legislature and the Parliament residing in the district as members. Representatives of the Zilla Parishads, Panchayat Samitis, municipal councils and nationalised banks are also the members of the DPDCs The DPDCs have been entrusted with the function of formulating district plans and monitoring implementation of the district level schemes.

The size of the district Plan depends on the size of the annual Plan. The district Plan within the purview of the DPDCs is assumed to be about 25 to 30 per cent of the budgetable outlay of the State Plan including the Tribal Areas Sub Plan and the Special Component Plan. The funds assigned to the MLAs/MLCs local development programme also stand included in District Plans.

The districts are allocated Plan funds based on certain criteria. The entire concept of district Planning in Maharashtra is however, presently in a state of flux in view of the 73rd and the 74th Amendments of the Constitution of India which provide for the formation of District Planning Committees and the Metropolitan Planning Committees, and appointment of Finance Commission for devolution of funds between the State Government and the local bodies. The formation of separate Development Boards for Vidarbha, Marathwada and the rest of

Maharashtra under Article 371(2) of the Constitution of India also has far-reaching effects on The District Planning Process.

The provisions made under Plan are always of developmental nature i.e. all Plan expenditure is development expenditure, while the non-plan expenditure includes both non-development and development terms and expenditure. All expenditure provided under the heads falling under the Section General Service is non development expenditure. The rest of the expenditure viz that provided under the heads falling under the Sections Social Services, Economic Services and Grants-in-aid, is classified as Development expenditure. After completion of a five year plan, the schemes undertaken during the five year period and completed, continue to exist and need to be maintained. The expenditure on the maintenance of the schemes of the earlier five year plans is termed "Committed expenditure" and is classified as non-plan; as these old schemes have to make room for new development schemes claiming allocations from the approved Plan outlay, for the year. At the end of each five year plan the Planning Commission issues detailed guidelines as regards the criteria to be adopted in determining what constitutes "Committed Expenditure".

The Plan provision during a year forms a very small part of the total expenditure provided during the year. For example the total provision made under the consolidated Fund for the year 1998-99 works out to Rs. 34061.52 crore against which the budgetable Plan outlay is only Rs. 6400 crore.

This is, however, not an indicator of the total development effort since a very large portion of the non-plan provision represents development expenditure although it cannot be classified as plan expenditure for the reasons mentioned above.

(VII) BUDGET DOCUMENTS

The main budget document is the **Annual Financial Statement** mentioned in Article 202, and is also known as the **Green Book**. It consists of an introductory note bringing out the overall financial position along with the salient aspects of budget dealing with

i) Actuals of the earlier year
ii) Budget estimates of the current year
iii) Revised estimates of the current year and
iv) Budget estimates presented for the year that follows

The main part of the Green Book is the statement showing major headwise figures for the columns (i) to (iv) mentioned above. The Green Book also includes the schedule of appropriations proposed for the year, which is placed before the Legislature for approval in the Budget session. It also includes a note on the procedure of presenting Gross Demands to the vote of the Legislative Assembly. All other documents presented which are subordinate to the Green Book are listed below :

1) **Civil Budget Estimate (White Book) Part I** - This is a major headwise detailed statement of receipts in the Consolidated Fund and the Public Account.

2) **Civil Budget Estimate (White Book) Part II** - This is a major head-wise detailed statement of expenditure of all the departments. A separate volume is produced for each of the departments.

3) **A major head-cum-departmentwise summary of the White Book (Part II)** along with the disbursements under the Public Account.

4) **Appendices (Civil Budget Estimate Part III)** - In the case of large departments engaged in developmental activities, appendices are issued which list the individual schemes and works, their cost, expenditure incurred till the year end and the budgeted expenditure. There is also an Appendix showing schemewise details in respect of schemes and works transferred to the Zilla Parishads.

5) **Budget Memorandum or the Blue Book (Volumes I and II)** - Volume I has two parts viz. Part I and Part II. Part I deals with receipts and Part II with the expenditure shown Departmentwise and Demandwise. The explanation of variations pertaining to the four columns mentioned above are furnished mostly by minor heads in these two parts.

Volume II consists of Parts III and Part IV. Part III lists all Plan new items while Part IV lists the Non-plan new items. These new items are listed Departmentwise and major headwise. Expenditure on the new items already stands included in the White Book (Part II) but being 'New' in character, is required to be brought to the notice

of the Legislature specifically through the Budget Memorandum.

The documents mentioned above are statutory documents. The other documents presented along with these documents or separately, later or earlier during the session are as follows:

Document	**Department**
1) Annual Plan	Planning Department
2) Economic Survey of Maharashtra	Planning Department and the Directorate of Economic and Statistics
3) Budget in Brief	Planning Department and the Directorate of Economic and Statistics
4) Schemes for the welfare of backward classes and provisions made therefor	Social Welfare, Cultural Affairs and Sports Dept.
5) Performance Budgets	Each Department concerned
6) Subsidies in the Budgets of various Departments	Finance Department

(VIII) PERFORMANCE BUDGETS

Budgeting is a management tool. In order that it should be effective it should combine in it the various processes viz. planning and programming, execution, control, review and evaluation. Traditional budgeting system is essentially designed to facilitate financial and legal accountability of the

'Executive' to the ' Legislature'. In order that the budget should go beyond these two aspects, and provide a comprehensive picture of Government efforts in terms of functions, economics of different programmes, the output and the relationship between the resource provided and the results achieved, and also provide an effective reporting system, the concept of performance budgeting took shape. Performance budget can, therefore, be defined as a comprehensive operational document conceived and presented in terms of functions, programmes and activities with their financial and physical aspects interlinked.

After understanding the contents of the traditional budget of any department, the study of its performance budget would make the budget more comprehensible. The important feature of the document is the Programme-Workload Summary and the explanation of financial requirements. In this summary, attempts are made to relate expenditure provisions in terms of programmes and activities to be carried out and the services to be rendered, targets to be reached, and provide jusification based on past performances and present trends. Usefulness of the performance budget of any Department depends on the extent to which the Programme - Workload Summary part of the document is adequately developed.

There are, however, certain limitations to the usefulness of the performance budget technique. Some Government operations are not susceptible to any satisfactory system of

physical measurement. Many outputs cannot be precisely quantified. The usefulness of the technique is, therefore, limited to only those projects which lead to physical achievements which are quantifiable. In short, the performance budget would serve a very useful part in respect of departments handling developmental activities, while in other cases, their usefulness is very limited.

(IX) ZERO BASE BUDGETING

Zero base budgeting is again a management tool, but unlike the performance budgeting mentioned earlier, it has no direct linkage to the budget framing process. It can best be described as a pre-budget exercise, aimed at ensuring a practical and realistic allocation of resources according to pre-determined priorities. A simple example should clarify the concept.

An entrepreneur is engaged in a manufacturing activity and has several product lines viz. A, B, C, D and E. He has invested resources for all these products in terms of manpower, material, services, marketing, etc according to the needs of each product. He has planned the production based on certain preliminary studies and premises. Being a good entrepreneur, he has periodical review and evaluation process going on which reveals different results for different products. Product A is doing extremely well and supply is much less than the demand. Product B and C are faring well according to expectations. For product D certain modifications appear to be necessary, while product E has proved to be a washout. The entrepreneur would take immediate steps to discontinue production of E and divert the resource to his other product viz. A which has a high potential. In the process the entrepreneur may be able to utilize the existing manpower and machinery used for the product E for the expanded activity for product 'A' or may have to dispense with partly or wholly the manpower rendered surplus and get rid of the unwanted machinery. He takes action accordingy. In doing so he is following consciously or unconsciously, the principle of zero base budgeting.

What is true in the example cited above would be generally true in respect of the activities of Government also. The only snag is that the exercise is not so simple or straightforward and is fraught with a number of undercurrents. Government's activities are not comparable to a purely commercial enterprise where optimization of profit is the principal motive. Government has its social obligations. It cannot cut down on staff summarily for various considerations legal and humanitarian, reactions from the employees' unions, political pressure etc. Also the review and evaluation technique cannot be standard or uniform for the varied activities of different Government departments.

All said and done this does not detract from the soundness of the principle of zero base budgeting which is based on prioritisation of the activities and elimination of the least desirable ones.

Each department with some imaginative and original thinking and pragmatic assessment of its activities should be able to devise review systems to enable them to redirect their resources within the departmental activities, by causing the least amount of disturbance and disaffection.

The Government of Maharashtra had embarked upon the zero base budgeting experiment in the latter part of the eighties. While this effort was acclaimed by some having the right perception of the importance of this management tool, by and large it had a cool reception and had to be practically abandoned in the course of time.

(X) BUDGET IN THE LEGISLATURE

The Annual Financial Statement or the 'budget' is required to be laid before the legislature as provided in Article 202 of the Constitution of India. It is only after the final approval of the budget by the legislature, i.e. after the enactment of the Appropriation Act that the Government is authorized to withdraw money from the Consolidated Fund. From the date of presentation of the budget till the date of passing of the Appropriation Act, a series of steps are taken involving a time-frame which is summarised below :

	No. of Days
1] Presentation of Budget in both houses [i.e. Legislative Assembly and Legislative Council]	1

2] Number of days to elapse before general discussions start in both houses. 2

3] General discussion in both houses simultaneously. 6

4] Voting of individual demands in the Legislative Assembly 18 (maximum)

5] Introduction, consideration and passing of the Appropriation Bill in the Legislative Assembly and the Legislative Council and obtaining Governor's assent to the bill. 2

It will be seen that the Members of the Legislature have the opportunity to participate in the discussion on budget for a maximum of 26 days [vide (3), (4) and (5) above]

General Discussion :- The scope of the general discussion is restricted to matters of general importance e.g. financial and economic conditions of the State, achievements and progress of development programmes, new or fresh taxation measures indicated in the Finance Minister's budget speech, size of non-developmental expenditure etc. At this stage no voting is involved. The Finance Minister replies to the various points raised in the discussion on the last day of the general discussion. The general discussion takes place in both the

houses of the Legislature. After the general discussion, consideration of budget is over as far as the Legislative Council is concerned.

Voting of demands in the Assembly :- This is the second stage of the discussion and consideration of budget. Discussion on departmentwise demands grants starts in the Assembly, which is allotted a period not exceeding 18 days. The MLAs participating in the discussion have to restrict themselves to the issues relating to the demands of the department under discussion. At the end of the discussion of each demand and time limit set for the discussion, the demand is put to the vote of the Assembly.

Introduction of Appropriation Bill :- Soon after the voting of the demands Appropriation Bill seeking withdrawal of money from the Consolidated Fund is introduced. The M.L.As are afforded opportunity to discuss matters relating to such departments as had not figured while voting of the demands took place.

The Appropriation Bill is put to the vote of the Legislative Assembly and after it is passed is sent to the Legislative Council which returns it to the Assembly with or without any recommendations which the Assembly may or may not accept. The bill passed by both the Houses is referred to the Governor for his assent. After the Governor's assent is received, the bill becomes the Appropriation Act. The amounts shown in the Act become the sanctioned grants of the budget and can be withdrawn by the respective Departments from the Consolidated Fund.

It will be seen from the foregoing discussion that the processing of the budget proposals in the Legislature covers a span of 34 days [maximum]. Out of these a maximum of 26 days are available for discussion by the Members. All budget publications are made available to the MLAs and MLCs on the date of the presentation of the budget. All performance budgets become available to them before the start of the general discussion in the Legislature. Thus the members of the Legislature are provided with example material for study with a view to having a meaningful discussion in both the Houses. It is true that the 18 days earmarked for the voting of demands is the maximum limit and can be curtailed at the discretion of the Speaker who consults the Leader of the House. But the elected representatives could always try and persuade the Speaker to allot maximum number of days for discussion.

In order that full budget for the ensuing year should get passed before the end of the year current, a period of 34 days is generally expected to elapse between the day of presentation and the last day of the year viz. 31^{st} March. This becomes impracticable since it has now become the practice to present the budget sometime in the middle of March. As a way out, a vote on account for two months (i.e. for April and May) is obtained by the end of March and discussion of full budget is deferred to the month of April.

(XI) PARTICIPATION OF PANCHAYAT RAJ BODIES IN THE BUDGET PROCESS

Formation of Zilla Parishads was the outcome of the policy of democratic decentralisation. The intention was involvement of local leadership in the formulation and implementation of the schemes concerning local development. Accordingly those schemes which have a bias towards district development have been transferred to the Zilla Parishads for implementation, maintenance and expansion. The expenditure on such schemes along with the expenditure on supervisory staff at district level is reimbursed by Government to the Zilla Parishads in the form of following grants viz.

a) Establishment grants
b) Purposive grants (maintenance grants)
c) Plan grants (on district level plan schemes transferred to the Zilla Parishads)

Various grants payable to the Zilla Parishads under the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 including those mentioned above are as follows:

1) Cess Grants
2) Stamp Duty Grants
3) Forest Revenue Grants
4) Local Cess Matching Grants
5) Incentive Grants
6) Establishment Grants
7) Purposive Grants

8) Plan Grants

9) Block Grants

Grants to Village Panchayats

1) Land Revenue Grants

2) Equalisation Grants

The Zilla Parishads have very limited resources of their own. The State Government has evolved a procedure under which ways and means advances are paid every month to the Zilla Parishads. Entire expenditure on various schemes and works entrusted to the Zilla Parishads is initially met from the ways and means advances, which later get adjusted against the regular grants sanctioned by various departments of Government on the basis of expenditure incurred. Nearly ninety per cent of the total annual expenditure is financed through Government grants and loans. Zilla Parishads are thus almost entirely dependent on the State Government in the financial matters.

The Rural Development Department of the State Government prepares the estimates of the ways and means advances payable to the Zilla Parishads.

(XII) RELEVANCE OF BUDGET STUDY TO SOCIAL WORK

The foregoing chapters would serve to give an inkling of the budget process and the machinery employed for the purpose. This insight is necessary not only to those involved in

the preparation of the budget but also to those who concern themselves with the well-being of the various target groups intended to be covered by the budget provisions. Considering the vastness of the budget and the huge magnitude of various provisions under different departments, it becomes imperative to identify exactly the areas which the social worker must probe, in order that his efforts become meaningful. For this purpose a look at the budget of the Government of Maharashtra for 1998-99 would be useful.

From the Annual Financial Statement it is seen that the total budget provisions for 1998-99 under the Consolidated Fund amount to Rs. 34061.52 crore as shown below:

		(Rs. Crore)
Revenue Account		28440.47
Capital Account		2160.62
Debt Heads		3460.43

	Total	34061.52

The expenditure provided in the budget comprises Non-Plan and Plan expenditure. This classification has been defined and explained to some extent in the relevant chapter. The development programme contemplated for 1998-99 Annual Plan, amounts to Rs. 11600.73 crore and of which the budgetable plan is Rs. 6400 crore. Of this budgetable Plan, Rs.5140.11 crore have been actually provided, in the budget of 1998-99, while an outlay of Rs. 1259.89 crore still remains unbudgeted to be provided during the course of the year through supplementary demands. Thus the balance of the provision (nearly Rs. 28921 crore) would be predominantly non-plan plus a small provision (around Rs. 1100 crore) against Central Plan, Centrally Sponsored Schemes and Schemes of other bodies like NCDC. Even this non-plan provision includes over Rs. 3,500.00 crores for being transferred to the Sinking and the Reserve Funds under Public Account and therefore is not the real expenditure to the Government, except to the extent of the expenditure met from the Reserve Funds. The social worker would therefore, have to concern him/her self mainly with the Plan provisions and to some extent the expenditure under development heads in the non-plan sector.

The Plan expenditure of the year comprises expenditure on new items and the continuing expenditure on items which made their first appearance in the annual plans of the earlier years. The Plan new items which give a description of the schemes taken up are provided in the Budget Memorandum (Blue Book) Volume II and are shown departmentwise. The Blue Books for all the years of the particular plan period would give a complete departmentwise description of the various schemes of public utility provided for in the Plan Budget. The social worker, depending upon his field of work can concentrate on the Plan schemes pertaining to the corresponding department by referring to the Blue Books of the respective years.

The outlay which remains unbudgeted at the beginning of the year, gets budgeted during the course of the year through Supplementary Demands. The Supplementary Demand books presented in each session of the Legislature are also an important repository of information on Plan Schemes.

The maintenance expenditure on the schemes in the earlier five year Plans is also required to be provided for. This is known as 'Committed Expenditure' and although of a developmental nature is included in the non-plan sector. The original Plan Schemes can be checked from the Blue Books pertaining to the Annual Plan periods of the earlier five year Plans.

The other documents relevant for the use of the social worker are the Performance Budgets of the respective departments handling developmental activities, which provide useful basic information such as criteria etc. in addition to the progress level.

The White Book Part III comprises appendices listing out schemes / works of various departments, their estimated cost, expenditure incurred up to date etc. These appendices will also be useful in monitoring the progress of the schemes.

The State’s Directorate of Economics and Statistics publishes every year the Economic survey of Maharashtra which is a very informative document giving salient features of the socio-economic conditions in the State.

The various sources cited above would reveal that there are numerous schemes introduced for the welfare and uplift of the various segments of society. It would always be the concern of the social worker to probe and find out whether the benefits percolate to the intended target groups, and strive through the available channels to energise the machinery wherever the output is found to be not commensurate with the money spent.

GLOSSARY

- Appropriation" means the amount authorised for expenditure under a major or minor head or sub-head or other unit of appropriation or a part of that amount placed at the disposal of a disbursing officer. The word is also used in connection with the provision made in respect of "charged" expenditure.
- "Appropriation Act" means legislation passed in accordance with the Article 204 of the Constitution to provide for expenditure out of the Consolidated Fund of the Maharashtra State and "Appropriation Bill" means the bill introduced for the same purpose.
- "Budget estimates" are the detailed estimates of the receipts and expenditure included in the Budget for a financial year.
- "Charged expenditure" means such expenditure as is not subject to the vote of the Legislative Assembly and is declared to be charged on the Consolidated Fund of the State under the provisions of the Constitution of India or by the Legislature of the State by law.
- "Consolidated Fund of Maharashtra State" is the Fund formed under Article 266 of the Constitution, comprising all revenues received by the State Government, all loans or ways and means advances raised or received by Government and all moneys received by Government in repayment of loans. The disbursements made out of these receipts are shown on the disbursement side of the Fund.

- "Contingency Fund of Maharashtra State" is the Fund established by the Legislature of the State under the provisions of Article 267(2) of the Constitution and is intended to enable advances being made therefrom for the purpose of meeting unforeseen expenditure pending authorisation of such expenditure by the Legislature under Article 205 or 206 of the Constitution.
- "Demand for grant" is a proposal made to the Legislature on the recommendation of the Governor for appropriation of sums out of the Consolidated Fund of Maharashtra for expenditure on a particular service not charged on the revenues of the State.
- "Detailed Head" means a division of accounts subordinate to the sub-head indicating object of classification such as salaries, travel expenses, etc.
- "Major Head" means the main unit of account for the purpose of recording and classifying the receipts and expenditure of the State according to various functions such as agriculture, education, health, etc.
- "Minor Head" means a head subordinate to a major head or a sub - major head denoting plan or non-plan programme under that major head/sub - major head dealing with a particular function of Government.
- "Revised estimate" is an estimate of the probable receipts or expenditure for a financial year framed in the course of that year with reference to the transactions already recorded for a part of the year and anticipations for the remainder of the

year, in the light of the orders issued or contemplated to be issued or any other relevant facts.
- "Sub-head" means an unit of account next subordinate to a minor head which normally denotes the scheme or organisations under that minor head or programme.
- "Sub-Major head" means an intermediate head of account introduced between a major head and the minor heads under it, when the minor heads are numerous and can conveniently be grouped together under such intermediate heads.
- "Supplementary Statement of expenditure" means the statement laid before the Legislature under Article 205 (1) (a) of the Constitution showing the estimated amount of further expenditure necessary in respect of a financial year over and above the expenditure authorised in the Annual Financial Statement for that year or upon any new service not contemplated in the Annual Financial Statement for that year. The demand for a supplementary grant may be for a token or full amount.
- "Vote on account" means a grant made in advance by the Legislature before the commencement of the ensuing financial year, in pursuance of Article 206 (1) (a) of the Constitution in respect of the estimated expenditure for a part of new financial year, pending the completion of the procedure relating to the voting of the demands for grants and the passing of the Appropriation Act.

- "Voted expenditure" means the expenditure which is subject to the vote of the Legislative Assembly, under Article 203 (2) of the Constitution.

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