Budget: Concept and Significance

Budget is one of the most important devices of Financial Administration. It is device to control and regulate the finances of the state. A successful fiscal management revolves around budgeting. However, since the emergences of welfare state committed to plan and secure the socio-economic welfare of its entire people, budget has come to be a major instrument of planning and fixing government policies, plans and programmes for the year to follow.

Meaning:

The term 'Budget' is derived from the 'Bougett' which means sack of pouch. It was a leather bag from which the British Chancellor of Exchequer extracted his papers to present to the parliament the government's financial programmes for the given financial year. To be precise, it is a statement of the estimated receipts and expenditure of the government in respect of a financial year. Budgeting refers to the process of collecting classifying analyzing and presenting the facts and figures. It also contains an account of governmental policies for the coming year. In simple, a budget means a annual financial statement of government's income and expenditure. In India, budget connects the financial plan presented to the legislature for its sanction and the sanctions plans as it emerges after being passed by the legislature.

Thus, budget is a financial plan for a defined period, often one year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. Companies, governments, families, and other organizations use it to express strategic plans of activities or events in measurable terms.

A budget is the sum of finances allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them. It may include a budget surplus, providing money for use at a future time, or a deficit in which expenses exceed income.

Significance of Budget

Any political party which forms government at the Centre has certain social, political and economic responsibilities. In countries with deep cultural, religious and economic diversity such as India, it is extremely important for the government to allocate resources wisely. Various factors such as uplifting underprivileged sections of the society, facilitating financial inclusion, mitigating regional disparity, upgrading defence capabilities, providing proper educational facilities, and much more.

Here are a few reasons why it's important for the government to have a budget:

Proper resource pool allocation

When it comes to budgeting, identifying areas of weakness helps the government to allocate resources in a useful and sustainable manner. This is one of the most fundamental objectives behind framing a government budget. It's important for the government to ensure that funds reach where it's required the most. Therefore using past data to identify sections of the society in need of economic welfare policies and implementing those policies helps the government demonstrate efficient governance and achieve economic stability in the country.

Ensuring economic growth

A budget allows the government to regulate the imposition of taxes in various sectors. Investment and expenditure are some of the most prominent factors contributing to the growth of a nation's economy. The government can encourage people to emphasize more on savings and investments by providing tax rebates and subsidies.

Growth of business and trading

Businesses and enterprises look forward to the government budget as resources being allocated to various sectors are revealed. The government can encourage business owners to revise their policies accordingly and contribute to the country's economic prosperity.

Mitigating economic divide

Economic disparity and inequality is an imminent threat to any country's economy. The government can address these kinds of threats by introducing public and economic welfare policies for the underprivileged sections of the society through the budget.

Administering Operation of PSUs

Industries operating in the public sector contribute immensely to the country's economy by providing employment to a lot of people and generating revenues. A budget helps the government focus appropriately on companies in the public sector by introducing policies to aid their growth.

Budgetary process in India:

The details regarding the total income and expenditure of the Union for the next financial year are known as the 'Annual Financial Statement' or the Budget. Before the beginning of each financial year, the annual budget has to be get passed by the parliament because without the prior approval of the legislature no money can be spent by the government. In our country, the annual budget has to be passed before 1st April every year.

The Article 112 of the Constitution of India laid down that "the causes to be laid before the houses of the Parliament a statement of the estimated receipts and expenditure of the government of India during the financial year". It becomes clear from the above that it is the responsibility of the Union Council of ministers which prepares the budget, places it before the Parliament and get it passed by it.

Till the financial year 2016-2017, the budget is presented before the Parliament in two parts- the Railway Budget and the General Budget. In Railway Budget, the total income and expenditure concerning railways is included which presented in the Parliament by the Railway Minister a few days before the presentation of the General Budget. The total income and expenditure concerning all other departments except the railway department is included in the General Budget. It is important to mention here that the Railway Budget has also been merged into the General Budget from the financial year 2017-2018. This budget is presented in accordance with the established convention by the Union Finance Minister on the last working day of the month of February every year at 11. A.M.

The Budgetary process in India can be categorized under following three broad heads.

a. **Preparation of the Budget:**

Preparation of Budget is a technical and complex process because it is the very basis of the whole economy of the country. The budget is the programme of the chief executive. Efficient budgeting depends on the active co-operation of all department and their subdivisions. Each agency should have a budget office. The budgeting and the programming work of the agency should be interrelated under the direct responsibility of the agency head. Each agency has a budget officer who transmits the agency's views and proposals to the central budget bureau. The communication between central office and the agency officers is a two way communication. India is a federal state with a centre and units each having its own budget. The work of the union budget starts with officers preparing the estimates in the month of August – September every year on the basis of the figures supplied by the Finance Ministry. The Finance Ministry consolidates these estimates in the month of January. These are to be further scrutinized by the Accountant General.

b. Legislation:

The budget is the most important tool of legislative control over the public purse and through the public purse over the executive. It includes control of revenue and expenditure. No tax can be levied without its prior authorization and no expenditure incurred without its prior approval. The Finance Minister presents the budget in the Lok Sabha. Finance Minister presents the budget with the Budget Speech, explaining at length the financial proposals of the government. The Budget is presented in the Rajya Sabha at the same time. After the day of presentation of budget, the Parliament recess for three days to enable the members to study the budget proposals. On reassembly, a general discussion takes place for three days after which demands for grants are voted on the basis of the priority of demands previously agreed by the leaders and approved by the standing committee. Only votable items are put to vote. Motions may be moved to reduce only grant. On the last day all the remaining items are put to vote., Voting on demands for grants is followed by the Appropriation Bill authorizing the issue of money from the consolidated fund and vested in the government the authority to draw money from the consolidated fund.

i. **Vote on Account:** As voting on demands for grants may take some time, a vote on account may be passed providing for the expenditure of a department for about four months in the new fiscal year.

ii. Expenditure on the Consolidated Fund in India: The center and the states in India have each consolidated fund to which all receipts are credited and all authorized for payment are debited. Expenditure is of two kinds- Expenditure to be charged on the consolidated fund and Non charged expenditure. The expenditure to be charged are (a) Salaries and allowances of the President of India and expenditure of his office, (b) the salaries of the Chairman and Deputy Chairman of the Rajya Sabha and the Speaker and Deputy Speaker of the Lok Sabha, (c) the salaries and allowances of the Judges of the Supreme Court and (d) salaries, allowances and pensions of Auditor General of India etc. Except these expenditure all other expenditure is known as non charged expenditure.

iii. The Finance Bill: The Finance Bill is the bill embodying the government's financial (taxation) proposals for the ensuring financial year which has to be passed by Parliament every year. It is open to general and clauses discussion. Amendments may propose the abolition or the reduction of any tax but not any new tax nor an increase in the rate of any existing tax. The Bill as amended is passed by the Lok Sabha and after consideration by the Rajya Sabha goes to the President for his signature on receipts of which it becomes an act.

C. Execution of the Budget:

After the Appropriation Act is passed, the grants as voted by parliament are distributed are being taken to spread the cuts, if any over numerous heads. Appropriation is the allocation of funds to a given unit as passed by the parliament. Within a grant, an intra unit transfer of funds is permissible. Actual expenditure depends on two conditions that is the sanction by competent authority and provision of adequate funds. The spending of public money shall not be spent for the benefits of an individual community and all orders sanctioning expenditure shall be communicated to the auditor. The Accountant General monitors the progress of receipts and expenditure and brings irregularities, if any to the notice of the competent authority.

Conclusion

The Budgetary process in India is well organized and complex practice. It is a time bound exercise with a provision for overcoming the problems that can be posed by a delay in its passing. In budgetary process, the Lok Sabha enjoys a superior role and position to the Rajya Sabha. But if two different parties' or groups have majority in different houses; the Rajya Sabha can also play an active role in this sphere.

The financial administration of our country is always works on the basis of the budget passed by the legislature. Through Budgetary control the legislature exercise a control over the financial Administration.

Performance Budgeting:

Performance budget may be defined as a budget based on functions, activities and projects. Performance budgeting may be described as a budgeting system, where under input costs are related to the end results.

According to the National Institute of Bank Management, Mumbai, the performance budgeting is the process of analyzing, identifying, simplifying, and crystallizing specific performance objectives of a job to be completed over a period, in the framework of the organizational objectives, the purpose and objectives of the job. It involves the evaluation of the performance of the organization in the context of both specific as well as overall objectives of the organization

Performance Budgeting is a system of presenting performance budget in terms of functions and programmes reflecting the government output and its cost. Performance budget is an output-oriented budget emphasizing the accomplishment rather than means to accomplishment.

Even though planned economies like India moved from imperative planning to indicative planning since economic liberalization, the welfare role of government has increased public expenditures and brought with them a good deal of complexity. Planners have been thinking how to control and regulate the increasing public expenditures, and how to make it more efficient. Performance budgeting has been designed to serve the purpose of long range planning.

The most important requirement for Performance Budgeting is a programme of action for any given year with specific indications regarding the tasks and the costs of achieving them. Programme formulation, allocation of resources and budget execution are the core steps giving effect to Performance Budgeting.

1. Establishing a meaningful functional classification of public expenditure.

2. Establishment, improvement and extension of activity schedules for all measurable activities of the government.

3. Establishment of work output, employee utilization, standard or

unit costs by objective methods, i.e. bringing the system of accounting and financial management into accord with the classification.

4. Creation of related cost and performance recording and reporting system.

Merits:

1. It improves legislative review by presenting a comprehensive view of the various departments and agencies of the government. In fact this system ensures the advantages that are likely to accrue from an organic integration of the process of planning and budgeting.

2. It helps to improve public relations by providing clearer information for a rational public appraisal of responsible government.

3. It brings the financial (program funding) and physical (expected results) aspects together, interweaving them in a lace, right from the beginning of the proposal to the final stage of the scheme. This was absent in the traditional planning, programming and budgeting process.

Limitations:

1. The programme and activity classifications developed are sometimes too broad to reveal the significant activities of the department to serve as a basis for budgetary decisions and management.

2. Due to its goal-oriented nature, performance budgeting technique focuses on quantitative rather than a qualitative evaluation.

3. Performance budgeting without decentralized accounting and systematic reporting mechanisms would be ineffective and inefficient.

4. Functional classification is not easy as governmental works are not done in well- organised, watertight compartments. There is bound to be some overlapping. So, what we need is the convergence of the programmes.

5. Resource allocation on paper is difficult to put in practice, because of both structural bottleneck and political reasons.

Conclusion:

However, despite its difficulties and limitations, performance budgeting provides a meaningful basis for administrative planning, executive coordination, legislative scrutiny and administrative accountability at all levels of government. Most importantly, a progressive budget based on performance budgeting would strengthen the democratic process and evoke meaningful participation of the citizens in the implementation of the tasks set out in the budget.

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