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In other words “ Budget is a detail of estimated revenues and expenditures. It is comparative chart of revenues and expenditures and over and above this it is an authority and direction of the competent authority given for the collection of revenues. A prominent scholar defines budget as such “ The budget in modern state, is a forecast and an estimate of all public receipts and expenses. It is financial plans which summarize the financial experience of the past and presents a current plan for a specified period of time in future”. Thus “ Budget is plan of financing for the coming fiscal year. It has two parts an itemized estimate of all revenues on the one hand and all expenditure on the other hand.” Importance of Budget In today’s World Government is finance. According to Kautilya “ All undertakings depend upon finance.

Hence foremost attention must be paid to the treasury”. Financial administration is always at the core of modern government. It is an integral and indispensable tool of administration. It is concerned with implementation of policies. “ Finance is universally involved in administration as oxygen is in the atmosphere.” Functions of the Budget (i) Budget ensures the financial and legal accountability of the executive (government) to the legislature.

(ii) It makes sure accountability of subordinates to superiors in the administrative hierarchy. (iii) It works as an instrument of social and economic policy to serve the functions of allocation, distribution and stabilisation. (iv) It facilitates the efficient execution of the function and services of government. (v) It facilitates administrative management and coordination as it unites the various activities of the government into a single plan. Prevalent Systems of Budget Line Item Budget: It is also known traditional and conventional Budget. Developed in the 18th and 19th century it emphasises on the items (objects) of expenditure without highlighting its purpose and conceives budget in financial terms.

It presents budget in terms of line-item classification under this system, the amount granted by the legislature on a specific item should be spent on that item. This system is also called Incremental Budget because the funds are allotted on an incremental base after identifying the existing base. 2. Performance Budget: This Performance Budget was earlier called functional budget or activity budget.

It originated in U. S. A. The Hoover Commission in U. S. A. recommended the adoption of Performance Budget in 1949. Unlike the line-item budgeting the performance budget lays emphasis on the purpose of expenditure rather than the expenditure itself.

It presents Budget in terms of functions, programmes, activities and projects. It establishes a correlation between the physical performance or output and financial aspects. Hence it necessitates a functional classification of the budget. 3. Programme Budget: Like Performance Budget Programme Budget also originated in U.

S. A. It was introduced in 1965 by President Johnson. This system of Budget integrates the planning programming and budgeting functions it incorporates a scheme of planning in the process of budgeting. 4. Zero-based Budget: Zero based budget was also developed in U. S.

A. in 1969 by Peter Phyrr. Like the performance budget the Zero based budget is also a rational system of budgeting. Under the system every scheme should be viewed and justified from zero (scratch) before being included in the budget. In other words ZBB involves a total re-examination of all schemes afresh (from base zero) instead of following the incremental approach of budgeting which begins with the estimation of the current expenditure.

Sunset Legislation: It is a formal process of policy review for eliminating the undesired outdated redundant and irrelevant programmes. It embodies the self retiring government programme by providing for the termination of statutory authorisation of programmes. This is achieved by placing time limits on government programmes in the legislative enactments themselves by legislature after conducting a detailed review. Formulation of Budget There are four organs which are involved in the formulation of the Budget: 1. The Finance Ministry: It has the overall responsibility for the formulation of the budget and provides required leadership and direction. 2. The Administrative Ministers: They have a detailed knowledge of administrative requirements. 3.

The Planning Commission: It facilitates the incorporation of plan priorities in the budget. We can say that the Finance Ministry remains in constant touch with Planning Commission to incorporate the plan priorities in the budget. 4. The Comptroller and Auditor General: He provides the accounting skills which are necessary for the formulation of the budget estimates.

Stages in Formulation of Budget— Stage 1: In September-October (5-6 months before the commencement of the financial year). The Finance Ministry dispatches circulars and forms to administrative Ministry and invite their estimates of expenditure for the next financial year. The administrative ministry passes on these forms to their local field officers. In these forms the estimates and requisite information have to be filled in by local field officers.

Each such form contains: (i) Actual figures of the previous year. (ii) Sanctioned budget estimates for the current year. (iii) Revised estimates of the current year. (iv)Proposed estimates for the next year. (v) Actuals of current year available (At the time of preparation of the estimates) (vi) Actuals for the corresponding period of the previous year. Stage 2: Head of the departments after receiving the estimates from drawing officers, scrutinizes and consolidates them for the entire department and submits them to the Administrative Ministry. The Administrative Ministry scrutinizes the estimates in light of its general policy and consolidates them for the whole ministry and submits them to the Finance Ministry. Stage 3: The Finance Ministry scrutinizes the estimates received from the view point of economy of expenditure and availability of revenues.

Its scrutiny is nominal in case of standing charges and more exacting in case of new items of expenditure. Stage 4; If there is difference of opinion between the Administrative Ministry and Finance Ministry on the inclusion of a scheme in the budget estimates the former can submit such estimates to the Union Cabinet and the decesion of cabinet in this regard is final. Stage 5: After this, the Finance Ministry consolidates the budget estimates on the expenditure side. Based on the estimated expenditure, the Finance Ministry prepares the estimates of revenue in consultation with the Central Board of Taxes and Central Board of Indirect Taxes.

It is also assisted by Income Tax Department and Central Excise and Customs Department in this regard. Stage 6: The Finance Ministry places the consolidated budget before the cabinet. After the approval of the cabinet, the budget can be presented to the parliament. It must be mentioned that Budget is a secret document and should not be leaked before it is presented to the Parliament. Enactment of Budget/Passage of Budget—Enactment of budget means the passage of the budget by the Parliament and ratification by the President. The government can neither collect money nor spend money without the enactment of the budget. Stages in Enactment of Budget Stage 1—Presentation of Budget— Rule 213 of Lok Sabha provides for presentations of the budget to the Lok Sabha into two or more parts and when such presentation takes place each shall be dealt with in the manner if it were the budget. Accordingly the budget is presented into two parts Railway Budget and General Budget.

The documents that are presented to the Lok Sabha along with the budget are: (i) An explanatory memorandum of the budget. (ii) An Appropriation Bill. (iii) A Finance Bill containing the taxation proposals. (iv) Annual reports of Ministries (v) Economic classification of the budget. General Discussion (Stage 2): The general discussion on budget begins a few days after its presentation. It takes place in both houses of Parliament. During this stage the Lok Sabha discuss the budget as a whole or on any question of principle involved therein but no motion shall be moved nor shall the budget be submitted to the vote of the House.

The Finance Minister has the general right to reply at the end of discussion. Voting on Demands for Grants: After the discussion on general budget is over; Lok Sabha takes up voting on demands for grants. The demands are presented ministry wise. A demand becomes grant after it is duly passed. Voting on demands for grants is the exclusive privilege of Lok Sabha and Rajya Sabha has no power on voting on demands for grants. This voting is confined to votable parts of the budget and the expenditure charged on the consolidated fund of India is put to the vote. It can only be discussed.

General Budget has 109 demands in total in which 103 demands are for civil expenditure and 6 demands are related to defense expenditure. The Railway Budget has 32 demands. Each demand is voted seprately by the Lok Sabha.

During this stage, the members of Parliament can discuss details of the Budget. The proposed expenditure it says that the amount of grant be reduced by specified amount. Third type is Token Cut Motion which ventilates specific grievance which is within the responsibility of the Government of India.

It states that the amount of grant be reduced by Rs. 100. In total 26 days are allotted for the voting of demands. On the last day the speaker puts all the remaining demands to vote and dispose them whether they have been discussed by the members or not. This is known as Guillotine. Appropriation Bill: No money can be withdrawn from the consolidated Fund of India except under appropriation made by law. An Appropriation Bill is introduced to provide the appropriation out of the Consolidated Fund of India all respect to the estimated expenditure for a part of financial year pending the completion of the voting of the demands for grants and the enactment of the Appropriation Bill.

This provision is known as ‘ Vote on Account’. It is passed after the general discussion is over. It is generally granted for two months for an amount equivalent to one sixth of the total estimation. Passage of Finance Bill: Under Rule 219 of the Lok Sabha the Finance Bill means the Bill ordinarily introduced in each year to give effect to the financial proposals of the government of India for the next following financial year and includes a bill to give effect to supplementary financial proposals for any period. It is subjected to all conditions applicable to a Money Bill. Unlike the Appropriation Bill the amendments can be moved in the case of Finance Bill. According to Provisional Collection of Taxes Act 1931 The Finance Bill must be enacted within 75 days.

It means it is must be passed by Parliament and assented to by the President within 75 days. The Finance Act legalises the income side of the budget and completes the process of the enactment of the budget. Other Important Grants Grants Purpose 1. Supplementary Grant When amount is insufficient for the particular service for the year. 2.

Additional Grant When a need arises for expenditure upon new services. 3. Excess Grant Contemplated in Budget when amount is spent in excess of the amount on any service. 4. Vote of Credit to meet an unexpected demand upon the resources of India.

5. Exceptional Grant For special purposes. 6. Token Grant to meet the proposed expenditure on a new service. Execution of Budget Execution of

Budget means the implementation of Budget. Finance Ministry is the central financial agency of the Government of India. Expenditure Part—the Finance Ministry controls the expenditure of administrative ministries/departments in the following ways: (1) By approving policies and programmes in principle. (2) By approving the provisions of Budget estimates.

(3) Sanctioning expenditure subject to the powers which are delegated to the spending authorities (ministers) (4) Providing financial advice through the Integrated Financial Advisor. (5) Re-appropriation of grants (transfer of funds) from one subhead to another. (6) Internal Audit System. (7) Prescribing a financial code to be followed by spending authorities.

Revenue Part: Execution of the budget on the revenue side involves: (a) Proper Collection of Revenues (b) Custody of the Collected Funds (c) Distribution of Funds Stages in Collection of Revenues (1) Devising suitable methods for tax administration and determination of taxation procedure. (2) Assessment of tax that is preparation of a list of persons liable to pay tax and determining the amount to be paid by them. (3) Making provisions for hearing of objections and appeals.

(4) Collection that is realisation of the amount due from the various assesses. (v) Following up and realisation of arrears that is dealing with the defaulters. The Department of Revenue of the Finance Ministry exercises overall control and supervision over the machinery charged with the collection of taxes through the Central Board of Direct Taxes and the Central Board of exercise and Customs. The Reserve Bank of India, SBI and district treasuries (about 300) and sub-treasures (about 1200) are engaged in

custody and distribution of funds. Funds of the Government of India: The Constitution provides three kinds of funds for the Central Government of India.

Consolidated Fusid (An 266): It is a fund to which all receipts are credited and all payments are debited. Public Accounts of India (Act 266): All public moneys (other than those which are credited to the consolidated fund) received on behalf of the Government of India shall be credited to Public Account of India. This includes provident fund deposits, judicial deposits savings, bank deposits etc. Contingency Fund: The Constitution authorises Parliament to establish Contingency Fund into which such sums are paid which may be determined by Parliament from time to time. Like Public Account it is operated by executive action.