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The Links : Policy to People and People to Policy



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## Understanding Budget Terminologies and Process for Monitoring Public Expenditures

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## 1. KNOWING BUDGET IS OUR RESPONSIBILITY

### F The basic principle of budgeting is:

One who spends money should also prepare the estimates in advance.

### F Under Article 202 of the Constitution, a financial statement for each state is presented before the legislature of the state.

Why does a citizen need to know about public budget?

- The government fund is made up of people's money. People fill up government funds by paying indirect (for example, sales tax) and direct taxes (for example, income tax) and also by paying other fees and charges. Through sales tax, poor people have a large contribution in the government fund. Therefore, the majority of the population, i.e. the poor people, have every right to know whether their money is being properly utilized, or whether their money is being spent for development or for reducing poverty.

The Budget Statement of a particular year includes receipts and expenditures of the government for three consecutive years as follows:

F The actual receipts and expenditures of the previous year,

F The revised estimates of the current year, and

F The budget estimates for the ensuing year.

*Note:* The process of preparing the actual accounts, revised estimates and budget estimates will be discussed later on in this booklet (see Section 2).

Which Department of the state government is responsible for preparing the budgets?

- The Finance Department prepares the budgets. They issue a budget circular at the end of August every year.

### Budget Advocacy

Budget advocacy can be carried out all through a year, demanding more allocations for the poor. There is nothing wrong in it. But, the civil society organizations and people's organizations should understand that carrying out strong budget advocacy and lobbying during the period of September-December of a year is more meaningful, since the major decisions or allocations are made during this period. So, *dharna*, rallies, protests need to be organized during this period to a greater extent.

## 2. THE PROCESS OF BUDGET MAKING

The Finance Department sends the circular (along with its skeleton forms and instructions) to Controlling Officers (COs are usually the Executive Heads of the Departments)

The Finance Department scrutinizes the estimates and prepares budgets for the whole state and passes it on to the Assembly for the formal presentation.

COs issue further guidelines to the Estimating Officers for preparing budget estimates in the light of the Budget Circular and their departmental requirements.

The Controlling Officers examine the budget estimates and send them to the Finance Department.

The Estimating Officers prepare budget estimates and submit the same to the concerned Controlling Officers.

The Estimating Officers prepare their estimates in six forms supplied by the Finance Department.

**Form GA1:** This form includes employees' names, details of employees' pay-scales, dates of increments and the amounts required to meet these expenditures. A revised estimate is prepared for the current year and a budget estimate for the coming year.

**Form GA2:** This form includes detailed estimates of other expenditure of an office. A revised estimate is prepared for the current year and a budget estimate for the coming year.

**Form GA 3:** This form includes detailed estimates of the revenues to be collected/earned by the department. A revised estimate is prepared for the current year and a budget estimate for the coming year.

The Estimating Officer prepares the above-mentioned three forms and sends them to the Controlling Officer. On the basis of these three forms, the Controlling Officer prepares forms GA4, GA5 and GA6 in further details in which actual receipts and expenditures in the last three years are added. Forms GA1, GA2 and GA3 are kept in the Controlling Officer's office and forms GA4, GA5 and GA6 are sent to the Finance Department along with current year's revised estimates and coming year's budget estimates.

Note: The above forms are appended by 20 other forms.

Note that, as far as expenditure side is concerned, the above process includes only preparation of the budget that includes establishment costs (salaries, office expenditures etc.). The demands for various developmental schemes (or welfare schemes) come from the gram panchayat, via panchayat samity, to the zilla parishad, with additions of demands at each level. And thereafter District Planning Committee discusses the budget proposals for the whole district and sends the proposals to the Finance Department. Finally, the decisions of allocations are taken at the Finance Department.

## 3. GOVERNMENT FUNDS

Accounts of the state are maintained in three broad parts. These are as follows:

1. Consolidated fund
2. Contingency fund
3. Public account

### 3.1. CONSOLIDATED FUND

This fund includes all the revenues and receipts which the government realizes. This fund consists of:

- F All revenues received by the government of Rajasthan;
- F All loans raised by the government;
- F Funds received as advances;
- F Receipts from recoveries of loans;
- F Grants-in-aid etc.

No amount can be spent from the consolidated fund without the prior approval of the Rajasthan Legislative Assembly.

The consolidated fund has four accounts, namely,

- (1) Revenue Accounts - Receipts,
- (2) Revenue Accounts - Expenditures,
- (3) Capital account - Receipts, and
- (4) Capital accounts - Expenditures.

### 3.2. CONTINGENCY FUND

Through the Contingency Fund of India Act 1950, Article 267 of the Indian Constitution empowers the parliament and a state to create a Contingency Fund.

- F This fund is to meet the urgent expenditure which cannot be delayed (for example, natural calamity relief, disaster relief etc.).
- F For withdrawal, a prior sanction of the state legislature is not needed.
- F But the approvals are to be cleared on a later date by the state legislature.
- F Fund spent are to be filled up later.
- F Rs. 50 crore is currently authorized by the Legislative Assembly for this fund in Rajasthan.

### 3.3. PUBLIC ACCOUNT

Apart from the receipts that form the consolidated fund, there are some other receipts that constitute the public account. These 'other receipts' are:

- F Provident fund collection,

- F State insurance collection, and
- F Small savings collections.
  - For transactions under public account, the government acts like a banker;
  - To make payments out of this account the approval of the state legislature is not needed.

## 4. REVENUE BUDGET AND CAPITAL BUDGET

The government prepares the budgets under two separate accounts every year. One is called revenue budget and other capital budget.

### 4.1. REVENUE BUDGET

Revenue budgets show revenue receipts of the government and the expenditures met from these revenues.

- F Revenue Receipts
- F Revenue Expenditure

#### 4.1.1. Revenue Receipts:

The state receives revenue from three sources:

- F Tax Revenue
- F Non-Tax Revenue
- F Grants-in-aid from the central government

##### 4.1.1.1. Tax revenue

It occupies dominant place in the revenue receipts of government. It comprises of taxes and duties levied by the government. Main components are:

- F Sales tax
- F State excise
- F Tax on vehicles

- F Land revenue
- F Stamp and registration fee
- F Taxes on passengers and goods
- F Taxes and duties on electricity
- F Tax on goods and services
- F Tax on immovable property
- F Tax on agricultural income
- F Entertainment tax
- F Share in central taxes etc.

Note 1: “Share in central taxes” needs to be further elaborated here. The central government collects several taxes. The state receives its shares from the central government under the following heads:

- ✓ Corporation tax
- ✓ Income tax
- ✓ Wealth tax
- ✓ Union excise duty
- ✓ Tax on goods and services
- ✓ Custom duty
- ✓ Service tax

Note 2: There is a separate kind of tax called “other tax on income and expenditure”. Both the central and state governments collect this tax separately. In addition, the state receives a share from the central government's receipt under this head.

#### 4.1.1.2. Direct tax and indirect tax

Theoretically there are two types of taxes collected by the government from the people on whom taxes are imposed. One is direct tax and the other is indirect tax.

**Direct tax:** A direct tax is one paid directly to the government by the persons on whom it is imposed.

Examples: Income tax, corporation tax, wealth tax, service tax, land revenue and tax on agricultural income, estate duty etc.

**Indirect tax:** A tax is called indirect tax that is paid by the people to the government via prices of commodities and services.

Examples: Sales tax, union excise duty, state excise, taxes on vehicles, taxes on goods and passengers, taxes and duties on electricity etc.

#### 4.1.1.3. Non-tax revenue

There are several kinds of non-tax revenues. The broad categories of non-tax revenue include:

- F Interest receipts on loans and advances that are given to:
- G Employees

On demand, the Govt. may provide its employees with house building loans (HBA), conveyance loans etc. The recovery of principal is termed as capital receipts (we will define this term later on), whereas the recovery of interest goes to non-tax revenue receipts.

- G Individuals other than employees
- G Institutions
- G Rajasthan Financial Corporation etc.;
- F Dividends and profits from various government bodies and undertakings;
- F Fees and tariffs charged for education, health services, irrigation, water supply etc.; other receipts from mining royalty; sale of forest produces etc.

#### 4.1.2. Revenue Expenditures

Revenue expenditure in general is the expenditure met from the revenue receipts of the government and does not result in creation of assets. There are three kinds of revenue expenditures. They are:

- F Plan revenue expenditure;
- F Non-Plan revenue expenditure;
- F Centrally Sponsored Schemes.

##### 4.1.2.1. Plan revenue expenditure

First, let us try to understand what plan expenditure is. The term Five-



Year Plan is known to us. There is a state planning board in each state, which prioritizes the developmental programmes the Five-Year Plan. The state proposals are scrutinized by the Planning Commission of India and thereafter the state is provided with financial resources according to the existing plan finance formulae. Such plan expenditures usually include development expenditures, expenditures for welfare schemes etc. Establishment costs (like salary, traveling allowances, medical allowances, office rent, vehicle rent etc.) relating to a particular scheme may also be included in the plan expenditure if the scheme is formulated and adopted under the Five-Year Plan. Central government contributes the most part of the plan revenue expenditures. The planned schemes/programmes may be continued even after the Five-Year Plan is over, but in that case all related expenditures are transferred to the non-plan account. The non-plan expenditures are usually borne by the State Government from its own fund. A relatively very small part of the total revenue expenditure is made through the plan revenue expenditure via general, social and economic services of the government (we will define these three services later on; see page 12-13), and consequently a major chunk of the total revenue expenditure is made through the non-plan account.

#### 4.1.2.2. Non-Plan revenue expenditure

As we said above, a large share of the total revenue expenditure is channeled through the Non-Plan revenue expenditure via general, social and economic services of the government. Establishment and other costs constitute a large share of the non-plan revenue expenditures, which include:

- F Normal running of the government departments (salaries, pensions, traveling allowances, medical expenses, vehicles rents, office rents etc.);
- F Interest payable on borrowing of the government;
- F Subsidies;
- F Grants-in-aid giving to municipalities, panchayat, universities etc. for meeting their establishment costs;
- F Other.

#### 4.1.2.3. Expenditure on centrally sponsored schemes (CSS)

There are several developmental schemes for which fund allocations are shared between central and state governments at different ratios (for example, 50-50 or 90-10 or 75-25 etc.) as per the funding norms of different schemes. Such expenditures are called as centrally sponsored schemes (CSS).

## 4.2. CAPITAL BUDGET

Capital component of the budget comprises of capital receipts and capital expenditures of the government.

### 4.2.1. Capital receipts

Capital receipts of the government are always accompanied by a reduction in the financial or physical assets, or increase in the liability of the government. The main components of these receipts are:

- F Borrowing of different kinds (from market, central government etc.);
- F Ways and Means Advances (WMA) from the Reserve Bank of India (RBI);
- F Recovery of loans and advances.

#### Ways and Means Advances (WMA)

Under Section 17(5) of RBI Act, 1934, the RBI provides Ways and Means Advances (WMA) to the States banking with it to help them to tide over temporary mismatches in the cash flow of their receipts and payments. Such advances are '...repayable in each case not later than three months from the date of making that advance'. There are two types

of WMA normal and special. While normal WMA are clean advances, special WMA are secured advances provided against the pledge of Government of India dated securities. The operative limit for special WMA for a State is subject to its holdings of Central Government dated securities upto a maximum of limit sanctioned. In addition, the RBI has determined limits for normal and special WMA for each State as multiples of the prescribed minimum balance required to be maintained with the RBI by that State. These limits are revised periodically.

### 4.2.2. Capital expenditures

This expenditure of the government is meant for the creation of physical or financial assets and for the reduction of the government liabilities. What kinds of physical assets are built through capital expenditure? Through capital account, the fund is spent on construction of buildings and roads, irrigation projects, water supply etc. Expenditures are made through three accounts:

- F Plan capital expenditure
- F Non-plan capital expenditure
- F Centrally sponsored schemes (CSS)

We have already described above the definitions of expenditures through plan, non-plan and CSS accounts while discussing the revenue expenditures. The same definitions apply here too. But, 'revenue' and 'capital' aspects make the difference.

Note that, in the case of revenue expenditure, the proportion of non-plan expenditure is much higher than that of plan expenditure. It is just the reverse in the case of capital expenditure.

## 5. WHAT ARE GENERAL, SOCIAL AND ECONOMIC SERVICES?

### 5.1. GENERAL SERVICES

This category includes services provided for the maintenance of the general organ of the government like

- Election offices,
- Rajasthan Legislative Assembly,
- Governor's office,
- Council of Ministers,
- Law and order (police and jails),
- Judicial administration,
- Public Service Commission,
- Assessment and collection of sales tax, land building tax etc.,
- Treasury administration,
- Audit and inspections etc.

It is clear from the above that these services are not directly related with the development of the people. That is why expenditure under general services is considered as non-development expenditure, whereas combined expenditures for social and economic services are considered as development expenditure since they are meant for the development of the people.

Note that payments of interest (on the government borrowings) and for pensions are made through the non-plan revenue expenditures under general services.

### 5.2. SOCIAL SERVICES

Social services are the ones through which services for human as well as social development are provided. This category includes the following departments/services:

- Education,
- Urban development,

- Medical and health services,
- Family welfare,
- Water supply and sanitation,
- Natural calamities relief,
- Welfare of SC/ST/OBC,
- Labour and employment,
- Social security and welfare,
- Sports and youth services,
- Information and publicity,
- Art and culture etc.

Housing,

### 5.3. ECONOMIC SERVICES

Economic services are the ones through which services for economic development are provided. Economic services help in raising the economic capacity of the people by encouraging different economic activities. Some major areas of this category are:

- Agriculture and allied activities,
- Agricultural research and education,
- Animal husbandry,
- Fisheries,
- Irrigation,
- Soil and water conservation,
- Dairy development,
- Cooperation,
- Industry and minerals,
- Roads and bridges,
- Road transport,
- Tourism,
- Petroleum,
- Power,
- Rural development,
- Forestry and wild life,
- Food storage etc.

## 6. RAJASTHAN'S BUDGET VOLUMES

The estimates of receipts and expenditures are presented to the Legislative Assembly of Rajasthan in 10 volumes along with the Finance Minister's 'Budget Speech'.

1. Volume 1 Summary statement of receipts and expenditures.
2. Volume 2A Detailed estimates of revenue receipts.
3. Volume 2B Detailed estimates of revenue expenditures general services.
4. Volume 2C Detailed estimates of revenue expenditures social services.
5. Volume 2D Detailed estimates of revenue expenditures economic services.
6. Volume 3A Detailed estimates of receipts and expenditures in capital



accounts.

- 7. Volume 3B Detailed estimates of receipts and expenditures of public debts, loans and advances paid to others, contingency fund and public accounts.
- 8. Volume 4A Details of expenditures (e.g. pay-scale and allowances) for the state employees.
- 9. Volume 4B Details of grants payable to the local bodies (e.g. Panchayati Raj Institutions and municipal bodies).
- 10. Volume 4C Details of construction work to be executed by the Public Works Department (PWD).

## 7. STAGES OF PASSING BUDGET PROPOSALS

No discussion is held on the budget on the day it is presented in the Assembly. The budget is dealt with two stages.

1. General discussion
2. The voting on demand-for-grants

### 7.1. GENERAL DISCUSSION OF THE BUDGET

It relates to administration and policy matters underlying the budget. The general discussion is completed with the replies of the Finance Minister.

### 7.2. VOTING ON DEMAND-FOR-GRANTS

After the general discussion, department-wise demands are taken up for discussion and voting.

### 7.3. APPROPRIATION BILL

After the voting on demands, appropriation bill is introduced by the Finance Minister.

F No fund can be withdrawn from the Consolidated Fund unless the Appropriation Bill is passed.

## 7.4. FINANCE BILL

The financial bill is introduced immediately after the presentation of the budget. But it is moved for consideration of the House after the appropriation bill is passed.

F No revenue can be collected unless the Finance Bill is passed.

## 8. EXECUTION OF BUDGET AND AUDITING

### 8.1. EXECUTION OF BUDGET

F Once the Appropriation Bill and Financial Bill are passed, the government can start collecting revenues and spending money on approved activities;

F The present appropriation lapses at the end of the financial year. So, unspent balance cannot be transferred to the next year.

### 8.2. AUDITING

The Comptroller and Auditor General (CAG) examines the government's account and financial transactions.

CAG consists of two words:

F 'Comptroller' is one who observes and examines the accounts of collection of public money.

F 'Auditor' one who examines the accounts and evidences of expenditures.

Every year CAG publishes reports on 'Civil' Activities, 'Commercial' Activities, and 'Revenue Receipts'. Civil society organizations should collect these reports and study them for monitoring government's expenditures and receipts. The reports are useful for identifying lacunas in the governance and thereafter raising voice. In the reports, the CAG makes some remarks on the government's physical as well as fiscal performance too.

### 8.2.1. Who audits government's accounts at the state level (e.g. in Rajasthan)?

Accountant General (AG) is responsible for

- F The maintenance of accounts (Responsibility of AG (Accounts))
- F The audit of accounts (Responsibilities of AG (audit)-I and AG (audit)-II)

#### 8.2.1.1. Accountant General (Audit)-I

This office is responsible for the audits of expenditures made by

- F The state government offices
- F The central government offices in Rajasthan
- F Autonomous bodies of both the state and central governments located in Rajasthan.

#### 8.2.1.2. Account General (Audit)-II

This office is responsible for the audit of

- F Tax and non-tax receipts of Rajasthan Government
- F Tax receipt of the Union Government within Rajasthan
- F Commercial undertakings of Rajasthan Government.

Although, as mentioned above, the final audit report is published by the CAG, two reports on Finance Accounts and Appropriation Accounts are also published by the CAG on the basis of the AGs' evaluations. These two reports are also useful for monitoring government's expenditures and receipts. Civil society organizations may also want to collect these two reports for tracking public spending.

## 9. CONCEPTS ABOUT DEFICITS

### 9.1. REVENUE DEFICIT

Revenue deficit refers to the excess of revenue expenditures over revenue receipts.

### 9.2. FISCAL DEFICIT

Fiscal deficit is the difference between the revenue receipts plus certain