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## The Budget Making Process

### STAGES OF BUDGET MAKING IN GOVERNMENT OF INDIA

Budget making of any Ministry or Department is a multi-stage process in which every stage provides an opportunity to introduce gender responsiveness. The following paragraphs describe each stage of the process and the related documents.

#### Five Year Plan

The Five Year Plan provides the overall direction and basic framework for policies, programmes and schemes for the Ministries and Departments as well as for the Annual Plans. The formulation of the Five Year Plan is a lengthy and intensive process.

The first step occurs when the Planning Commission requests all Ministries and Departments to set up Working Groups (one department could have more than one working group) under the chairpersonship of their Secretary. These Working Groups include representatives from related Ministries and Departments, non-governmental organisations (NGOs) and experts. Each Ministry and Department can also create Sub-Groups, made up of experts, to undertake in-depth analysis of existing policies, the plan of action, programmes, schemes, and their implementation. This analysis could - and should - include analysis of gender gaps, and an assessment of whether the policy, plan, programme or scheme addresses the needs of women and girls as well as those of men and boys. Based on their analysis and

discussions, the Sub-Groups come up with a set of recommendations which are forwarded to the Working Group. The Working Group(s) of the Ministry or Department consolidates all the recommendations, including proposed financial outlays, and submits these to the Planning Commission in the form of a **Working Group Report**.

Meanwhile, the Planning Commission sets up high-level Steering Committees (usually one for each department) which analyse and hold a series of in-depth discussions on the Working Group Reports received from Ministries and Departments. Based on these discussions, the Steering Committee in turn comes up with a set of recommendations. Based on these recommendations, the Ministries and Departments formulate their Five Year Plans and Annual Plans. A series of discussions with the Planning Commission follow, first at the level of Adviser, then at the level of Member-Secretary and finally at the Member level. The final financial outlays are determined by the Planning Commission, based on the gross budgetary support (GBS) for that five year plan / annual plan communicated by the Ministry of Finance. While the inter-departmental financial allocations are determined by the Planning Commission, the inter-programmatic/schematic distribution of resources is made by the concerned department.

Planning Commission calls for plan proposals from Ministries and Departments and the circular inviting

proposals asks the departments to ensure that social disparities and concerns of vulnerable groups such as Scheduled Castes (SC), Scheduled Tribes (ST) and women are been taken into account while formulating the Plan.

The Planning Commission submits a consolidated report containing recommended outlays for all Ministries and Departments to the Ministry of Finance. The Ministry of Finance estimates the available resources and provides this information to the Planning Commission. If - as is usual - the available resources are less than the total outlays reflected in the consolidated plans, the Commission then undertakes an exercise to trim and re-distribute the outlays for the various Ministries and Departments. In doing this exercise, the Commission keeps in mind both the available resources and the inter-sectoral priorities.

The Planning Commission then informs each Ministry and Department about the overall level of their revised outlay. The Ministry or Department distributes this total among the various sub-heads of expenditure keeping in mind the national and their own priorities. In distributing the total, the Ministry or Department should ensure that gender concerns are not compromised i.e. that it is not the gender-responsive elements of programmes and schemes that are short-changed.

The allocations decided on by the Ministries and Departments become the **Budget Estimates** (BE) for the Five Year Plan.

## Annual Plan

Every year the Planning Commission coordinates a similar exercise (on a smaller scale) as undertaken for formulating the Five-Year Plan to prepare an Annual Plan.

First, the Planning Commission calls for Plan proposals from the Ministries and Departments. The Ministries and Departments assess the performance and requirements of all their schemes and programmes and, based on this assessment, propose outlays to the Commission. The document detailing

these outlays is called the **Statement of Budget Estimates** (SBE). The SBE of a Ministry of Department lists the expenditures proposed to be incurred during a particular financial year on the different programmes and schemes of the Ministry. These outlays are supplemented by Non-Plan expenditures (see below) which cover the salaries, wages and other recurrent expenditure of the Ministry or Department.

The Planning Commission holds separate meetings with each Ministry and Department on their SBE and, based on the discussions, gives an indication of the resources that may be available to the Ministry or Department.

Subsequently, the Planning Commission consolidates all the SBEs and submits the consolidated document to the Ministry of Finance for its approval. As with the Five Year Plan, the Finance Ministry informs the Planning Commission as to the available resources. The Planning Commission adjusts the proposed outlays for Ministries and Departments to arrive at approved estimates for each. The Ministries and Departments, on receipt of approved estimates from the Planning Commission, allocate the resources under the various sub-heads of expenditure. These allocations are known as the **Budget Estimates** (BE) for the Annual Plan.

The BEs are then incorporated into the Budget document, which is presented to the Parliament by the Minister of Finance on 28 February every year.

Before passing (approving) the budget, the relevant Parliamentary Standing Committee for each Ministry and Department discusses the policies and programmes of the Ministry/Department concerned, reviews performance and makes recommendations. This stage presents a further opportunity for ensuring that gender issues are addressed, in that the members of parliament (MPs) can ask gender-relevant questions, and the agency officials can highlight where and how their programmes and schemes will promote gender equality.

## Performance and Outcome Budget

The budget process does not end with the approval of the budget by the Parliament. The approved

budget has to be implemented, and much work can be done in monitoring this process. For example, has the money allocated for a specific purpose been spent? Has it been spent properly? Who has it reached in gender terms, in terms of rich and poor, etc?

To assist in answering these questions, each Ministry and Department is required to prepare a Performance and Outcome Budget, which is presented along with the Annual Report of the department concerned to Parliament. These documents form one of the bases on which the Parliamentary Standing Committees (department-wise) examine the department's Demand for Grants for the next financial year. These Performance and Outcome Budgets are prepared in the middle of the financial year and tabled in Parliament. The document contains a brief introductory note on the organisation and function of the Ministry or Department, lists major programmes and schemes implemented by the agency, its mandate, goal and policy framework, budget estimates, analyses physical performance of each scheme and the linkage between financial outlays and outcome, reviews overall trends in expenditure over recent years, reviews performance of statutory and autonomous bodies under the administrative control of the agency, describes reform measures, and presents targets and achievements and plans for future refinements. As far as feasible, coverage of women and SC/ST beneficiaries under various developmental schemes and schemes for the benefit of North Eastern Region are separately indicated. The guidelines for the Outcome and Performance Budget also state that the document should describe how reform measures and policy initiatives relate to intermediate outputs and final outcomes in areas such as gender empowerment, among others.

Beyond the two specific mentions of gender in the guidelines, the broad coverage of the Performance and Outcome Budget presents many further opportunities for highlighting gender issues, and for describing the extent to which the needs of women and men, as well as those of boys and girls, have been met through the expenditures.

## Revision of estimates

During November-December of each year, every Ministry and Department reviews its Plan and Non-Plan expenditure. Where considered appropriate, the original estimates for particular programmes and schemes are revised, and the Revised Estimates (RE) for the remainder of the financial year indicated to the Planning Commission.

## Reporting on actual expenditure

At end of the financial year, each Ministry and Department reports the actual expenditure incurred by it during the year to the Planning Commission.

## Audit

After the year is over, the budget is subject to audit. The Comptroller and Auditor General (CAG) of India studies the allocations and expenditure and produces a report on each Ministry and Department. Each agency is required to respond to the CAG's comments. Their answers are scrutinised by the CAG, who then prepares a final report which is tabled in Parliament. In the Parliament, the Public Accounts Committee scrutinises the report and recommends necessary actions. This brings to an end that particular cycle of the budget.

After the accounts of the government have been audited, the revised figures become the actual expenditures. The succeeding budget presents these figures for the information of the Parliament. Each year's budget document thus includes three sets of estimates:

- The allocations proposed for the coming year;
- The revised estimates for spending in the past year; and
- The audited figures for actual expenditures two years ago.

## OTHER BUDGET-RELATED DOCUMENTS

The description of the budget process presented above refers to a range of documents that relate to the different steps. In addition, there are several other important budget-related documents.

The **Medium-term Fiscal Policy Statement** sets out a three-year rolling target of specific fiscal indicators along with the underlying assumptions. The statement is produced by the Ministry of Finance and tabled in Parliament in February of each year. The statement includes an assessment of sustainability relating to the balance between expected revenue receipts and revenue expenditure and the use of capital receipts including market borrowings for generation of productive assets.

The **Fiscal Policy Strategy Statement** describes the policies of the Central Government for the ensuing financial year relating to taxation, expenditure, lending and investments, administered pricing, borrowings and guarantees. It is produced by the Ministry of Finance and tabled in Parliament. The document outlines the strategic priorities of the Government in the fiscal area, explains how the current policies conform to sound fiscal management principles and provides the rationale for any major deviation in key fiscal measures.

The **Macro-economic Framework Statement** contains an assessment of the growth prospects of the economy and the underlying assumptions on which this is based. The Statement is produced by the Ministry of Finance and tabled in Parliament. It discusses, among others, the growth rate in gross domestic product (GDP), the fiscal balance of the Central Government and the external sector balance of the economy.

The document **Budget at a Glance** provides a summary of planned receipts and expenditures. It includes a broad breakdown of planned expenditure into Plan and non-Plan, by sectors, as well as by Ministries and Departments. It also gives information on resources to be transferred by the Central Government to State and Union Territory Governments. In addition, it gives various deficit indicators.

The **Finance Minister's speech** when presenting the Budget in the Parliament provides a perspective of the Government's policy direction. Recent speeches have referred to Government of India's Gender Budgeting work in the form of establishment of

gender budget cells and production of the gender budget statement.

## COMPONENTS OF THE BUDGET

In order to understand budget documents, we need to understand some of the basic categories used in presenting the estimates.

Firstly, there are two major funds operated by a government. These are:

- **The Consolidated Fund:** It is into this fund that money received by the government is put, and it is from this fund that money is spent. Thus the money received by the government from taxes and other sources is placed in the Consolidated Fund of the government. Withdrawals can only be made on the basis of an appropriation approved by Parliament. The budget presents details of what the government expects to receive, how it expects to receive that amount, and how it plans to spend the money from the Consolidated Fund.
- **The Public Account:** This fund is used in situations where the government acts as a banker for funds that are not its own. This money does not belong to the government. An example is the provident funds savings of employees. The contributions of employees to the provident fund, along with the contributions from employers, are placed in the Public Account. This money is handled by the government as a trustee. The budget presents the details of the Public Account each year to the Parliament but Parliament does not have direct decision-making power over this money.

The **Contingency Fund** is an imprest from the Consolidated Fund, and may be used by the government without waiting for an appropriation bill to be passed by Parliament. If it becomes necessary for the government to incur an expenditure not included in the budget, it can do so from the Contingency Fund. The law puts a cap on the amount in the contingency fund, and Parliament must be told how it has been spent.

A second important distinction is that between revenue/current and capital expenditure.

- Many of the transactions that the government undertakes are intended to keep the machinery of governance running. Expenditures that are of a current or regular nature - like payment of salaries - are current expenditure. Such transactions are shown in the **Revenue or Current Account** of the budget.
- Other expenditures are intended to create assets to be used in the future. For example, the government may undertake a programme of building roads and may incur expenditures that stretch over a period of time in order to do so. Such items are shown in the **Capital Account**.

A further distinction made in Government of India budgets reflects what is referred to as the economic classification of the budget. This classification distinguishes between **Developmental and Non-developmental Expenditure**. Developmental expenditure is meant to contribute to some aspect of development, and is generally considered "good". Non-developmental expenditure includes items

related to the cost of running the government. An increase in non-developmental expenditure is often considered "bad". It need not be so - for example, expenditure on the maintenance of assets is desirable even if it is not "developmental", and expenditure on teachers' salaries is essential if the spending on building of schools is to have impact.

A further common distinction is that between **Plan and Non-Plan expenditure**. Plan expenditure reflects new projects undertaken in a new Five Year Plan and represents investment. At the end of the Plan period, expenditure on the maintenance of items created by Plan investment is moved to Non-Plan accounts.

While there was some meaning to the Plan/non-Plan distinction in the 1950s when Five Year Plans were started, over the years the distinction has lost meaning. This has happened because, when the fiscal position was weak, Plan funds were sometimes used for non-Plan purposes and at the end of the Plan period, projects were not transferred to the non-Plan account but instead continued on the Plan account. Today the recurrent/capital distinction is more meaningful than the Plan/non-Plan distinction.