

9. Budget Making Process in India: An Overview

(For Degree Part-III, Paper-V, Political Science (Hons.) Students)

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The term 'budget' has been derived from the French word 'bougette', which means a leather bag or wallet. The first use of the term 'budget' may date back to 1733 financial statement by Walpole as Prime Minister and Chancellor of the Exchequer.

To function effectively and discharge its duties and obligations, every government needs resources. Through the budgetary process, the Indian Parliament authorizes the government of the day to collect funds by way of taxes, duties, cess, borrowings and so on. The funds so collected by the government are used, with the approval of Parliament to meet its expenditure. The President of India is obliged constitutionally to have the Annual financial Statement for the ensuing financial year laid on the table of the House under Article 112. But, according to Art. 77(3), the Finance Minister has been made responsible to prepare the Annual Financial Statement and pilot it through Parliament. The budget process in India, like in most other countries, comprises four distinct phases.

1. **Budget formulation:** the preparation of estimates of expenditure and receipts for the ensuing financial year;
2. **budget enactment:** approval of the proposed Budget by the Legislature through the enactment of Finance Bill and Appropriation Bill;
3. **budget execution:** enforcement of the provisions in the Finance Act and Appropriation Act by the government—collection of receipts and making disbursements for various services as approved by the Legislature; and
4. **Legislative review of budget implementation:** audits of government's financial operations on behalf of the Legislature.

Normally, the budget-making process starts in the third quarter of the financial year. In India the Railway Budget is separately presented by the Union Railway Minister, two days prior to the General Budget. The Railway Budget figures relating to the receipt and expenditure of the railway are also shown in the General Budget, since they are a part and parcel of the total receipts and expenditure of the Government of India.

In the Union government, there is a budget division in the department of economic affairs under the Ministry of Finance. To start the process, the budget division issues an annual budget circular around the last week of August or the first fortnight of September every year. This annual budget circular contains detailed instructions for the Union government ministries/departments relating to the form and content of the statement of budget estimates to be prepared by them. Each form contains the following columns:

- i. **Actuals** for the previous Year
- ii. **Sanctioned Estimate** for the Current Year
- iii. **Revised Estimate** for the Current Year
- iv. **Budget estimate** for the next year

Then review and consolidation of all these estimations are getting done by the respective departments/ministries and after consolidation the same is to be forwarded to the Finance Minister by the middle of the November.

The Budget Estimates prepared by various administrative ministries are broadly divided into three parts:

- i. Standing Charges (pay, allowances, honorarium, etc.)
- ii. Continuing Scheme
- iii. New Scheme

Consultations: Budget making exercise is not a unilateral work undertaken by Finance Ministry exclusively. It involves various stakeholders of economy and it holds wide ranged consultations with

- a. Administrative Ministries ;

- b. Interest Groups the consultation with farmers, labour unions, business, economic and civil society groups etc.
- c. State Governments: demands to the state are sent to the concerned finance ministry department for evaluations.

Once the pre-budget meetings are over. The approved ceiling for expenditure, as finalized in these meetings, is communicated. It includes internal ceilings of revenue and capital expenditure. Based on these limits, each ministry/department will prepare a final statement of budget estimate and sent to the budget division. Then Budget department gets on with the task of preparing the budget documents. There are more than 13 documents, which are tabled in the Lok sabha.

Role of Parliament-The procedure adopted in parliament dealing with the budget involves following stages:

1. Presentation of the Budget (Part A & Part B)
2. Discussion on Budget (General & detailed)
3. Budget goes to Standing Committee

The presentation of the Budget for the ensuing fiscal year (beginning April 1) is usually done on the last working day of February. The Indian constitution has made the Parliament supreme in financial matters. The Union government, under **Article 112** of the constitution, is required to lay an annual financial statement of estimated receipts and expenditure before both Houses of Parliament. It can levy taxes or disburse funds only on approval in both houses of Parliament. However, the proposal for taxation or expenditure has to be initiated within the Council of Ministers, specifically by the Minister of Finance. The Finance Minister presents before the Parliament, a financial statement detailing the estimated receipts and expenditures of the central government for the forthcoming fiscal year and a review of the current fiscal year.

Under **Article 114** of the Constitution, the government can withdraw money from the Consolidated Fund of India only on approval from Parliament and so it has to

get the **Appropriation Bills** approved by Parliament. This authorises the executive to spend money. **Article 265** of the Constitution prohibits the government from collecting any taxes without the authority of law. Therefore, the government comes up with the Finance Bill. The Bill may levy new taxes, modify the existing tax structure or continue the existing tax structure beyond the period approved by Parliament earlier. The bills are forwarded to the Rajya Sabha for comment. The Lok Sabha, however, is not obligated to accept the comments and the Rajya Sabha cannot delay passage of these bills. The bills become law when signed by the President. The Lok Sabha cannot increase the request for funds submitted by the executive, nor can it authorize new expenditures.

Method of Control: It is constitutional device to initiate discussion on demands. Usually three types of cut motions are in vogue to exercise parliamentary supremacy, and they are as follows:

1. **Policy Cut**, also known as re 1 cut to express disapproval of policy;
2. **Economy cut** to press for lump sum cut in budgetary allocation; and
3. **Token Cut** to or rs. 100 cut to ventilate specific grievances

However the Parliament has no right to seek increase in budgetary allocation. It can only ask for the reduction.

Once budget is approved by the both houses, funds are allocated to different departments for the expenditure, it has to be audited by the Constitutionally mandated Comptroller and Auditor General of India (C&AG). The reports of the same are to be discussed and deliberated by the Houses and Public Account Committee re-examines it in the light of the report submitted by the CAG. Thus the whole exercise of Budget

HOW THE BUDGET IS PASSED: IN NUTSHELL

PRESENTATION

- Finance Minister presents the budget in Lok Sabha
- The budget speech of the Finance Minister has two parts. Part A deals with general economic survey of the country and policy statements while Part B contains taxation proposals.
- “Annual Financial Statement” is laid on the table of Rajya Sabha after the Finance Minister’s speech.

DISCUSSION

- No discussion follows immediately after the budget is presented
- Few days later the Lok Sabha discusses the Budget as a whole and not the details for 2 to 3 days
- The FM makes a reply at the end of discussion
- A ‘Vote on Account’ for expenditure for the next two months of ensuing year is obtained from Parliament
- The House is adjourned for a fixed period
- During this period, the Demands for Grants of various ministries/departments including Railway are considered by relevant standing committees.

VOTE

- Standing Committee reports are presented to the House. It discusses and vote on demand for Grants, ministry-wise
- The Speaker puts all the outstanding Demands to the vote of the House. This device is known as “Guillotine”. The Lok Sabha has the power to assent to

or reduce any demand or even to reduce the amount of Grant sought by the Government

- In the Rajya Sabha, there is only a general discussion on the budget. It does not vote on the Demand for Grants.
- After the General Discussion on the Budget proposals and Voting on Demand for Grants have been completed, government introduces the Appropriation Bill. The Appropriation Bill is intended to give authority to the government to incur expenditure from and out of the Consolidated Fund of India.
