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UNIT III: BUDGET

PREPARED BY

DR SANGITA BHARATI

ASSISTANT PROFESSOR

DEPARTMENT OF POLITICAL SCIENCE

ORIGIN OF THE WORD

- The word ‘budget’ is originated from the French word Bougette which means leather bag or wallet.
- First used in 1733

DEFINITIONS

- **Dimock** defines, “a budget is a financial plan summarizing the financial experience of the past stating a current plan and projecting it over a specified period of time in future.”

- **Munro** defines, “budget is a plan of financing for the incoming fiscal year. This involves an itemized estimate of all revenues on the one hand and all expenditures on the other.”

- **Taylo** defines, “budget is a financial plan of government for a definite period”.

- **Storum** defines, “budget is a document containing a preliminary approved plan of public revenue and expenditure.”

- **Harlod R. Bruce** defines, “a budget is a financial statement, prepared in advance of the opening of a fiscal year of the estimated revenues and proposed expenditures of the given organisation for the ensuring fiscal year.”

In simple, budget is the document which contains estimates of revenue and expenditure of a country, usually for a fixed period.

UTILITY OF BUDGET

Budget has immense importance in a country's socio-economic development and financial stability. Following are the utilities of budget:

- **An instrument of Financial Control**: Budget is prepared to meet demands without crossing the limit of resources. The estimation of probable expenditures are placed and verified in an upward pattern within departments. Scrutinizes are done at higher level to cut down expenditures as per spending capacity based on expected estimated revenue; and central budgetary authority does the final scrutiny and takes decision as per policies of the Govt.

- **As a tool of Administration:** a budget incorporates estimations of probable expenditures and revenues of govt. departments, public corporations and govt. aided agencies. This helps the administrators to have a proper picture of the financial condition and environment within which it has to execute projects, programmes and activities.

- **As an instrument of Public Policy:** The budget is vital as it helps to put plans and policies into action. To convert ideas into activities and reality, the extent or degree of conversion/ execution is always determined by the budget. It influences the fiscal activities and operations; capital formations and checks inflation; and overall direction of an economy.

- **As a Tool of Accountability:** budget ensures financial accountability of the executive to the legislature. Similar accountability is also maintained within the hierarchy of the departments/ agencies/ corporations in matters of expenditures as per budgetary sanctions.

- **Informative Role:** The budget contains information about various aspects of govt. and its financial functioning. Budget contains data about economic indicators such as national income, consumption, expenditure, capital investment, deficit financing, etc. Budget also provides information about overall performance of project and programmes of departments in previous term which helps to upgrade, reallocate or change decisions if required.

TYPES OF BUDGET

Budgets can be classified into various categories from different viewpoints. Following is the description of different types of budget.

- **Annual budget** is prepared for one financial year. Generally, Government budgets are annual, i.e., they are prepared for one financial year.

- **Long term budgets** are prepared for three or more years. Countries with planned economy are found to adopt long-term budgeting to meet the needs of long term planning.
- When the estimates of all the Government undertakings are included in one budget, it is known as **single budget**.

- If there are separate department-wise budgets which are passed separately by the legislature, it is called **plural budgeting**.

- A budget is **surplus** if the estimated revenues are in excess of the estimated expenditure.

- When anticipated revenues fall short of the anticipated expenditure, it is a **deficit** budget.

- **Balanced Budget** is that which has no deficit or surplus. The revenues coming are equal to the expenditures.

- A **cash budget** is one wherein the estimates of the various items of income and expenditure include the amounts actually to be received or spent in one year.

- **Revenue Budget** is just the details of the revenue received by the government and the expenditure that is met through it.

- In **departmental budgets** the revenues and expenditure of one department are grouped under it.

- The **performance budget** is one where the total expenditure of a particular project is grouped under the head of the particular programme. This process of budgeting, takes into account the end result or the performance.

PRINCIPLES OF BUDGET-MAKING

Budget is an effective instrument of economic and social changes and progress. It is desirable that it should conform to certain budgetary principles.

- **Budget should be a balanced one:** Budget should be a balanced one, i.e., the estimated expenditure should not exceed the revenue or income.

- **Budget formulation is the responsibility of the executive:** As the Chief Executive is responsible for running the administration, he is in the best position to say what funds are required for it. Therefore, it should, be the duty of the Chief Executive to formulate the Budget; and he be aided and advised by a body of specialists.

- **Estimates should be on a cash basis:** The principle of the cash basis of the Budget means that it should be prepared on the basis of actual receipts and expenditure expected during the year and not on the basis of receipts which are to be realized in some other years or the expenditure which is ordered in that year but is likely to be incurred in the next financial year.
- **Budgeting should be done on the basis of gross and not net income:** Budget should present a clear-cut picture of the gross and not the net income of the country. Both the receipts and expenditure should be fully shown in the Budget and not merely the resultant net position. Gross budgeting is essential to ensure complete financial control of the Legislature.
- **Estimating should be, as far as possible, exact:** Estimates provided in the Budget should be, as far as possible, exact. There should be neither too much of over-estimating nor under-estimating.
- **Annuality of the budget:** The principle of annuality means the budget should be prepared on the annual basis. A year is a reasonable period of time, for which the legislature can afford to give financial authority to the Executive to execute the financial programme.
- **Rule of lapse:** The annuality principle of budgeting also implies that money left unspent during the year for which it was sanctioned must lapse to the Public Treasury and the Government cannot spend it unless re-sanctioned in the next year’s budget. This rule of lapse is essential for effective financial control.

- **The form of estimate should correspond to the form of account:** This principle means that the budgetary heads should be the same as those of accounts. This facilitates budget preparation, budgetary control and the keeping of accounts.
- **Revenue and capital parts of the budget should be kept distinct:** This principle means that overall surplus or deficit may be found out by taking both into account.
- **Single budget:** Lastly, it is also an important principle of Budget making that the government should have a single budget incorporating all revenues as well as expenditures of the government. A single budget presents to the people a clear-cut picture of the financial transactions of the government as a whole.