

KERALA BUDGET MANUAL

Preparation of Budget Part I and II – Revised Estimates

Execution of Budget - Allotment of Funds – Reappropriation – Supplementary Grant – Resumption & Savings.

Appropriation Control – Public Accounts Committee – Public Undertakings Committee.

1. Budget is a statement of the estimated receipt and expenditure of the State, for each financial year, to be laid before the Legislative Assembly under Article 202 (1) of the Constitution of India.
2. Budget Estimates is a detailed forecast of what the different heads of revenue are expected to yield during a financial year and the extent to which funds are likely to be expended during the same period under the different heads of expenditure.
3. Revised estimates is an estimate for the probable revenue and expenditure of the current financial year under the various heads, framed during the course of the year based on the actual transaction of the first five months and anticipation for the next seven months of the year.
4. Chief Controlling Officer: The Head of the Department or other officer who submits estimates direct to Government. He is entrusted with the responsibility of controlling the incurring of expenditure or the collection of revenue.
5. Disbursing Officer: The officer authorised to draw money from the consolidated fund and make payments on behalf of the State Government.
6. Estimating Officer: The head of a department or other officer entrusted with the responsibility of making forecasts of the amount expected to be realised/expected during a year under particular budget heads.
7. Charged expenditure means expenditure which is not subject to the vote of the Legislative Assembly as specified in Article 202 (3) of the Constitution of India.
8. Voted Expenditure means expenditure which is subject to the vote of the Legislative Assembly.

9. Grant means the sum sanctioned by the Legislature for a particular service/function with reference to a demand presented to it, and eventually included in an Appropriation Act.
10. Re-appropriation means the transfer of funds from one unit of appropriation to another such unit. The detailed head is taken as the unit of appropriation.
11. Appropriation Act (para 65)

Appropriation is assignment of funds by the Legislature to meet specified expenditure. As soon as the Demands for grants are passed by the Assembly, Appropriation Bill is introduced and passed. When approved by the Governor, this become the Appropriation Act, which is published in the Gazette. This is the legal authority to draw money from the Consolidated Fund.

12. Performance Budgeting is a technique of presenting the operations of Government in both financial and physical terms, thus enabling evaluation of the performance of each Department. It is a link between the financial outlay and the physical target. Performance budget defines the work to be done or the services rendered, besides estimating the cost at which this is proposed to be done.

13. Appropriation Accounts means accounts which relate to the expenditure brought to account during a financial year to the several items specified in the Law made in accordance with the provisions of the Constitution of India for the appropriation of moneys out of the consolidated fund of the State.

14. The Budget Documents (para 51)

The following budget documents are presented to the Legislature by the Finance Minister on day appointed by the Governor – either by the end of February or early each year.

- (d) Annual Financial Statement (Budget)
- (ii) Detailed Budget Estimates of Revenue
- (i) Demands for Grants and Detailed Budget Estimates
- (ii) Explanatory Memorandum of the Budget

- (iii) Appendix I (Details of Staff)
- (iv) Appendix II (Details of Works)
- (v) Detailed Estimates of Receipts and Disbursement under Debt Heads
- (vi) Five Year Plan Programmes for the year
- (vii) Performance Budget
- (viii) Evaluation Reports
- (ix) Economic Review

15 Vote on Account (para 57)

The budget grants for the financial year cannot be carried over to meet the expenditure for the next year. It has been found impracticable for the Legislature to complete consideration of the budget and make appropriation for the new financial year before its beginning. So grants in advance for certain months (from 1 April until the Appropriation Act is passed) may have to be moved. Advance grants so sought and passed is called Vote on Account. The same procedure as passing of the budget is applicable to vote on Account.

Budget: Annual Financial Statement) is a statement of the estimated receipts and expenditure of the State for each financial year to be laid before the Legislature under Article 202 (1) of the constitution of India. This statement covers all the transactions of the State Government during the previous, current and ensuing years. Budget consists of the following parts:

Part I : The Consolidated Fund

Part II : The Contingency Fund

Part III : The Public Account

Part I The Consolidated Fund comprises of :

1. Revenue
2. Capital
3. Public Debt, Loans and Advances etc.

Revenue Account deals with Taxes, duties, fees, fines and penalties, revenue from Government estates, receipts from Government commercial concerns and other miscellaneous items, and the expenditure therefrom. The capital account deals with expenditure usually met from borrowed funds with the object of increasing concrete assets of a material character or of reducing recurring liabilities such as construction of buildings, irrigation projects etc. Public debt, loans and advances deals with the internal debt of the State Government.

Part II Contingency Fund (Para 96)

The contingency fund has been create under State Law enacted under Article 267 (2) of the constitution of India to make advances for meeting unforeseen and unavoidable urgent expenditure including expenditure on “New Service”. It is maintained in the form of an imprest. The corpus of this fund is Rs.25 crores. The contingency funds is placed at the disposal of the Governor. The fund is held by the Finance Secretary to Government. Advances form this fund will be made for the purpose of meeting expenditure not contemplated in the Budget subject to authorisation of such expenditure by the Legislature subsequently. All expenditure financed from the contingency fund in the first instance should be submitted to the Legislature at the first session meeting immediately after the advance is sanctioned and thus the advance made from the Fund will be resumed to the Fund (vide Appendix 14 – Kerala Contingency Fund Act & Rules).

Part III: Public Account

The Public Account deals with transactions on Public moneys relating to deposits, advances, remittances and suspense. It is meant to record transactions relating to debt (other than the debts included in the consolidated fund). In respect of the transactions of the Public Account the Government functions as Banker and incurs liability to repay the moneys received. Moneys lying in the Public Account do not belong to government as they have to be paid back at some time or other. The Public Account consists of ;

1. Small savings
2. Reserve Funds
3. Deposits and advances
4. Suspense & Miscellaneous
5. Remittances
6. Cash Balance.

Structure of Accounts: There is a six tier classification of transactions-

I tier (Sector) indicates broad grouping of functions/service

II tier (Major heads) indicates the functions of the government such as Agriculture, Education, Health etc. Each head is allotted a Code Number which is a four digit arabic number.

III tier (Sub major head): 2 digit number 01-99

IV tier (Minor heads) is a head of account subordinate to a major head of account to denote various plan and non-plan programmes under each function.

V tier (Sub Head) is a head subordinate to a minor head to denote the scheme or activity undertaken.

VI tier (Detailed Head): this head of account indicates the nature of form of expenditure such as salaries, wages, office expenses, travel expenses, rent major works, minor works etc.

Major heads are arranged in blocks as follows:

	Major Head		Block
1.	Revenue Receipt	:	0020 to 1999
2.	Revenue expenditure	:	2011 to 3999
3.	Capital Expenditure	:	4011 to 5999
4.	Public Debt	:	6011 to 6010

5. Loans & Advances,
inter-state settlement and
transfer to contingency
fund : 6011 to 7999
6. Contingency Fund : 8000
7. Public Account : 8001 to 8999

The codification pattern is evolved in such a manner that the first digit indicates whether major heads fall in the receipt section or expenditure section on revenue, or capital account or loans and advances and public debt or public account section. The last two digits will be the same for the corresponding major heads denoting the same functions.

Example

Major head receipt	Major head expenditure	Major head capital	Major head loan
0210 Medical & Public Health	2210 Medical	4210 Medical	6210 Medical
0213 Housing	2213 Housing	4213 Housing	6213 Housing
1055 Road transport	3055 Road Transport	5055 Road Transport	7055 Road Transport

Head of Account

“A. General Service – 2029 Land Revenue (00-101) Collection Charges 99 Village Establishment- 01 Salaries” is a head of account. This can be written as “A 2029-00-101-99 Salaries” also.

- | | | | |
|------|--------------------|---|-------------------------------------|
| A | General Services | - | 1 st tier Sector |
| 2029 | Land Revenue | - | 2 nd tier Major Head |
| 00 | | - | 3 rd tier sub major head |
| 101 | Collection charges | - | 4 th tier Minor Head |

99	Village Establishment	-	5 th tier Sub Head
01	Salaries	-	6 th tier Detailed Head

PREPARATION OF THE BUDGET

The preparation of the Budget Estimates involves three stages:

- (1) Preparation of the estimates by the Heads of Departments (Chief controlling Officers and Estimating Officers) based on the estimates submitted by the Regional/District Officers.
- (2) Scrutiny of the Budget Estimates by –
 - (a) The Administrative Department
 - (b) The Finance Department
- (3) Final consolidation of estimates in the Finance Department before presentation to the Legislature.

The Heads of Department and other Estimating Officers should submit the estimates, in duplicate to Government, one copy to the Finance Department and the other to the Administrative Department of the Secretariat, on the following prescribed dates:

Non-plan not later than	September 15
Plan later than	November 30
Revenue later than	November 30

NON-PLAN ESTIMATES

Part I Estimates are prepared on the basis of standing sanctions. Budget estimate of revenue should be based on existing rates and expenditure to be incurred by virtue of existing laws, rules and orders.

Part II Estimates are estimates of new expenditure or of abandonment of an existing source of revenue.

Note (i) Proposals for additions to cadres of Services or posts permanently or temporarily.

(ii) Additions to cadres of subordinate services to deal with normal increase of work.

(iii) Temporarily additions to Public Works Department for execution of original work in progress.

Points to be borne in mind while estimating.

(1) Salaries:

Provision should include pay and allowances in all forms, of offices and staff except TA. No separate provision for leave salary to be provided. Provision should not be made normally for posts kept in abeyance. Provision should be made only for the staff to be on duty for the year and not for the sanctioned strength.

Provision for the month of March will be made in the budget estimate of the following year.

Details of officers and Establishment should be furnished to verify calculations. Permanent and temporary staff may be distinguished in the Number statements in Form A. form 3 is used for providing fixed allowances, rates of allowances etc.

(2) Travel Expenses: The estimates should be supported by the actual expenditure for the past three years and abnormal increase in the estimated budget year should be convincingly explained.

(3) Office Expenses: Office expenses include all contingent expenditure including purchase and maintenance of staff car. The provisions proposed against each item of expenditure should be supported by statements indicating the requirements for component items based on the actual of the past three years.

- (4) Major Works: Major works are works the estimates cost to which exceed Rs.5.00 lakh. The PWD and forest Department should furnish details of the works in progress.
- (5) Minor works: Minor works the cost of which do not exceed Rs.5.00 lakh
- (6) Provision for Stores should be estimated on the basis of the past consumption, stock in hand and forecast of requirements for works during the coming year.
- (7) Decretal claims are charged items of expenditure. These are proposed for satisfying court decrees, considering the suits those are taken to court and the unforeseen expenditure arising from court decrees.
- (8) Inter-departmental adjustments and adjustments between different heads of account. Adequate provision should be proposed in the original estimate itself as no supplementary demand could be made justifiably.

Note (i) The estimate should be close. The estimate should be as accurate and realistic as possible. The tendency to under-estimate revenue and over estimate expenditure should be totally avoided/.

- (ii) the estimate should be on cash basis. The estimate should only consider the anticipated actual receipts and payments during the year including arrears of previous years. There is no carry over system of sanctioned sum for subsequent financial year.
- (iii) Lump sum provision should be avoided.
- (iv) Estimates should be rounded to the nearest thousand.
- (v) Provision for losses, if any, should be provided only with prior sanction of Government.

Explanatory Memorandum

Paras 30 and 51 (c), Details like govt. properties or assets proposed to be transferred free of cost or old at concessional rates to Bodies/Institutions/parties and particulars of Govt. properties leased out at subsidised or concessional rates of rent etc. are furnished in the Explanatory Memorandum of the Budget. The Explanatory memorandum also indicates the nature of the various items of receipts and expenditure included under each head and

explain variations between the budget estimates and the revised estimates of the current year and the budget estimates of the current and coming years.

Plan Schemes (Para 16)

Estimates for Plan schemes are prepared not as in Parts – I & II under Non-plan. A single consolidate estimate in the prescribed form comprising both existing/continuing and new schemes need be proposed taking into account the outlay tentatively fixed for each scheme included in the Five Year Plan for the year. In respect of new schemes etc. details and explanatory notes should also be furnished.

Union (Agency) Subjects: (Para 52)

The State Government at present, administers the following subjects as the agent of the Union Government.

- (1) Registration and surveillance of foreigners
- (2) Deportation of foreigners
- (3) Indo-Pakistan/Indo-Bangla Desh Passport work
- (4) Payment of Political Pension from central revenues
- (5) Administration of central Acts such as Explosives Act, Petroleum Act, Indian Arms Act, Rice Milling Industry (Regulation) Act, etc.

The annual estimates in respect of (1) to (3) are forwarded by the Home Department to the Union Ministers concerned. As regards item (4) it is based on no estimates but based on the annual payments agreed to, by debit to central funds. In respect of item (5), no estimate need be furnished from 1967-77 as receipts are credited directly to State section of the accounts.

Revised Estimate Para 20

Revised Estimate is an estimate of the probable revenue and expenditure of the current financial year, under the various heads, framed during the course of the year, based on the actual transactions recorded for the first five months and the anticipation for the rest of the year (seven months). Revised Estimates makes no provision for any expenditure ie, a provision if fixed in excess of the Budget Estimates provide for the current year, does not give any authority to incur so much of that provision.

That much can be incurred only after proper sanction by way of re-appropriation or by supplementary demand for grant, even if they are fixed with reference to subsequent schemes/proposals sanctioned by Govt. The Revised Estimate is fixed for information to indicate how far the expenditure already sanctioned will be worked up and it does not supersede the Budget Estimate.

The Revised Estimate helps to arrive at the approximate closing balance and also serve as best guide for the fixing of the next year's budget estimates. Therefore the Revised Estimate has to be fixed in accordance with:-

1. The transactions as recorded for the first five months
2. The expenditure that are likely to be required for the rest of the year.
3. The new schemes sanctioned in the course of the year
4. Additional funds already obtained
5. New heads of account opened during the year and
6. Other relevant factor.

Control of Expenditure

When the budget is passed the grants are distributed among the various controlling and disbursing officers. A Chief Controlling Officer may either retain with him the whole of the appropriation among his sub-ordinate controlling officer who may distribute the funds among the disbursing officers subordinate to them. The detailed head is taken as the unit of appropriation. The unit of appropriation helps not only in attaching

the progress of expenditure under each unit but also ensure that the expenditure does not exceed the grant as a whole. The control of expenditure is exercised by:-

1. the Legislature
2. the Executive
3. Audit

Appropriation Control

Control of expenditure and appropriation control have the same objective viz: to ensure that there is no unauthorised excess over appropriation or unsurrendered saving at the close of the financial year.

Appropriation control is attended to by the Finance Department in the Secretariat, in three different ways;

1. Transfer of appropriation from one unit to another (Re-appropriation)
2. Obtaining additional appropriation (Supplementary grant)
3. Withdrawal of excess appropriation (resumption)

Re-appropriation: (Paras 83-86) means the transfer of funds from one unit of appropriation to another such unit. The estimates included in the schedule of expenditure authorised by the appropriation Act are not rigid. As the estimates are prepared quite early before the financial year, variations between units of appropriation become inevitable. It may become necessary to spend more on one item and less on another. In such cases, necessary transfer of funds are to be made within the grant. No re-appropriation is permissible between voted and charged items. Details regarding the powers and procedure are enumerated in paras 83 to 84. Re-appropriations should be made in multiples of Rs.1000/-.

Supplementary grant: (Paras 87-89)

Supplementary grant means the sum sanctioned by the Legislature over and above the amount already sanctioned during the current financial year. If and when the amount authorised by the Appropriation Act is found insufficient for the purpose of that year or when an unforeseen item of expenditure has arisen upon a new service for that year, another statement laid before the Legislature including the amounts if any on charged expenditure for the approval of the Legislature. The supplementary demand for grant is also passed on the same manner as the budget.

Excess Grant (Para 97) Generally no expenditure in excess of the grants sanctioned by the Legislature should be incurred. But sometimes the expenditure may exceed the grants. Such excess expenditure noticed after the close of the financial year has to be regularised by moving a demand for such excess grant.

Special procedure for PW and Forest Departments

The claims of the PW and Forest Departments are met not by presenting bills at treasuries but by drawing cheques on them. These Departments compile their own accounts and submit to the Accountant-General. Details regarding the procedure is given in paras 79 & 80.

Appropriation Control – Public Accounts Committee –

Estimates Committee

Public Undertaking Committee

In a democratic form of Government, the Executive and the Legislature have well-defined prerogatives and spheres of responsibility. It is the responsibility of the Executive to form late demands for money and it is the prerogative of the Legislature to grant the money required for public expenditure. Legislature has to be assured that the appropriations were spent by the executive for purposes for which they were granted.

This legislative control of expenditure is ensured by the provisions of audit of public accounts by an independent statutory authority (the Comptroller & Auditor General) and the subsequent examination of his report by Public Account Committee or the Committee on Public Undertakings. To examine the estimates presented before the House there is an Estimates Committee also.

Review of the Budget consists of –

- (e) Audit of accounts by the Accountant-General and preparation and submission of the Audit Report.
- (ii) Scrutiny of the Audit Report by the Public Accounts Committee/Public Undertakings Committee
- (iii) Detailed examination of the Estimates by the Estimates Committee.

Audit Report (Paras 98 & 99)

Audit Report is a report on the audited accounts of the Government for a financial year prepared by the Comptroller & Auditor General and presented to the Governor of a State, to be laid before the Legislature.

Audit Report on Appropriation Accounts:- It contains:-

- (1) The comment on the regularity and propriety of expenditure
- (2) Results of audit of all accounts of Govt., commercial or quasi-Govt., concerns and –
- (3) Irregularities discovered during the course of audit of receipt and stores and stock.

Audit Report on Finance Accounts

It deals with the entire receipts and disbursement of a govt., for a financial year. It contains:-

- 1. Revenues and capital accounts

2. Accounts of Public Debt and of the liabilities and assets of govt.
3. Revenue or balance under debt and remittance heads.

Public Accounts Committee (para 108)

Public Accounts Committee consists of eleven members elected by the Assembly from among its members with a non-official Chairman appointed by the speaker. The members are elected for a period of two years. Elections are made after the commencement of the financial year. The procedure for the internal working of the committee is enumerated in Rule 179-210 of the Procedure & conduct of Business in the Legislative Assembly.

Functions of the Committee

1. The Public Accounts Committee scrutinises the Appropriation Accounts to see-
 - (i) That the moneys disbursed by Govt. are duly provided for in the budget and are applicable to the purpose for which they were intended.
 - (ii) That the expenditure conforms to the authority which governs it.
 - (iii) That every re-appropriation has been made by a competent authority.
2. To examine the accounts showing income and expenditure of the commercial undertakings of govt.
3. To examine the results of audit done under prescribed audit of consent audit.
4. To consider the results of audit of receipt and stores and stock

Committee on Estimates; (Para 109)

The Committee on Estimates consists of eleven members elected by the Assembly from among its members after the commencement of the financial year for a period of two years. The primary function of the Committee is to make a comprehensive

examination of the expenditure incurred by particular departments in relation to the resource available. Ensuring best economy is the ultimate aim of the Committee.

Functions of the Committee on Estimates

- (a) To report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be effected.
- (b) To suggest alternative policies in order to bring about efficiency and economy in administration.
- (c) To examine whether the money is well laid out within the limits of the policy implied in the estimates and
- (d) To suggest the form in which the estimates shall be presented to the Assembly

Committee on Public Undertakings (Para III)

The Committee on Public Undertakings is like the Public Accounts Committee, eleven members with a chairman. It was first constituted in November 1968 to examine the working of the public undertakings. The Committee shall be constituted as soon as the commencement of the financial year.

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NEW SERVICE

The term New Service, which appears in Article 115 (1) & Article 205 (1) has not been clearly explained therein. New Services means a service, the expenditure on which is not contemplated in the Annual Financial Statement for the year and for which a supplementary statement of Expenditure should be presented in the Legislature. Until a Supplementary grant is obtained, expenditure on a New Service if at all incurred, should be met out of an advance from the Contingency Fund (para 96 Article 267 (2)). The

criteria for deciding whether a service is 'New' are laid down by Govt. from time to time on the advice of the Public Accounts Committee. (See para 94 Ammended - GO(P)1803/99/Fin dated 15-9-1999 – Appendix 13).

A New Service may be a new form of service or a new instrument of service.
Eg. If Land Board is newly created to implement the land reform measures that is New Service.

In every State there are Hospitals. If a new hospital is decided to be established this is not a new form of service, because hospitals already exist. It is however, a new instrument of service.

A new form of service involve adoption of a new policy, the provision of a new facility, or the alteration in character of an existing facility and is looked up on as a New Service.

A new instrument of service is treated as a new service only if the expenditure involved is relatively large.

No expenditure should be incurred on a New Service even if there are savings with in the grant, before a supplementary grant is thus obtained if the expenditure can be met fully or partly from savings within the grant. A token sum (Rs.1,000/-) or the balance actually required as the case may be need alone be shown in the Supplementary Demand for Grants. Details of the New Service including its financial implications should be given as a foot note.

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