BUDGET

Mr. Thomas G.M.,
Associate professor,
Pompei College Aikala DK.

INTRODUCTION:

- Finance is said to be the **life-blood of any governmental undertakings**.
- Finance and administration are inseparable.
- **No government can function without finance.**
- Finance is to administration like fuel to the engine.
- **The limit of administrative activities is determined by the available financial resources.**
- The greater finance available, the more administrative activities.
- The budget is said to be **the main tool of administration.**

MEANING OF BUDGET:

- The word ‘Budget’ is derived from a French word, ‘**Bougette**’ meaning **a leather bag.**
- Budget, in the modern times means, **a document which contains estimates of revenue and expenditure of a country for the ensuing financial year.**
- Budget is a financial plan of a government for a definite period, says Taylor.
- Budget may be long term or short term.
- Thus, budget is a proposed work programme, with estimates of funds necessary to execute it. In other words, it is a plan of action.

TYPES OF BUDGET:

- The budgets may be classified as below –

1. **Annual Budget**: based on the period covered budgets may be classified into annual budget or long term budgets.

- **An annual budget is one which is prepared for one year alone.**
- Including India most of the countries have annual budgets.
- **Our financial year begins from April 1, to March 31.**

2. SINGLE OR PLURAL BUDGETS:

- **Based on the number of budgets introduced in the legislature**, budgets may be classified as single or plural budgets.
- **In India so far we had two budgets** – one for the Railways and the other for all other remaining departments. This practice started in the year 1921.
- Thus we had a plural budget system.
- However, from this financial year onwards we adopted a single budget system for all the departments at the centre.(2017-18)
- But in England there is single budget.

3. SURPLUS, DEFICIT & BALANCE BUDGETS:

- **Based on the overall financial position depicted in the budget**, they may be classified into surplus, deficit or balanced budgets.
- When **the income is more than the expenditure, it called surplus budget.**
- When the expenditure is more than the income, it is called **deficit budget.**
- But when the income and expenditure have been balanced, it called **balanced budget**.

4. CASH BUDGET OR REVENUE BUDGET:

- Based on the principle adopted in taking the items of income and expenditure in the budget, they can be classified into cash budget or revenue budget.
- **When the budget indicates the actual income and expenditure, it is called cash budget**.
- **When the budget indicates only the estimated income and expenditure** irrespective of the fact that the revenues are realized or expenditures are incurred during the financial year, is called **revenue budget**.

5. DEPARTMENT OR PROGRAMME BUDGET:

- When the budget is for the department as a whole, it is called **departmental budget**.
- But when the budget only for a particular group or programme, it is called **programme budget.**
- **Programme budgeting is also called as performance budgeting**.
- In India, the ARC recommended for the adoption of performance budgeting to all organizations & depts. at both levels of governments.

PRINCIPLES OF BUDGET:

- Budget is an **important tool of social and economic changes in our country.**
- Budget is also rightly regarded **as a major tool of administration.**
- A sound budget must conform to certain principles. They are the following –

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- A sound budget must conform to certain principles. They are the following –

1. Balanced budget,
2. Budget formulation is the responsibility of the executive,
3. Estimates should be on cash basis,
4. Budgeting should be done on the basis of gross & not net income,
5. Estimating should be exact,
6. Annuality of the budget,
7. Rule of lapse,
8. Treasury control,
9. Executive discretion,
10. Single budget,
11. Planning,
12. Research

1. BALANCED BUDGET:

- Budget should be a balanced one.
- **A balanced budget means that public expenditure should not be exceed the revenue or income.**
- Balancing of the budget is the first requisite of financial stability.
- **An unbalanced budget may weaken the faith of investors and may also leads to monetary inflation.**
- However, deficit budget has become a common phenomenon in developing economies.

2. BUDGET FORMULATION IS THE RESPONSIBILITY OF THE EXECUTIVE

- Formulation of the budget is also the responsibility of the executive because, it is his responsibility to run the administration.
- In India, the Ministry of Finance, in England the Treasury and in USA, the Bureau of Budget, help their respective Chief Executives in the budget –planning.
- Thus, **it is very clear that it is the function of the executive alone to prepare the budget.**

3. 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.

4. BUDGETING SHOULD BE DONE ON THE BASIS OF GROSS & NOT NET INCOME:

- Budgeting should be done on the basis of gross & not net income of the county.
- **Both the receipts and expenditure should be fully shown in the budget and not merely the resultant net position.**
- For example, if there is a department with an estimated expenditure of Rs. 45 lakhs and receipts of Rs. 35 lakhs, it should show in the budget both the expenditure and receipts and not merely Rs. 10 lakhs only.

5. ESTIMATING SHOULD BE EXACT:

- Estimates provided in the budget should be, as far as possible, exact.
- **There should be neither too much of over-estimating nor underestimating.**
- If there is **over-estimating of expenditure people are unnecessarily heavily taxed** and if there is under-estimating, the whole budget may thrown out of gear when it comes to execution.

6. ANNUALITY OF THE BUDGET:

- The principle of annuality is one of the most important principle of budgetism.
- **It means that the budget should be prepared on annual basis.**
- In other words, it means that the legislature should grant money to the executive for one year and that no money can be spent by the executive unless it is authorized for that year.

7. 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 government cannot spend it unless re-sanctioned in the next year's budget.**
- This rule of lapse is essential for effective financial control.

8. TREASURY CONTROL:

- The legislature authorises the government to spend money but it does not direct them how to spend it.
- It is the treasury department which is responsible not only preparing the budget of the government but also for exercising day-to-day supervision over the flow of finance to the operating departments or agencies.
- Through its power of sanctioning money, it exercises managerial control over operating departments.

9. EXECUTIVE DISCRETION:

- The executive must be given sufficient **discretion in the matter of allotment of appropriation** if it is to exercise supervision over the activities of the spending departments.
- It **should have the power to make re-appropriations from one minor head to another head.**
- It should also have the power and means to meet emergency expenditure.

10. SINGLE BUDGET:

- 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.

11. PLANNING:

- A budget should be properly planned.
- **It must be based upon planning of the resources and activities of the government.**
- It must also reflect all governmental responsibilities and activities in their social, economic and such other aspects.
- Thus budgeting and programming are the two sides of the same coin.

12. RESEARCH:

- **The planning of the budget should be based on thorough research not only on national requirements and the resources but also of global conditions.**
- A slight change in the economy of one country has far reaching effects in other parts of the world.
- Hence, there is a need for research for a sound budget system.

PRINCIPLES OF BUDGET ....

- According to Dimock, the important budget principles are – publicity, clarity, comprehensiveness, unity, periodicity, accuracy and integrity.
- The above are the principles which are generally followed in every country in the formulation of their budgets.

IMPORTANCE OF BUDGET:

- The budget is an **important tool of financial administration.**
- It is the powerful **instrument of financial and work management.**
- It is through the budget that **economic inequalities are removed.**
- It is through a proper budgeting system that **state can levy tax** for those who are in a position to pay and can benefit the poor and the weak.

IMPORTANCE OF BUDGET…….

- Through proper budgeting policy alone state can mould the trade channel and can create **or check inflations in the country**.
- The state can also help in **promoting social welfare activities and reduce the disparities** between the rich and the poor through budget.
- The problems of **unemployment, illiteracy or such other serious problems** can also be removed through budgeting alone.
- A sound budgeting system is the most **powerful instrument of management.**

IMPORTANCE OF BUDGET…….

- The budget is **an indicator of government policies.**
- Budget **is a tool of planning**, articulation of policies, implementation of programmes and review of accomplishments.
- It is a means of parliamentary financial control, modern **budget is a political document reflecting the plans, policies and social outlook of the government.**