

Annex 8. 1

KEY TO BUDGET DOCUMENTS - BUDGET 2006-2007*

Annual Financial Statement

Under Article 112 of the Constitution, a statement of estimated receipts and expenditure of the Government of India has to be laid before Parliament in respect of every financial year which runs from 1st April to 31st March. This statement titled "*Annual Financial Statement*" is the main Budget document. The Annual Financial Statement shows the receipts and payments of Government under the three parts in which Government accounts are kept: (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

2. All revenues received by Government, loans raised by it, and also its receipts from recoveries of loans granted by it, form the Consolidated Fund. All expenditure of Government is incurred from the Consolidated Fund and no amount can be withdrawn from the Fund without authorisation from Parliament.

3. Occasions may arise when Government may have to meet urgent unforeseen expenditure pending authorisation from Parliament. The Contingency Fund is an imprest placed at the disposal of the President to incur such expenditure. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency Fund is recouped to the Fund. The corpus of the Fund authorised by the Parliament, at present, is Rs.500 crore.

4. Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government accounts, in respect of which, Government acts more as a banker, for example, transactions relating to provident funds, small savings collections, other deposits, etc. The moneys thus received are kept in the Public

Account and the connected disbursements are also made the reform. Generally speaking, Public Account funds do not belong to Government and have to be paid back some time or the other to the persons and authorities who deposited them. Parliamentary authorisation for payments from the Public Account is, therefore, not required. In a few cases, a part of the revenue of Government is set apart in separate funds for expenditure on specific objects like road development, primary education including mid-day meal scheme, etc. These amounts are withdrawn from the Consolidated Fund with the approval of Parliament and kept in the Public Account for expenditure on the specific objects. The actual expenditure on the specific objects is, however, again submitted for vote of Parliament even though the moneys have already been earmarked by Parliament for transfer to the funds.

5. Under the Constitution, Budget has to distinguish expenditure on revenue account from other expenditure. Government Budget, therefore, comprises (i) Revenue Budget; and (ii) Capital Budget.

6. Revenue Budget consists of the revenue receipts of Government (tax revenues and other revenues) and the expenditure met from these revenues. Tax revenues comprise proceeds of taxes and other duties levied by the Union. The estimates of revenue receipts shown in the Annual Financial Statement take into account the effect of the taxation proposals made in the Finance Bill. Other receipts of Government mainly consist of interest and dividend on investments made by Government, fees, and other receipts for services rendered by Government. Revenue expenditure is for the normal running of Government departments and various services, interest charges on debt incurred by Government, subsidies, etc. Broadly speaking, expenditure that does not result in creation of assets is treated as revenue expenditure. All grants given to State

* Reproduction from the Union Budget 2006-07.

Governments and other parties are also treated as revenue expenditure even though some of the grants may be for creation of assets.

7. *Capital Budget* consists of capital receipts and payments. The main items of capital receipts are loans raised by Government from public which are called Market Loans, borrowings by Government from Reserve Bank and other parties through sale of Treasury Bills, loans received from foreign Governments and bodies and recoveries of loans granted by Central Government to State and Union Territory Governments and other parties. Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares, etc., and loans and advances granted by Central Government to State and Union Territory Governments, Government companies, Corporations and other parties. Capital Budget also incorporates transactions in the Public Account.

Accounting Classification

8. The estimates of receipts and disbursements in the Annual Financial Statement and of expenditure in the Demands for Grants are shown according to the accounting classification prescribed under Article 150 of the Constitution. This classification is intended to allow Parliament and the public to make a meaningful appreciation of allocation of resources and purposes of Government expenditure.

9. Under the Constitution, certain items of expenditure like emoluments of the President, salaries and allowances of the Chairman and the Deputy Chairman of the Rajya Sabha and the Speaker and the Deputy Speaker of the Lok Sabha, salaries, allowances and pensions of Judges of the Supreme Court, Comptroller and Auditor-General of India and the Central Vigilance Commission, interest on and repayment of loans raised by Government and payments made to satisfy decrees of courts etc. are charged on the *Consolidated Fund* and are not required to be voted by the Lok Sabha. The Annual Financial Statement shows the expenditure

charged on the *Consolidated Fund* separately.

Demands for Grants

10. The estimates of expenditure from the *Consolidated Fund* included in the Annual Financial Statement and required to be voted by the Lok Sabha are submitted in the form of *Demands for Grants* in pursuance of Article 113 of the Constitution. Generally, one Demand for Grant is presented in respect of each Ministry or Department. However, in respect of large Ministries or Departments more than one Demand is presented. Each Demand normally includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, grants to State and Union Territory Governments and also loans and advances relating to the service. In regard to Union Territories without Legislature, a separate Demand is presented for each of the Union Territory. Where the provision for a service is entirely for expenditure *charged* on the Consolidated Fund, for example, interest payments, a separate *Appropriation*, as distinct from a Demand, is presented for that expenditure and it is not required to be voted by Parliament. Where, however, expenditure on a service includes both '*voted*' and '*charged*' items of expenditure, the latter are also included in the Demand presented for that service but the '*voted*' and '*charged*' provisions are shown separately in that Demand.

11. The Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement. Each Demand first gives the totals of '*voted*' and '*charged*' expenditure as also the '*revenue*' and '*capital*' expenditure included in the Demand separately and also the grand total of the amount of expenditure for which the Demand is presented. This is followed by the estimates of expenditure under different major heads of account. The break up of the expenditure under each major head between '*Plan*' and '*Non-Plan*' is also given. The amounts of recoveries taken in reduction of expenditure in the accounts are also shown. A summary of Demands for Grants is given at the beginning of this document, while details of '*New Service*' or '*New Instrument of Service*' such as formation of a new company, undertaking or a

new scheme, etc., if any, are indicated at the end of the document.

Finance Bill

12. At the time of presentation of the Annual Financial Statement before Parliament, a Finance Bill is also presented in fulfilment of the requirement of Article 110(1)(a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. A Finance Bill is a Money Bill as defined in Article 110 of the Constitution. It is accompanied by a Memorandum explaining the provisions included in it.

Memorandum Explaining the Provisions in the Finance Bill

13. To facilitate understanding of the taxation proposals contained in the Finance Bill, the provisions and their implications are explained in the document titled Memorandum Explaining the Provisions of the Finance Bill.

14. The Budget documents presented in terms of the Constitution have to fulfil certain legal and procedural requirements and hence may not by themselves give a clear indication of the major features of the Budget. To facilitate an easy comprehension of the Budget, certain other explanatory documents are presented along with the Budget.

Budget at a Glance

15. The document Budget at a Glance shows in brief, receipts and disbursements along with broad details of tax revenues and other receipts. This document also exhibits broad break-up of expenditure - Plan and Non-Plan, allocation of Plan outlays by sectors as well as by Ministries/ Departments and details of resources transferred by the Central Government to State and Union Territory Governments. This document also shows the revenue deficit, the gross primary deficit and the gross fiscal deficit of the Central Government. The excess of Government's revenue expenditure over revenue receipts constitutes revenue deficit of Government. Government mainly borrows through issue of dated securities,

i.e. market borrowings. Apart from this, Government also borrows funds under many schemes which form part of capital receipts. The difference between the total expenditure of Government by way of revenue, capital and loans net of repayments on the one hand and revenue receipts of Government and capital receipts which are not in the nature of borrowing but which finally accrue to Government on the other, constitutes gross fiscal deficit. Gross primary deficit is measured by gross fiscal deficit reduced by gross interest payments. In the Budget documents 'gross fiscal deficit' and 'gross primary deficit' have been referred to in abbreviated form 'fiscal deficit' and 'primary deficit', respectively.

Expenditure Budget Vol. 1

16. *Expenditure Budget Vol. 1* deals with revenue and capital disbursements of various Ministries/Departments and gives the estimates in respect of each under 'Plan' and 'Non-Plan'. This also gives analysis of various types of expenditure and broad reasons for the variations in estimates.

17. Under the present accounting and budgetary procedures, certain classes of receipts, like payments made by one department to another and receipts of capital projects or schemes are taken in reduction of the expenditure of the receiving department. The estimates of expenditure included in the Demands for Grants are for the gross amounts while the estimates of expenditure included in the Annual Financial Statement are for the net expenditure as will be reflected in the accounts, that is, after taking into account the recoveries. The document *Expenditure Budget* makes certain other refinements like netting expenditure of related receipts so that inflation of receipts and expenditure figures are avoided and there can be a better appreciation of the magnitudes of various expenditure. The annex showing guarantees given by Central Government and outstanding as at the end of March, 2005 has been included in Receipt Budget. Contributions to International bodies are shown in a separate annex. A statement each showing (i) the estimated strength of establishment of various Government Departments and provision made

therefor; and (ii) Plan grants and loans released by Ministries/ Departments directly to State and district level autonomous bodies, under various Central and Centrally Sponsored Plan schemes are also included in this document.

Expenditure Budget Vol. 2

18. The provisions made for a scheme or a programme may spread over a number of major heads in the Revenue and Capital sections in a Demand for Grants. In the Expenditure Budget Vol. 2, the estimates made for a scheme/ programme are brought together and shown on a net basis at one place, by major heads. To understand the objectives underlying the expenditure proposed for various schemes and programmes in the Demands for Grants, suitable explanatory notes are included in this volume in which, wherever necessary, brief reasons for variations between the Budget estimates and revised estimates for the current year and requirements for the Budget year are also given.

Receipts Budget

19. Estimates of receipts included in the Annual Financial Statement are further analysed in the document "*Receipts Budget*". The document provides details of tax and non-tax revenue receipts and capital receipts and explains the estimates. The document also provides the arrears of tax revenues and non-tax revenues, as mandated under the Fiscal Responsibility and Budget Management Rules, 2004. Trend of receipts and expenditure along with deficit indicators, statement pertaining to National Small Savings Fund (NSSF), statement of revenues foregone, statement of liabilities, statement of contingent liabilities, statements of assets and details of external assistance are also included in Receipts Budget.

Detailed Demands for Grants

20. The Demands for Grants are followed by the *Detailed Demands for Grants* laid on the table of the Lok Sabha some time after the presentation of the Budget, but before the discussion on Demands for Grants commences. These Detailed Demands for Grants show further details of the provisions included in the Demands

for Grants as also of actual expenditure during the previous year. A break up of the estimates relating to each programme/organisation, wherever the amount involved is not less than Rs.10 lakhs, is given under a number of object heads which indicate the categories and nature of expenditure incurred on that programme, like salaries, wages, travel expenses, material and equipment, grants-in-aid, etc. At the end of these Detailed Demands are shown the details of recoveries taken in reduction of expenditure in the accounts.

Resources transferred to States

21. The total resources transferred to State and Union Territory Governments are indicated in a statement incorporated in the document *Budget at a Glance*. Further details of these transfers by way of share of taxes, grants-in-aid and loans are given in *Expenditure Budget Vol.1*. Bulk of grants and loans are disbursed by the Ministry of Finance and are included in the Demand 'Transfers to State and Union Territory Governments', which is presented on its behalf. The grants and loans released by other Ministries/Departments are provided for in their respective Demands.

Plan Outlay

22. Plan expenditure forms a sizeable proportion of the total expenditure of the Central Government. The *Demands for Grants* of the various Ministries show the Plan expenditure under each head separately from the Non-Plan expenditure. The Expenditure Budget Vol. 1 also gives the total Plan provisions for each of the Ministries arranged under the various heads of development and highlights the budget provisions for the more important Plan programmes and schemes. A description of important schemes included in the Plan along with the objectives, targets and achievements is given in the *Performance Budget* of the respective Ministry. Variations in the estimates of Plan expenditure are also explained in this document.

Performance Budget

23. Physical and financial aspects of major programmes and schemes are included in the

Performance Budgets presented to Parliament separately by the Ministries/Departments. *Performance Budgets* are prepared and circulated to Members of Parliament by all Ministries/Departments dealing with developmental activities. The Performance Budget presents the budget of the Ministry/Department in terms of functions, programmes and activities and gives appraisal reports separately in respect of major Central sector projects/programmes estimated to cost Rs.100 crores or more. It also includes a statement on the programmes and performance of the various public sector undertakings under the Ministry/ Department indicating, among other things, the capacity installed and utilised, physical targets and achievements, results of operation, return on capital etc. Performance Budget serves the management as a tool of administrative and financial control in the implementation of development programmes.

Public Sector Enterprises

24. A large part of the Plan expenditure incurred by the Central Government is through public sector enterprises. Budgetary support for financing outlays of these enterprises is provided by Government either through investment in share capital or through loans. *Expenditure Budget Vol. 1* shows the estimates of capital and loan disbursements to public sector enterprises in 2005-2006 and 2006-2007 for Plan and Non-Plan purposes and also the extra budgetary resources available for financing their Plans. A detailed report on the working of public sector enterprises is given in the document titled '*Public Enterprises Survey*' brought out separately by the Department of Public Enterprises. A report on the working of the enterprises under the control of the various administrative Ministries is also given in the Annual Reports of the various Ministries circulated to Members of Parliament separately. The annual reports along with the audited accounts of each of the Government companies are also separately laid before Parliament. Besides, the reports of the Comptroller and Auditor General of India on the working of various public sector enterprises are also laid before Parliament.

Commercial Departments

25. Railways is the principal departmentally-run commercial undertaking of Government. The Budget of the Railways and the Demands for Grants relating to Railway expenditure are presented to Parliament separately. The total receipts and expenditure of the Railways are incorporated in the Annual Financial Statement of the Government of India. However, to portray the actual working and not inflate either receipts or expenditure, the expenditure as reflected in the Receipts Budget & Expenditure Budget Vol. 1 and 2 has been taken net of receipts. The Demands for Grants of the Department of Telecommunications are presented along with other Demands of the Central Government.

26. The receipts and expenditure of the Defence Department shown in the Annual Financial Statement are explained in greater detail in the document Defence Services Estimates presented along with the Detailed Demands for Grants of the Ministry of Defence.

27. The details of grants given to bodies other than State and Union Territory Governments are given in the statements of Grants-in-aid paid to non-Government bodies appended to Detailed Demands for Grants of the various Ministries. Annexure 6 to Expenditure Budget Vol.1 shows details of grants-in-aid exceeding Rs.5 lakhs (recurring) or Rs.10 lakhs (non-recurring) to private institutions, organisations and individuals sanctioned during the year 2004-2005.

Annual Report

28. A descriptive account of the activities of each Ministry/Department during the year 2005-2006 is given in the document *Annual Report* which is brought out separately by each Ministry/Department and circulated to Members of Parliament at the time of discussion on the Demands for Grants.

Economic Survey

29. The Budget of the Central Government is not merely a statement of receipts and expenditure. Since Independence, with the launching of Five Year Plans, it has also become a significant statement of governmental policy.

The Budget reflects and shapes, and is, in turn, shaped by the country's economic life. The Economic Survey brings out the economic trends in the country, which facilitates a better appreciation of the mobilisation of resources and their allocation in the Budget. The Survey analyses the trends in agricultural and industrial production, infrastructure, employment, money supply, prices, imports, exports, foreign exchange reserves and other relevant economic factors which have a bearing on the Budget, and is presented to the Parliament ahead of the Budget for the ensuing year.

30. The Budget of the Government has an impact on the economy as a whole. For a better appreciation of the impact of governmental receipts and expenditure on the other sectors of the economy, it is necessary to group them in terms of economic magnitudes, for example, how much is set aside for capital formation, how much is spent directly by the Government and how much is transferred by Government to other sectors of the economy by way of grants, loans, etc. This analysis is contained in the document *Economic and Functional Classification* of the Central Government Budget which is brought out by the Ministry of Finance separately.

Appropriation Bills

31. After the Demands for Grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill. Under Article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the enactment of such a law by Parliament.

32. The whole process beginning with the presentation of the Budget and ending with discussions and voting on the Demands for Grants requires sufficiently long time. The Lok Sabha is, therefore, empowered by the Constitution to make any grant in advance in

respect of the estimated expenditure for a part of the financial year pending completion of procedure for the voting of the Demands. The purpose of the 'Vote on Account' is to keep Government functioning, pending voting of 'final supply'. The Vote on Account is obtained from Parliament through an Appropriation (Vote on Account) Bill.

Statement of Action Taken on Budget Announcements

33. This contains status of implementation on initiatives announced by the Finance Minister in the Budget Speech.

Medium-term Fiscal Policy Statement

34. The Medium-term Fiscal Policy Statement, as enjoined by the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) sets forth a three year rolling target for specific fiscal indicators along with underlying assumptions. The statement includes an assessment of sustainability relating to balance between revenue receipts and revenue expenditure and the use of capital receipts including market borrowings for generation of productive assets.

Fiscal Policy Strategy Statement

35. The Fiscal Policy Strategy Statement, as enjoined by the FRBM Act, contains the policies of the Central Government for the ensuing financial year relating to taxation, expenditure, lending and investments, administered pricing, borrowings and guarantees. It outlines the strategic priorities of the Government in the fiscal area, how the current policies are in conformity with sound fiscal management principles and rationale for any major deviation in key fiscal measures.

Macro-economic Framework Statement

36. The Macro-economic Framework Statement, as enjoined by the FRBM Act, contains an assessment of the growth prospects of the economy with specific underlying assumptions. It contains assessment regarding the GDP growth rate, fiscal balance of the Central Government and the external sector balance of the economy.