Budgetary Reforms

A paradigm shift in fiscal governance

“Early budget to make funds available at start of fiscal”

- Prime Minister, Narendra Modi

Chapters

Introduction

Fiscal Governance is an important tool in allocation of public resources for achieving the economic objectives of a country. Fiscal Governance also plays an important role in deciding the efficiency and effectiveness in use of financial resources.

Beginning FY 2016-17, three reforms related to fiscal governance was taken up by this Government-advancement of the budget cycle, removal of the Plan-non-Plan distinction and merger of rail budget with general budget.

These reforms helped reduce the delays in availability funds, removing artificial classifications in budgetary allocation and presenting a holistic picture of the Central Government Budget thus sharpening its developmental focus.

Historic Moves by GoI regarding Union Budget

Chapter 1

Advancement of Budget Cycle

On February 1, 2017, when India's budget for the new financial year was presented- the budget presentation was brought forward by a full calendar month and the expenditure cycle by two months.

Not many realized its significance. This seemingly minor tinkering of the budget cycle had a larger objective-reforming fiscal governance. Prior to thisreform, the authorisation from Parliament through 'vote-on-account' was available only for the first two months of financial year. During the 'vote-on-account' period, budget provision was restricted to 1/6th of total expenditure provided in the budget

Vote on accounts often constrained departmental activity, since the financial allocations were available only on account basis. As per the provisions, neither new projects nor substantial enhancement of allocations for existing projects envisaged in the budget could be undertaken in April and May, that is for the period of vote on account.

Advancing budget avoids the process of vote on account and allows the government to fully start its planned schemes, projects and activities from the first day of the new financial year itself. Beginning the investment, growth and development expenditures early in the year in right earnest and without the tentativeness of a vote on account will help timely completion.

Due to the vote on account and onset of monsoon many projects could not even begin before September. Now, before the monsoons can pause the progress of new projects, the availability of the entire financial allocation at the beginning aids early starts to new projects and timely completion of on-going projects.

Expenditure data shows that 30.3% as of budget resources were spent in first quarter of 2017-18, copmared to 25.9 per cent in the immediate preceding year. This four per cent translated to and additional fund flow of ₹85,000 cr in Q1 2017-18.

The benefits of the full budget at the beginning of financial year is also transmitted to the States leading to a fiscally virtuous cascading effect for the whole country. State Governments, who used to present their budgets in the month of February, now have the financial details of Centre's support for implementation of schemes/ projects.

The sufficiently early disclosure of details on State's share of Central taxes, budget support for Central schemes, external aided projects of State Governments in the Union Budget, helps the State Governments plan their project financing, counter-part funding, implementation of central projects and borrowing requirements well in advance.The advancement of the budget cycle aided the synchronisation of financial outlays and expenditure between the Union and the States.

Chapter 2

Merger of Plan and Non-Plan Distinction

Since the 1950s, Budgetary allocations were categorised as Plan and Non-Plan; Plan denoting the allocations on programmes and schemes and Non-Plan referred to mostly establishment items. Such distinction, at times, led to a distortion in the perception of these two types of allocations. Plan was considered, by many, superior and hence preferable. It was often referred to as Developmental expenditure. Non-plan similarly, often, less preferred and termed Non-developmental. Such distinctions and perceptions were wrongly placed. Non-plan expenditure such as maintenance of Defence system, Social security related allocation (pension and insurance), subsidy for poor and underprivileged class, etc.

cannot be termed as non-developmental or bad. Such perception could also distort the sectoral allocation of resources.

Expenditure on school education provides an example of the distortions that the plan / nonplan distinction can cause.. Construction of school buildings and related expenditure was carried out under Plan schemes, while the salary expenditure on teachers was considered nonplan and allocated separately. However, to term either expenditure as more important or not synchronizing the two would lead to sub-optimal allocation of resources.

While the allocations for Non Plan expenditure were made by Ministry of Finance, the allocations for Plan expenditure were done by erstwhile Planning Commission. Though both sets of bodies, worked with a common objective in mind, this fragmented method of allocation made synchronization difficult.

The Narendra Modi Government from Budget 2016-17 onwardsremoved this distinction. The system of separate plan and non Plan expenditure was removed. The fragmented allocation of resources by different agencies was also done away with. With the removal of Plan and Non-Plan classification in budget and accounts, the focus has shifted to holistic allocation on any scheme/ programme with bifurcation on revenue and capital expenditure.

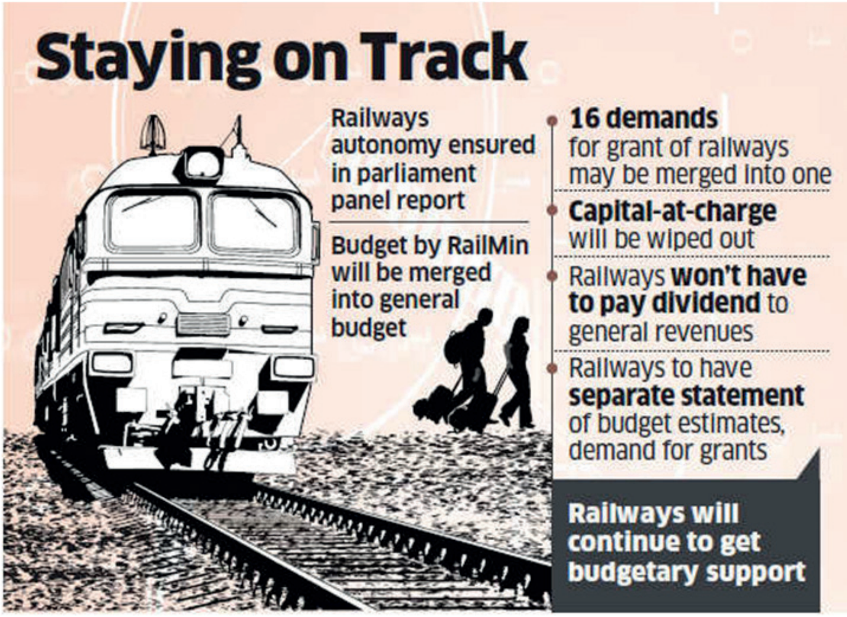
The allocation for scheme/ programme expenditure is also reflected with revenue and capital distinction so that the line Ministries/ Departments can improve on the quality of expenditure.

Chapter 3

Merger of Rail Budget with General Budget

The presentation of separate Railway budget started in the year 1924, and continued after independence as a convention rather than under Constitutional provisions or the present days requirements of the country.

The intention of presentation of a unified budget is to bring the affairs of the Railways to centre stage and present a holistic picture of the financial position of the Government. The merger is reduced the procedural requirements of having two separate budgets and instead bring into focus, the aspects of delivery and good governance.



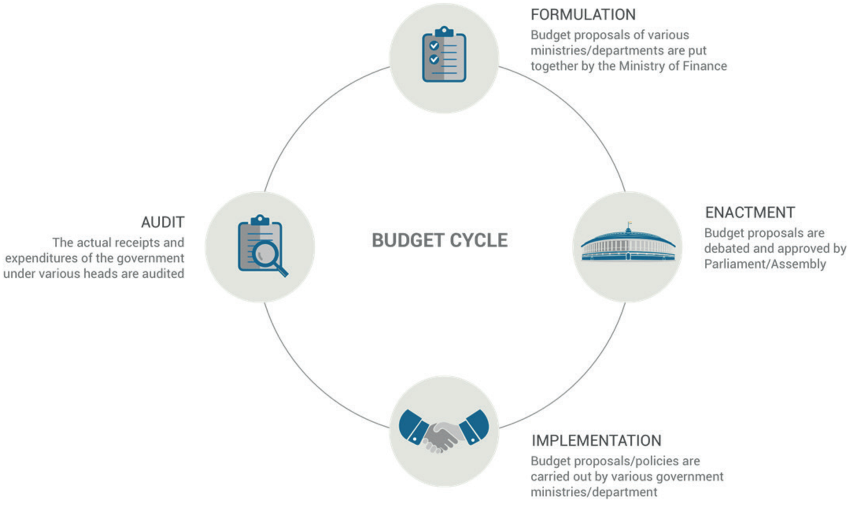
This was aptly captured by the former Finance Minister Arun Jaitley his budget speech - "this decision brings the Railways to centre stage of Government's fiscal policy and would facilitate multi modal transport planning between railways, highways and inland waterways. The functional autonomy of Railways will, however, continue."

Before implementation of this budgetary reform, the long-term fiscal considerations of budget formulation remained fragmented. Further, a formal and public presentation of railway budget, at times, shifted the focus on introduction of new trains and new projects.

With the merger of Railway Budget with General Budget, the focus remained on the long term financial performance of Railways. The focus on financial sustainability, revenue realization and expenditure targets also meant that project evaluation and execution had to constantly improved.

The merger also led to procedural simplification with the number of Demands for Grants operated by Railways was reduced from 16 to 1 making the financial and operational efficiency into sharper focus, transparent and amiable for easier public scrutiny.

In addition to the three mentioned reforms, the introduction and expansion of the Public Fund Management System (PFMS) has also allowed central government to track the funds usage down to lowest tier where goods and services were obtained against payments. This has not only allowed tracking of funds flow but also allowed both centre and states to reduce the quantum of resources lying at intermediate levels without actually reaching the beneficial projects or individuals.


FORMULATION
Budget proposals of various ministries/departments are put together by the Ministry of Finance
ENACTMENT
Budget proposals are debated and approved by Parliament/Assembly
IMPLEMENTATION
Budget proposals/policies are carried out by various government ministries/department
AUDIT
The actual receipts and expenditures of the government under various heads are audited
BUDGET CYCLE

Ministry of Information and Broadcasting
Government of India