- Harold Smith : Budgeteers are 'hopeless sinners'.
They frequently violate these principles..

Importance of Budget - : Through budget, the state can →
- orderly admn of ~~fiscal~~ financial resources and proper fiscal management. → More than a mere statement of income and expenditure.
- economic inequalities can be removed → State can tax those who can pay & benefit the poor and the downtrodden.
- mould the trade channel and check inflation.
- help in promoting social welfare activities
- unemployment and economic deficiencies

⇒ most useful socially, economically, politically
- indicator of govt policies → political document reflecting the plans, policies and social outlook of the govt.
- tool of planning, articulation of policies, implementation of programmes & review of accomplishments.

Types of Budget

1. Legislative Type : prepared by a committee of legislature, on the request of the executive
2. Executive Type : prepared by executive → approved by legislature → executed by executive ; Executive is best judge of req. of spending agencies.
3. Board or Commission Type : used in some US states.

Economic and Social Implications of Budget:

- Vital role in economy of a welfare state
- wide ramifications in the national economy
- through the budget interests and needs of the citizens are consolidated into a programme
- tremendous social and economic implications.

Financial Control and Changing forms of Budget

- context of dev → imp to know what the govt has achieved
- past tense accounting → future tense accounting
- reqd: emphasis on plans, programmes, resources and achievements.
- Line Item & Lumpsum Budgeting → traditional format
- Performance Budgeting, PPBS & ZBB → management approach.

1. Line Item Budgeting
   - Listing every single position & piece of equipment on a seperate line in expenditure estimates
   - appropriated funds can't be transferred from one category of expense to another.
   - Introduced by British in India & followed under the Raj (Govt. had limited activities)

2. Lump Sum Budgeting: authorises for expenditure in broad terms and leaves much at the discretion of the executive officer. e.g. USA adopted it during WW2. — blank cheque appropriations

3. Performance Budgeting:
   - 1st Hoover Commission
   - attention centred on function or activity — on the accomplishment of purpose instead of on list of employees or authorisation of purchases.

adopted by Lyndon Johnson in 1965

- Performance Budget: budget that uses activity classification, performance measurement and performance report as its basic organising principles.

4. Planning Programming Budgeting System (PPBS)

- 1960's: attempt to integrate budgeting with overall planning for the govt. as a whole, & to make planning execution & evaluation of govt policies rational
- diff from performance budgeting
  - PB → activity analysis PPBS → output analysis
  - distinction academic rather than practical.
- combines long range planning with result oriented programmes and evaluation.
- roots in industry: GM: 1924
- Govt. PPBS: roots in defence dept. 1960s (USA)

5. Zero-Base Budgeting (ZBB)

- 1970s, objective of making budgeting more rational
- Peter Phyrr → Texas Instruments
- Adopted by Carter → 1977 (when he became Prez) (as Guv of Georgia in 1973)
- characteristics →
  - (i) consideration of reduced level of expenditure, one below current level
  - (ii) presentation & ranking of alternative levels of expenditure for Decision Units

DUs → lowest level programme or organisational entity for which budgets are prepared.

For each DU, series of Decision Packages are prepared, each package ~~with~~ for a diff level of operations starting with the minimum.

- every scheme/programme is examined afresh each year as if it were being taken up for the first time.

M/o WCD → Gender Budgeting (Not a seperate budget)
"how Govt Budget addresses needs of women?"
Affirmative action sought. "Budgeting for Gender Equity"
2004 - 05 mission statement

✓ ZBB disappeared because size and scale of govt activity makes it impossible to review programme bases critically.

6) Outcome Budget
- ✓ accountable & transparent to people
- ✓ convert "outlays" into "outcomes" — targets, deliverables
- ✓ intro: 2005-06 : only Plan outlays
- ✓ 2006-07 : non plan also
- ✓ Since 2007-08, OB & PB have been merged and presented to the Parliament as a combined doc.; i.e, Outcome Budget.

Budgetary Process in India
- ✓ 1860 : Sir James Wilson : first finance member of GG's Council — introduced first budget of GoI.
- ✓ British introduced a highly centralised systems of financial control.
- ✓ centralised in Dept. of Finance
  - pre budget scrutiny of expenditure proposals
  - detailed scrutiny of expenditure proposals after budget was passed and when references came for expenditure sanctions.
- ✓ Paul H. Appleby : struck by highly centralized character. Even matters of detail continued to be referred to central agencies for concurrence.

Budgetary stages in India : 1) Preparation of Budget 2) Parliamentary Approval 3) Execution of Budget 4) Accounting 5) Auditing.

1) Preparation of Budget

- issue of 'Annual Budget Circular' by Budget Division, DEA
  ↳ last week of August → instructions to Ministries / deps about form & content of statement of Budget Estimates (SBES) to be prepared by them
- Deps send forms to local offices
  columns in form:
  1) Actuals for previous year
  2) Sanctioned estimates for current yr
  3) Revised estimates for "
  4) Budget estimates for next year
  A an explanation for proposed increase / decrease

- local offices → Deps → to finmin by Nov mid.
  A copy each to Accountant General who sees that all sanctioned charges are present & unsanctioned haven't been included
- Scrutiny of estimates by finmin after verification by AG
  1) Standing Charges → sent direct to Budget Division
  2) Continuing Schemes → scrutiny by Dep of Expenditure
  3) New schemes → FA accredited to Ministry → DEA in consultation with PC — further screening
  Thoroughly scrutinised by finmin

Criticism: Scrutiny is not always thorough → lump sum is often provided in absence of a clear understanding
↳ view echoed by Estimates Committee.

If diff of opinion b/w Administrative Ministry and finmin → case referred to cabinet (where voice of Finance Minister is most imp.!)