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***Public Policy & Administration in India***

**TOPIC: Meaning, definitions & Principles of budgeting**

The term budget owes its origin from the old French Word ‘Bougette’, means a ‘small leather bag or wallet’, which is used to carry financial papers. But the term ‘budget’ was used for the first time in 1773. The Chancellor of Exchequer of England used to carry a leather bag containing papers on financial plans to be presented to the British House of Commons. So, he used to open his bougette i.e., the bag containing financial papers before the House and those financial plans came to be known as budget. But in modern times, budget signifies documents containing estimates of revenue and expenditure detailing the programs and planes of action of government for a specified period of a country.

**Definitions:**

There is no unanimity among the writers regarding the definition of the term budget. It has been defined from different angles by writers of Public Administration. Following are some of the widely used definitions:

1. According to **Taylor,** “*budget is a financial plan of government for a definite period*”.
2. According to **Dimock**, “*a budget is a financial plan summarizing the financial experience of the past stating a current plan and projecting it over a specified period of time in future*”.
3. In the words of **Prof. Munro**, “*budget is a plan of financing the incoming fiscal year. This involves an itemized estimate of all revenues on the one hand and all expenditure on the other”*.
4. **Rene Stourn** defines budget as, “*it is a document containing a preliminary approved plan of public revenue and expenditure”.*
5. The **Constitution of India** under Art. 112 defines budget as, “*the annual financial statement containing an estimate of all anticipated revenue and expenditure of the government for coming financial year”.*

Thus, the budget is the master financial plan of the Government. It brings together estimates of anticipated revenues and proposed expenditures for budget period and from these estimates the activities to be undertaken and the means of their financing can be inferred.

In the modern world economies, budget is much more than a statement of income and expenditure of public authorities. It reflects the real functioning of the financial system. As **Prof. Gladstone** remarks “budgets are not merely a matters of arithmetic, but in thousand ways go to the root of prosperity of individuals and relation of classes and the strength of kingdom”.

From the above mentioned definitions, we can assume the following main elements of a budget:

1. It is a statement of estimates of government receipts and expenditure;
2. Budget estimates pertain to a fixed period, generally a year;
3. Expenditure and sources of finance are planned in accordance with the objectives of the government;
4. It requires to be approved by Parliament or Assembly or some other authority before its implementation.

**Principles or Elements of Sound Budget Making:**

Budget is a technique to achieve administrative efficiency in financial resource management. It is an instrument to execute the varied financial and economic programmes of the Government in a phased manner. The preparation and execution of the budget requires the adoption of certain principles. Prof. H.D. Smith set out certain rules which may be called as the basic principles of budgeting. They are as follows:

1. **Planning:** This is one of the major principles of preparation of budget. For efficient work, planning is a must. Planning and programming are two sides of the same coin. Countries like India, planning is one of the important step in case of budgeting.
2. **Executive programming:** Being the programme of the Chief Executive, the budget should reflect all government responsibilities and activities. The social-economic and political programmes of the government should be clearly unveiled in the budget programme. Then only it becomes a work programme for onward budget execution. Therefore, it should be under the direct supervision of the executive.
3. **Executive responsibility:** Proper execution of budget is the overall responsibility of the executive.For the purpose of granting funds, the executives must make estimate of expenditure and then present it the legislature for approval. Again, the amount can be moved from one head to another, after seeking prior approval from the executive. In this wayexecutive implementing the budget must enjoy certain degree of discretion.
4. **Principle of annularity:** Under this principle, money is spent to the various departments and executives for one year. Any amount left unspent during the budget year, the approval stands lapsed and it cannot be spent until it is further approved for the next budget year. Annularity in budget formation is a widespread phenomenon. However, in some countries yearly budgets are now framed within a multi-year framework.
5. **Principle of balance budget:** By and large, the budget has to be balanced which is an indication of sound financial management. In case of an unbalanced budget, this sooner or later weakens the whole process. However, balancing the budget does not mean that expenditure is balanced with income, in some cases, there may be deficit but this deficit should be planned in advance.
6. **Rule of lapse:** The principle of rule of lapse means that if the money is left out, the approval of the money lapses, the funds cannot be spent until further approval is granted. This is a useful and effective tool of financial control.
7. **Flexibility in budgeting:** Budget should be flexible enough to meet the government’s financial policies according to the changing socio-economic and other conditions in the society.
8. **Inclusiveness:** Budget should be all comprehensive and inclusive of diverse budget estimates. An inclusive budget includes all government revenue and expenditures and helps evaluating different policy options.
9. **Principle of accuracy:** Budget figures are essentially predictions of the amount of money to be generated in the forthcoming year and its expenditure. The Finance Ministry is accountable for its formulation with the help of the data and material from the various departments. These estimates need to be accurate and precise. The preciseness is dependent on accurate input data and unbiased information.
10. **Transparency and accountability:** Budget transparency and accountability are two of the eight basic indicators of good governance as propounded by UN. Budget transparency implies that government gives out all data regarding budget. These two traits of budget also involve ethics on the part of the Government. For the sake of clarity and transparency, the revenue and capital portion of the budget are to be kept separately.
11. **Unity principle:** This principle obviously implies that the various expenditures estimated in the budget and all revenue is generated at one amount, from where all expenditures are met.
12. **Reporting:** All budgetary procedures like preparation, enactment and execution of programmes, must be based upon authentic data and information gathered from various administrative units of the Government.Information regarding the progress of the work, programmes executed, revenue mobilized and expenditures made should be furnished to the executive periodically. This is a fundamental requirement for a good budget.

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