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Prepared by Dr. Adidur Rahman, Dept. of PSC, HAAC

Principles of Budgeting:

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 way executive implementing the budget must enjoy certain degree of discretion.
4. **Principle of annularity: This is another vital principle of budgeting.** 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.

Above all, the budget document should be comprehensive enough to include explanatory statements regarding the entire financial position of the government. It should be lucid, clear and understandable to the common man. It would be worthwhile to mention the principles of budget making recommended by M.P.Sharma are- (a) budget should be a balanced one; (b) its estimates should be and a cash basis; (c) Its revenues and capital portions should be kept distinct; (e) budget should be gross and not net; (f) estimating should be closed; (g) The form of estimates should correspond to the form of accounts, (h) the rule of lapse.

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