Public Administration(Financial Administration: Budget Glossary)

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Budgetary terms and terminologies

Annual Financial Statement

Article 112 of the Constitution requires the government to present to Parliament a statement of estimated receipts and expenditure in respect of every financial year - April 1 to March 31. This statement is the annual financial statement.

The annual financial statement is usually a white 10-page document. It is divided into three parts, consolidated fund, contingency fund and public account.

- **Consolidated Fund**

  This is the most important of all government funds. All revenues raised by the government, money borrowed and receipts from loans given by the government flow into the consolidated fund of India. All government expenditure is made from this fund, except for exceptional items met from the Contingency Fund or the Public Account. Importantly, no money can be withdrawn from this fund without the Parliament's approval.

- **Contingency Fund**

  As the name suggests, any urgent or unforeseen expenditure is met from this fund. The Rs 500-crore fund is at the disposal of the President. Any expenditure incurred from this fund requires a subsequent approval from Parliament and the amount withdrawn is returned to the fund from the consolidated fund.

- **Public Account**

  This fund is to account for flows for those transactions where the government is merely acting as a banker. For instance, provident funds, small savings and so on. These funds do not belong to the government. They have to be paid back at some time to their rightful owners. Because of this nature of the fund, expenditure from it are not required to be approved by the Parliament.

Public Account

- **Revenue receipt/Expenditure**

  All receipts and expenditure that in general do not entail sale or creation of assets are included under the revenue account. On the receipts side, taxes would be the most important revenue receipt. On the expenditure side, anything that does not result in creation of assets is treated as revenue expenditure. Salaries, subsidies and interest payments are good examples of revenue expenditure.

Public Account

- **Capital receipt/Expenditure**

  All receipts and expenditure that liquidate or create an asset would in general be under capital account. For instance, if the government sells shares (disinvests) in public sector companies, like it did in the case of Maruti, it is in effect selling an asset. The receipts from the sale would go under capital account. On the other hand, if the government gives someone a loan from which it expects to receive interest, that expenditure would go under the capital account.

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Public Account

- For each of these funds the government has to present a statement of receipts and expenditure. It is important to note that all money flowing into these funds is called receipts, the funds received, and not revenue. Revenue in budget context has a specific meaning.

- In respect of all the funds the government has to prepare a revenue budget (detailing revenue receipts and revenue expenditure) and a capital budget (capital receipts and capital expenditure). Contingency fund is clearly not that important. Public account is important in that it gives a view of select savings and how they are being used, but not that relevant from a budget perspective. The consolidated fund is the key to the budget. We will take that up in the next part.

Public Account

- The Constitution requires that the budget has to distinguish between receipts and expenditure on revenue account from other expenditure. So all receipts in, say consolidated fund, are split into Revenue Budget (revenue account) and Capital Budget (capital account), which includes non-revenue receipts and expenditure. For understanding these budgets - Revenue and Capital - it is important to understand revenue receipts, revenue expenditure, capital receipts and capital expenditure.

- **Central plan:** Central or annual plans are essentially Five Year Plans broken down into annual instalments. Through these plans, the government achieves the objectives of the Five Year Plans. The central plan's funding is split almost evenly between government support (from the budget) and internal and extra budgetary resources of public enterprises. The government's support to the central plan is called budget support. We will take up plan and non-plan expenditure in the next pa ..

- **Plan expenditure:** This is essentially the budget support to the central plan and the central assistance to state and union territory plans. Like all budget heads, this is also split into revenue and capital components.

  Non-plan expenditure: This is largely the revenue expenditure of the government. The biggest items of expenditure are interest payments, subsidies, salaries, defence and pension. The capital component of the non-plan expenditure is relatively small with t ..

- **Grants-in-aid and contributions**

  The third receipt item in the revenue account is relatively small grants-in-aid and contributions. These are in the nature of pure transfers to the government without any repayment obligation.

  We now look at the disbursements section of the revenue account of the consolidated fund. It lists all the revenue expenditures of the government. These include expense incurred on organs of state such as Parliament, judiciary and election . A substantial amount goes into administering fiscal services such as tax collection. The biggest item is interest payment on loans taken by the government. Defence and other services like police also get a sizeable share. Having looked at receipts and expenditure on revenue account we come to an important item, the difference between the two, the revenue deficit.

- **Fiscal Deficit:**

  When the government's non-borrowed receipts fall short of its entire expenditure, it has to borrow money from the public to meet the shortfall. The excess of total expenditure over total non-borrowed receipts is called the fiscal deficit.

- **FINANCE BILL:**

  The proposals of government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are submitted to Parliament through this bill. It is the key document as far as taxes are concerned.

- **FINANCIAL INCLUSION:**

  Financial inclusion is universalising access to basic financial services (to have a bank account , timely and adequate credit) at an affordable cost. Exclusion from financial services imposes costs on those excluded ; these are typically the disadvantaged and low-income group. Exclusion forces them into informal arrangements such as borrowing from local money lenders at high rates. Financial inclusion remains a serious issue in India. The government has proposed a no-frills account to provide cheap banking.

- **SUBVENTION:**

  The term subvention finds a mention in almost every Budget. It refers to a grant of money in aid or support, mostly by the government. In the Indian context, for instance, the government sometimes asks institutions to provide loans to farmers at below market rates. The loss is usually made good through subventions.

- **SURCHARGE:**

  As the name suggests, this is an additional charge or tax. A surcharge of 10% on a tax rate of 30% effectively raises the combined tax burden to 33%. In the case of individuals earning a taxable salary of more than Rs 10 lakh a surcharge of 10% is levied on income in excess of Rs 10 lakh. Corporate income is levied a flat surcharge of 10% in the case of domestic companies and 2.5% for foreign companies. Companies with revenue less than Rs 1 crore do not have do not have to pay this surcharge.

- **CESS:**

  This is an additional levy on the basic tax liability. Governments resort to cess for meeting specific expenditure. For instance, both corporate and individual income is at present subject to an education cess of 2%. In the last Budget, the government had imposed another 1% cess - secondary and higher education cess on income tax - to finance secondary and higher education.

- **Public debt:** Public debt receipts and public debt disbursals are borrowings and repayments during the year, respectively. The difference is the net accretion to the public debt. Public debt can be split into internal (money borrowed within the country) and external (funds borrowed from non-Indian sources). Internal debt comprises treasury bills, market stabilisation schemes, ways and means advance, and securities against small savings.