



# The Union Budget

A Primer

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*What is the union budget?*

The Finance Minister presents an annual statement to Parliament of how much money the union government expects to raise in the next financial year and how it will spend that money. This statement is called the union budget. The budget speech is also used by the government to propose other economic policy measures. The latest budget papers, and those for earlier years, can be found at [www.indiabudget.nic.in](http://www.indiabudget.nic.in).

*What do the budget documents contain?*

The budget papers tabled in Parliament contain broadly, the budget speech, a breakdown of the detailed spending proposals of each ministry, as well as revenue raising proposals.

*How is government expenditure classified in the budget?*

There are two different sets of classifications used – Plan vs Non-plan and Capital vs Revenue expenditure:

Capital Expenditure: expenditure used to create assets or to reduce liabilities e.g. building a road.

Revenue Expenditure: expenditure not used to create assets e.g. expenses on salaries or other administrative costs.

Plan Expenditure: expenditure on schemes and projects covered by the five-year Plans. Such plans are developed by the Planning Commission after consulting individual ministries. Each Plan specifies programmes that ministries will fund and develop over the next five years (such as the Mid-day Meal scheme and the Sarva Shiksha Abhiyan). The current Plan is the eleventh, and runs from 2007 to 2012. Plan expenditure can have both revenue and capital components. For instance, under the Pradhan Mantri Gram Sadak Yojana, administrative costs could be classified as revenue expenditure, while expenditure on the actual infrastructure might be classified as capital expenditure.

Non-plan expenditure: Ongoing expenditure by the government not covered by the Plans. These include interest payments on government debt, expenditure on organs of the state such as the judiciary and the police and even expenditure on the maintenance of existing government establishments such as schools and hospitals. **Non-plan expenditure too, has revenue and capital components.** Annexure A gives the total amounts under different heads of expenditure for 2007-08.

*How can we find information on funds allocated to a given scheme?*

The detailed expenditure allocated to different schemes such as the National Rural Employment Guarantee Scheme, or the Sarva Shiksha Abhiyan, are given in the ‘expenditure Budget’ documents. For instance, if you want to know the expenditure on a government scheme such as the Sarva Shiksha Abhiyan, go to the [www.indiabudget.nic.in](http://www.indiabudget.nic.in) site. Go to the budget page for 2007-08, click on the link for ‘expenditure Budget’ and open Volume II. Click on the link for the Ministry for Human Resource Development (Department of School Education and Literacy). You should see a table which looks like the one on the facing page.

Item 7 gives details for allocations of funds to the SSA *from the general budget revenues only* (this is not the only amount to be spent on the SSA as we will see in a moment). The ‘Budget 2006-07’ and ‘Budget 2007-08’ columns indicate the allocations made for the scheme when the budgets for the respective years were prepared (notice that this is all Plan expenditure).

The central column, ‘Revised 2006-07’ indicates the ministry’s subsequent estimates of what the actual expenditure is likely to be – something which takes into account further demands for money which can be made during the course of the year if budgeted funds are not enough.

Funds for the SSA also come from the ‘education cess’ – a dedicated tax imposed on all taxpayers specifically to fund expenditure on education. Revenues from this tax go to the ‘Prarambhik Shiksha Kosh’. The total amount spent on the SSA for 2006-07 therefore is Rs 10,145.7 crore (4,314.7 crore + 5,831 crore).

Finally, there is a glossary of the various schemes towards the end of the ‘expenditure Budget’ document. A similar document is prepared for each ministry. To know the allocations for the National Rural Employment Guarantee scheme for instance, we would look at the same document for the Department of Rural Development, Ministry for Rural Development.

**MINISTRY OF HUMAN RESOURCE DEVELOPMENT**

DEMAND NO. 56

**Department of School Education and Literacy**

A. The Budget allocations, net of recoveries, are given below:

		<i>(In crores of Rupees)</i>								
Major Head	Budget 2006-2007			Revised 2006-2007			Budget 2007-2008			
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	
Revenue	17128.00	4.71	17132.71	17128.00	5.00	17133.00	22191.00	951.22	23142.22	
Capital	...	...	...	...	...	...	...	...	...	
<b>Total</b>	<b>17128.00</b>	<b>4.71</b>	<b>17132.71</b>	<b>17128.00</b>	<b>5.00</b>	<b>17133.00</b>	<b>22191.00</b>	<b>951.22</b>	<b>23142.22</b>	
1. Secretariat-Social Services	2251	...	...	...	...	...	...	...	...	
<b>General Education</b>										
<b>Elementary Education</b>										
2. Strengthening of Teachers Training Institutions	2202	1.00	1.00	1.00	...	1.00	1.00	...	1.00	
	2251	0.30	0.30	0.30	...	0.30	0.30	...	0.30	
	3601	154.70	154.70	154.70	...	154.70	428.70	...	428.70	
	3602	6.00	6.00	6.00	...	6.00	20.00	...	20.00	
<b>Total</b>	<b>162.00</b>	<b>...</b>	<b>162.00</b>	<b>162.00</b>	<b>...</b>	<b>162.00</b>	<b>450.00</b>	<b>...</b>	<b>450.00</b>	
3. Mahila Samakhya	2202	29.85	29.85	25.85	...	25.85	33.85	...	33.85	
	2251	0.15	0.15	0.15	...	0.15	0.15	...	0.15	
<b>Total</b>	<b>30.00</b>	<b>...</b>	<b>30.00</b>	<b>26.00</b>	<b>...</b>	<b>26.00</b>	<b>34.00</b>	<b>...</b>	<b>34.00</b>	
4. National Bal Bhawan, New Delhi	2202	5.40	8.01	5.40	2.94	8.34	6.30	3.00	9.30	
5. District Primary Education Programme(EAP)	2202	197.91	197.91	97.91	...	97.91	77.91	...	77.91	
	2251	2.09	2.09	2.09	...	2.09	2.09	...	2.09	
<b>Total</b>	<b>200.00</b>	<b>...</b>	<b>200.00</b>	<b>100.00</b>	<b>...</b>	<b>100.00</b>	<b>80.00</b>	<b>...</b>	<b>80.00</b>	
6. Nutritional Support to Primary Education(MDM)	2202	463.39	463.39	463.39	...	463.39	579.30	...	579.30	
	2251	10.50	10.50	10.50	...	10.50	10.50	...	10.50	
	3601	1391.61	1391.61	1420.34	...	1420.34	2556.30	...	2556.30	
	3602	32.70	32.70	3.97	...	3.97	45.50	...	45.50	
<b>Total</b>	<b>1898.20</b>	<b>...</b>	<b>1898.20</b>	<b>1898.20</b>	<b>...</b>	<b>1898.20</b>	<b>3191.60</b>	<b>...</b>	<b>3191.60</b>	
7. Sarva Shiksha Abhiyan(SSA)	2202	4210.68	4210.68	4314.68	...	4314.68	2767.24	...	2767.24	
	2251	...	...	...	...	...	...	...	...	
	3601	0.01	0.01	0.01	...	0.01	0.01	...	0.01	
	3602	0.01	0.01	0.01	...	0.01	0.01	...	0.01	
<b>Total</b>	<b>4210.70</b>	<b>...</b>	<b>4210.70</b>	<b>4314.70</b>	<b>...</b>	<b>4314.70</b>	<b>2767.26</b>	<b>...</b>	<b>2767.26</b>	
8. Transfer to Prarambhik Shiksha Kosh (PSK)	2202	8746.00	8746.00	8746.00	...	8746.00	10393.00	...	10393.00	
9. Schemes financed from Prarambhik Shiksha Kosh (PSK)										
9.1. Nutritional Support to Primary Education(MDM)	2202	729.00	729.00	729.00	...	729.00	1307.30	...	1307.30	
	2251	...	...	...	...	...	...	...	...	
	3601	2186.00	2186.00	2186.00	...	2186.00	2092.70	...	2092.70	
	3602	...	...	...	...	...	...	...	...	
<b>Total</b>	<b>2915.00</b>	<b>...</b>	<b>2915.00</b>	<b>2915.00</b>	<b>...</b>	<b>2915.00</b>	<b>3400.00</b>	<b>...</b>	<b>3400.00</b>	
9.2. Sarva Shiksha Abhiyan(SSA)	2202	5831.00	5831.00	5831.00	...	5831.00	6993.00	...	6993.00	
	2251	...	...	...	...	...	...	...	...	
	3601	...	...	...	...	...	...	...	...	
	3602	...	...	...	...	...	...	...	...	
<b>Total</b>	<b>5831.00</b>	<b>...</b>	<b>5831.00</b>	<b>5831.00</b>	<b>...</b>	<b>5831.00</b>	<b>6993.00</b>	<b>...</b>	<b>6993.00</b>	
Amount met from Prarambhik Shiksha Kosh (PSK)	2202	-6560.00	-6560.00	-6560.00	...	-6560.00	-8300.30	...	-8300.30	
	2251	...	...	...	...	...	...	...	...	
	3601	-2186.00	-2186.00	-2186.00	...	-2186.00	-2092.70	...	-2092.70	
	3602	...	...	...	...	...	...	...	...	
<b>Total</b>	<b>-8746.00</b>	<b>...</b>	<b>-8746.00</b>	<b>-8746.00</b>	<b>...</b>	<b>-8746.00</b>	<b>10393.00</b>	<b>...</b>	<b>-10393.00</b>	

Allocation made in end-05 when budget was being prepared. Funded from general budget revenues

Includes any more funds that the ministry may need during the year. Prepared towards end-06. Rs 104 crore more than what was budgeted

Funds for the SSA allocated from the education cess

To get an idea of trends in major types of expenditure over the last ten years or so, such as defence, subsidies or education, go to the expenditure Budget, Volume I. Under the heading ‘Annexures’, click on ‘Trends in expenditure’:

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Expenditure Budget Vol. I, 2007-2008

ANNEX - 3

## TRENDS IN EXPENDITURE

	(In crores of Rupees)									
	Actuals 1998-99	Actuals 1999-2000	Actuals 2000-2001	Actuals 2001-2002	Actuals 2002-2003	Actuals 2003-2004	Actuals 2004-2005	Actuals 2005-2006	Revised 2006-2007	Budget 2007-2008
<b>A. Non-Plan Expenditure</b>	<b>212522</b>	<b>221871</b>	<b>242923</b>	<b>261116</b>	<b>301778</b>	<b>348923</b>	<b>365960</b>	<b>365485</b>	<b>408907</b>	<b>475421</b>
1. Interest Payments	77882	90249	99314	107460	117804	124088	126934	132630	146192	158995
2. Defence Expenditure**	39897	47071	49622	54266	55662	60066	75856	80549	86000	96000
3. Subsidies	23593	24487	26838	31210	43533	44323	45957	47520	53463	54330
4. Grants to State & UT Govts.	4923	6238	14717	15327	13305	13720	14784	30475	36152	38403
5. Grants to Foreign Govts.	387	368	361	402	605	688	990	1214	1381	1345
6. Other Non-Plan Expenditure	38262	44573	47083	46048	49786	55845	62474	65548	71209	74363
7. Non-Plan Capital Expenditure@	435	2769	1374	2815	13328	46746	34798	3357	10806	49314
8. Loans & Advances to State & UT Govts. @@	23893	2719	-140	-394	2491	78	612	89	102	95
9. Loans to Foreign Govts.	92	74	152	150	533	273	283	129	126	102
10. Other Loans	2117	2163	2456	2595	3385	1587	1599	1796	1397	605
11. Non-Plan Expenditure of UTs without Legislature	1041	1160	1146	1237	1346	1509	1673	2178	2079	1869
On Revenue Account	1033	1147	1211	1305	1402	1569	1834	2305	2244	2031
On Capital Account	8	13	-65	-68	-56	-60	-161	-127	-165	-162

*How are government receipts classified?*

The revenue and capital classification applies to government receipts as well (the Plan / Non-plan distinction does not):

**Revenue Receipts:** Mostly revenues from taxes, dividends from companies owned by the government, and user charges on some public services.

**Capital Receipts:** Mainly funds borrowed by the government from various sources, both in India and from overseas, and repayments by state governments of loans from the centre. Any proceeds from the disinvestment of public sector companies also come under this category.

*What is the fiscal deficit?*

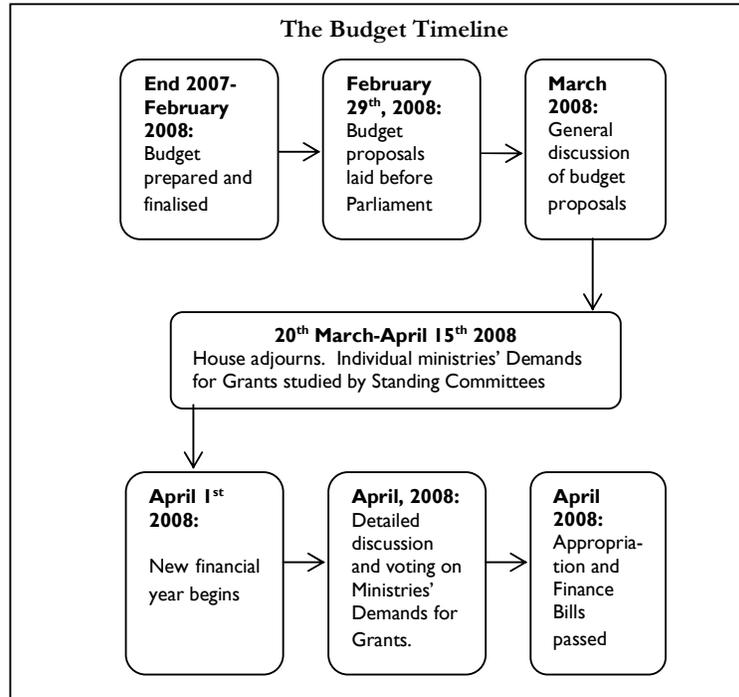
The excess of total government expenditure over total receipts is called the fiscal deficit and is funded by borrowing. The difference between revenue receipts and revenue expenditure is called the revenue deficit.

*How is the budget prepared?*

The budget is prepared by the budget division in the Ministry of Finance after consulting with other ministries and the Planning Commission. The Finance Minister and ministry officials meet representatives of the private sector, non-governmental organisations and other stakeholders to understand their expectations from the budget. The process can be divided into the following steps. These steps are not necessarily sequential but may occur concurrently.

- **Estimating Non-plan expenditure:** In late 2007, the Finance Ministry would have asked other ministries how much they expect to spend in the next financial year on services which they provide outside of the five-year Plans (budget estimates of Non-plan expenditure for 2008-09). They are also asked to prepare their estimates of expected expenditure for the current financial year (revised estimates of Plan and Non-plan expenditure for 2007-08).
- **Estimating Plan expenditure:** The Finance Ministry, in consultation with the Planning Commission, comes up with an estimate of how much money is available in the next financial year to spend on Plan schemes. The Planning Commission then reconciles this ‘Gross Budgetary Support’ for the Plan with estimates by individual ministries of how much they need to implement their Plan programmes for next year. Final estimates of Plan and Non-plan expenditure for the next year, and revised estimates for the current year, are drawn up.
- **Estimating non-tax revenues:** The next step is to decide how to raise money to meet expenditures for next year. Ministries which also raise revenues (by charging user fees on certain public services for instance) provide their estimates to the Finance Ministry on how much money they expect to earn next year.
- **Estimating tax revenues:** The revenue department of the Finance Ministry estimates how much tax revenue it can raise next year at existing tax rates after accounting for changes in income, inflation and compliance. It also estimates the revenue if tax rates are revised.

- **Meetings with industry:** While preparing the budget, the Finance Minister, and other officials from the Finance Ministry meet with industry associations, NGOs, experts and economists to understand their expectations of the budget. The final budget proposals are kept secret.
- **Finalization of budget proposals:** The Finance Minister briefs the Cabinet on the budget proposals before presenting it to the Lok Sabha.



*What is the Economic Survey? What is the role of the Survey in the budget process?*

The Economic Survey provides the context to the actual presentation of the budget. It is the **government's view** of current economic conditions and trends. The Survey is presented a few days before the budget speech.

*What happens once the budget is tabled in Parliament?*

The budget session of Parliament runs from the latter part of February to May every year. After the budget is tabled, a general discussion on the broad budget measures takes place. No voting takes place at this stage. Parliament then goes into recess for about three weeks while detailed estimates of ministries' expenditure, called **Demands for Grants**, are examined by Standing Committees of Parliament (The table on page 3 indicates the Demands for Grants for the HRD Ministry's Department of School Education and Literacy).

*What are Standing Committees and what is their role?*

The detailed Demands for Grants are examined by Standing Committees which together oversee the work of all the ministries. There are 24 such committees including ones on industry, home affairs, defence and finance. These committees submit reports to the Lok Sabha on each ministry's Demands for Grants.

*What happens once the reports are submitted?*

Once such reports are submitted, a detailed discussion takes place in Parliament, according to a timetable. During the discussion, MPs can call for **'cut motions'** which can reduce the grant amount for the respective ministry to Re 1 (to signify disapproval of the policies of that ministry), or by a specific amount (an 'Economy' cut), or by a token amount of Rs 100 (to express a specific grievance).

*What is 'guillotining'?*

The Demands for Grants which have not been voted on by the last day fixed for the purpose are 'guillotined', i.e. they are voted upon together. **Interestingly, the Demands for Grants of almost all ministries except two or three are guillotined in this way.** In 2007 for instance, only the Demands for Grants of the Labour Ministry, the Science and Technology Ministry and that of the Home Affairs Ministry were discussed separately.

*What are the final steps in the budget process?*

After voting on Demands for Grants, an Appropriation Bill is introduced and voted on, which authorises the government to spend money from the **Consolidated Fund** (which consists of all revenues, interest earnings and fresh borrowings of the government). The Finance Bill is then taken up and passed in the Lok Sabha. During the year, if the government needs to spend any money which has not been voted on by Parliament, it can introduce supplementary Demands for Grants (if the expenditure on a specific head exceeds the amount that has been voted for it). Only the Lok Sabha has the power to approve the budget; the Rajya Sabha can only propose amendments which the lower house of Parliament may or may not accept.

*Are there certain items of expenditure which are not voted on in Parliament?*

There are certain items of expenditure which are not voted on by Parliament but are charged directly to the consolidated fund – these include the salaries and allowances of the President, judges of the supreme court etc. Interest paid by the government on its debt is also charged directly to the fund.

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## Annexure A

		Budget Estimates 2007-08 (Rs crore)
a.	Total Receipts (b+c)	529,573
b.	Revenue receipts	486,422
c.	Capital receipts	43,151
Plan expenditure		
d.	Revenue	174,354
e.	Capital	30,746
Non-plan expenditure		
f.	Revenue	383,546
g.	Capital	91,875
h.	Total expenditure (d+e+f+g)	680,521
Fiscal Deficit (h-a)		150,948
Revenue Deficit (d+f-b)		71,478

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