CHAPTER IV

GOVERNMENT BUDGETING SYSTEM (GBS)

“The task of expenditure restructuring cannot be fully accomplished until attention is paid to the efficiency of government expenditure. A prerequisite to this is reform of budgeting processes and improved management and control of government expenditure. Budgets in India both at the Centre and in the States are known for their poor quality forecasts. Frequent supplementary demands and appropriation bills bear evidence to this malady. Budget estimates often turn out to be far out of line with “Actual”.

The Eleventh Finance Commission
4.1 The Budgetary Concept
4.2 The Budgetary Process
4.3 Status of Government Finances
4.4 Primary data - Present Condition of GBS – Quantitative
4.5 Primary Data – Present Condition of GBS – Qualitative
4.6 Primary data- Reforms Needed in GBS-Quantitative
4.6 Reforms in GAS and GBS – Consolidated Review
4.8 Primary Data - Reforms Needed in GBS- Qualitative
4.9 Summary of primary data
4.10 Budgetary Reforms
4.11 Global Reforms
4.13 Performance Budgeting in India
4.13 Outcome Budgeting in India
4.14 GBS and Fund Management
4.15 Accrual Based Budgeting
4.16 Sum-up
From the last decade of the 20th century, India is attempting a transformation few nations in modern history have successfully managed, namely liberalizing the economy within an established democratic order. Market oriented economy and democratic polity are not inherently contradictory, but there are tensions between them that Indian's economic policy will have to manage carefully, (Varshney, Ashutosh. 2007). This democratic challenge needs careful financial management. In this context, budgeting emerges as the principal tool of financial administration. Government budgeting is one of the major processes by which the use of public resources is planned and controlled. It is the responsibility of the country’s financial administration to effectively balance the budget by equating income with expenditure and balancing inflow with outflow of funds. The real significance of the budget system is to provide for the orderly administration of the financial affairs of a government.

The challenges are many. Verma, Sid. (2009: 85-86) observes:

“The budget deficit has jumped from 3.3% in the 2007-08 fiscal year to a 16 year high of 6.8% in the year to March 2010. This makes India's fiscal burden one of the largest in the emerging world..... As a result, the country now faces an 80% public debt burden -- while China entered the crisis with a low level of public debt at 40%. Consequently, ratings agencies have sounded the alarm and say without timely consolidation of the public finances India's BBB- rating is in jeopardy. To fund its record deficit the government has borrowed a record Rs 4.51tn ($96.4bn) during this fiscal year. As the public finances sunk deeper in the red, India has treaded carefully by front-loading issuance and crucially relying purely on the domestic market.”

The conduct of such affairs includes a continuous chain of operations, consisting of estimates of revenue and expenditure needs, revenue and appropriation acts and the relevant reports. Unlike corporate budgets, the state budgets start with an estimate of the expenditures that will be required for the proper conduct of governmental affairs during a fixed period usually one year, together with proposals for raising the money to meet these expenditures. The crux of the issue is the proper collection and custody of collected funds and appropriate disbursement of funds. Apart from Central and State governments, Local government finances have been assuming greater importance in India, particularly after the decentralization movement started with the 73rd and 74th Constitutional Amendments in 1992. This is an intricate issue with varied hues, but as yet, it has not been adequately documented, (Nallathiga 2008).
Budgets in Ancient India

*Arthasastra* is one of the oldest texts available to analysts in the field of budgets. It provides extensive details under which budgets are to be drawn, and reported upon. The projects are to be prepared keeping several aspects in mind namely the men and materials, time of starting and interestingly a *provision for failures which is a unique feature of Kautilya’s budgeting systems*. Deviations were viewed seriously, and several levels of punishments for financial losses are discussed by *Kautilya*, quoting from other authors, who were popular during that period. Table 4.1 gives the details:

<table>
<thead>
<tr>
<th>No.</th>
<th>Authority</th>
<th>Level of Punishment in terms of losses incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manu</td>
<td>Amount of loss; for each successive loss, punishment increases 100%</td>
</tr>
<tr>
<td>2</td>
<td>Parasara</td>
<td>Eight times the loss</td>
</tr>
<tr>
<td>3</td>
<td>Brahaspati</td>
<td>Ten times the loss</td>
</tr>
<tr>
<td>4</td>
<td>Usana</td>
<td>Twenty times the loss</td>
</tr>
<tr>
<td>5</td>
<td>Kautilya</td>
<td>According to the offence</td>
</tr>
</tbody>
</table>


4.1 The Budgetary Concept

India’s administrative patterns have a significant impact of its colonial system. Commenting on this, Kripalani, M; Engardio, P(2004) have opined that the economic emphasis has shifted to a ‘welfare society’ model in the post-colonial period, but the British financial systems continue to dominate the financial management of free-India to fulfill its promise to help the poor while continuing to encourage foreign investment. Commentators (Harper, A. 2005) continue to proclaim India as a rising economic giant, but the government faces a chunky deficit and a serious challenge in convincing its coalition partners to allow it to press ahead with economic liberalization.

The control mechanism consists of three independent constituent units viz; Judiciary, Executive and Legislature. In a democracy, the electorate reigns supreme supported by the Constitution. The Indian public administration consists of three wings namely centre, state and local governments. Chart 4.1 explains the relationship.
This structure ensures accountability and controls. Stéphanie. J (2007) recommends the government to keep pressures on public spending under control, make sub-national governments accountable and develop a finance information system to ease the evaluation of local government expenditure efficiency

4.2. The Budgetary Process

To get a familiar with government budgetary mechanism, references to the budgetary system of the Government of Tamilnadu, one of the premier States in India are made. A well established process for making the budgets is followed in the State. Budgetary mechanism involves several steps as shown in chart 4.2.
Government Budgetary Process provides for:

i. A consultative approach to budgeting

ii. Scrutiny by the elected representatives, and

iii. A welfare orientation

Source: *Governmental Budgeting: Principles and Practices*, C. N. Sudarsanan, p. 65
Recent fiscal history can help us understand the mechanisms by which sub-national governments adapt their tax, expenditure, and debt policies to an ever-changing economic environment. (Wildasin, D. E. 2009)

4.3 Status of Government Finances

An understanding of the financial position of the Governments assists in appreciating the role and magnitude of GBS. This is analyzed with data from Tamil Nadu budget figures.

- **Growth Plans**

Governments are having ambitious growth plans. The Chart 4.3 indicates an outlay of Rs.20,000 Crore for the year 2010-11 by the State of Tamilnadu. Such huge plans justify the need for reforms in financial management of the state funds.

Source: [http://www.tn.gov.in/tnbudget/fiscalindicators](http://www.tn.gov.in/tnbudget/fiscalindicators), Last visited on 3-3-2013
- **Debt as a Percentage of GDP – Tamilnadu State**

Chart 4.4 shows a favourable trend in Tamilnadu State as to its public debt as percent to the State GDP. This shows that with efficient fiscal management a state could keep the debt at reasonable levels. Confining the debt figures need efficient planning and good budgetary controls.

![Chart 4.4. Tamilnadu Government – Debt over GDP](http://www.tn.gov.in/tnbudg/fiscalindicators/Debt_over_GSDP.pdf - Last visited on 3-3-2013)

Budgets prepared in the present system of State Governments, with the defective accounting system (discussed in chapter 3) underlying the same suffer from a number of shortcomings. These can be analyzed with the help of the primary data and the views of leading experts and various committees appointed by the governments. Steps taken by certain developed nations may be reviewed with advantage.

Quantitative and qualitative approaches are followed to evaluate the adequacy and acceptability of Government Budgeting System (GBS) in India and also the need for reforms in GBS. The quantitative approach relied on primary data collected from the structured questionnaire followed in the study, while qualitative approach relied on focus group
interviews and in-depth interviews. The former approach used both descriptive data and statistical tests.

4.4 Government Budgetray System (GAS)- Analysis by Quantitative Approach

The present condition of Government Budgeting in terms of public perception of its adequacy, purpose, utility, etc is first dealt. Statistical tests are made taking the threshold expected condition of healthy budgeting system as 3 on a 5 point scale adopted. (The questionnaire is given in Annexure A and detailed statistical analysis in Annexure D).

4.4.1 Hypothesis 9

Null Hypothesis: The perception of present condition of GBS is significantly less than threshold expected condition of GBS with Mean Score of <, (i.e., $H_0: \mu < 3$) on a scale of 5. Alternative hypothesis is the Mean Score $\geq 3$ (i.e., $H_1: \mu \geq 3$). The relevant summary test data are in table 4.2.

<table>
<thead>
<tr>
<th>Mean</th>
<th>SD</th>
<th>t value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.74</td>
<td>0.49</td>
<td>25.35</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Since P-value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence the perception of present condition of GBS is significantly different from expected condition ($< 3$) of GBS. In other words, the perception about GBS is not adverse, as the value 3.74 is more than threshold condition of $< 3$. At the same time, it is not overwhelmingly superior. There are shortcomings in the GBS which need immediate remedial intervention.

4.4.2. Weaknesses of Government Budgeting System

There is a need to analyze the weaknesses of government budgeting system as of now. The shortcomings of the present budgeting systems stem from certain deep rooted causes, which are inherent in the contemporary governmental management. The observations are based on the report of the Administrative Reforms Commission.

4.4.2.1 Policy Issues

i. Government Budgeting in monetary terms, rather than on physical terms.

ii. Budget Emphasis on aggregate spending—leading to causal problems where inflation
is significant (which was often validated through supplementary appropriations) or arbitrary cuts during budget execution with adverse consequences at the agency level;

iii. Focus on inputs, with performance judged largely in terms of spending no more or less, than appropriated in the budget.

iv. Input focus takes a short-term approach to budget decision making.

v. Existing policy itself (as opposed to its funding) subject to very little scrutiny from one year to the next.

4.4.2.2 Process issues

i. A bottom-up approach to budgeting means that even if the ultimate stance of fiscal policy was appropriate (and increasingly after 1973 it was not) game playing by both line and central agencies led to high transaction costs to squeeze the bottom-up bids into the appropriate fiscal policy box;

ii. Strong incentives to spend everything in the budget early in the year and as quickly as possible, since the current year’s spending is the starting point for the annual budget haggle and the fear of across-the-board cuts during execution;

iii. Overall, few incentives to improve the performance of resources provided.

4.4.2.3 Administrative Issues

i. Cabinet and/or central agencies extensively involved in micro-decision making on all aspects of funding for ongoing policy

ii. Poor linkages between policy and resources at the centre, between the center and line agencies, and within line agencies because of incremental budgeting;

The weaknesses in the GBS are addressed at length in the primary data to ensure if there is any significant bias between/among Gender groups, Age-groups, occupational groups, etc.

4.4.3 Hypothesis 10

Null Hypothesis: There is no significant difference between males and females with respect to the perception of Present condition of GBS. That is \( \mu_1 = \mu_2 \), with alternative hypothesis \( \mu_1 \neq \mu_2 \).

The relevant summary test data are in table 4.3.

<table>
<thead>
<tr>
<th>Gender Groups</th>
<th>Mean</th>
<th>SD</th>
<th>t value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.3: Perception of Present Condition of GBS - Difference between Males and Females
<table>
<thead>
<tr>
<th>Male</th>
<th>3.64</th>
<th>0.47</th>
<th>-3.70</th>
<th>0.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>3.85</td>
<td>0.49</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

**Interpretation**

Since $P$-value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence there is significant difference between males and females with respect to the perception of the present condition of GBS. It seems women have a better perception than men. Perhaps their soft corner over men could be the reason for the difference!

**4.4.4 Hypothesis 11**

Null Hypothesis: There is no significant difference between Age groups with respect to the perception of Present condition of GBS. That is $\mu_1=\mu_2=\mu_3$, with alternative hypothesis $\mu_i \neq \mu_j$.

The relevant summary test data are in table 4.4.

**Table 4.4  Perception of Present Condition of GBS -Difference between Age Groups**

<table>
<thead>
<tr>
<th>Age Groups</th>
<th>Mean</th>
<th>SD</th>
<th>F value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>3.66</td>
<td>0.40</td>
<td>7.77</td>
<td>0.00</td>
</tr>
<tr>
<td>26-50</td>
<td>3.86</td>
<td>0.51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above 50</td>
<td>3.59</td>
<td>0.53</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

**Interpretation**

Since $P$ value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence there is significant difference between the Age groups with respect to the perception of present condition of GBS. It is seen that the above 50 age-group is somewhat less satisfied. The middle aged seems to be reconciled to the situation, and is moving with the average moods. The younger group is caught in between.

The impact of this is seen in many state activities. The above analysis needs to be kept in view while understanding the decision making and control procedures of the governmental system.
Decision making Issues

i. Cabinet decision making focused on distributing the gains from fiscal drag across new spending proposals.

ii. Weak decision making and last-minute cuts cause unpredictability of funding for existing government policy; this is highlighted to the centre by central budget agencies on the alert to identify and rake back “fortuitous savings”

Control Issues

i. Failure to adequately take account of longer-term costs (potential and real), and biases in the choice of policy instruments (e.g., between capital and current spending and between spending, doing, and regulation) because of the short-term horizon;

ii. Last minute, across-the-board cuts, including during budget execution;

4.4.5 Hypothesis 12

Null Hypothesis: There is no significant difference between Government and Non-Government employees with respect to the perception of Present condition of GBS. That is \( \mu_1 = \mu_2 \), with alternative hypothesis \( \mu_1 \neq \mu_2 \). The relevant summary test data are in table 4.5.

<table>
<thead>
<tr>
<th>Occupation Groups</th>
<th>Mean</th>
<th>SD</th>
<th>t value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Employees</td>
<td>3.52</td>
<td>0.44</td>
<td>-4.58</td>
<td>0.00</td>
</tr>
<tr>
<td>Non-Government Employees</td>
<td>3.82</td>
<td>0.48</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

Since P-value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence there is significant difference between Government and Non-Government employees with respect to the perception of Present condition of GBS. Government servants, who are closer to the budgetary activities, may have a perception different from those who view it from outside, and hence respective group views could have some degree of variance. The issues relating to decision making and controls may be viewed differently by the government employees (who are directly connected with decisions and controls), and the non-government employees (who look at from the outside).
4.5 Present Condition of GBS – Analysis by Qualitative Approach

The Present Condition of GBS needs to be viewed from qualitative approach as well, to gain further insights. The views that emerged from the Focus Groups and In-Depth interview are considered here.

4.5.1. Focus Group I - Government Servants.

The following views were articulated by the Group consisting of Government Servants.

i. The current GBS has the merits of Parliamentary Accountability, and it has reasonable checks and balances. The control systems are in place. But Parliamentary Accountability must be exercised in letter and spirit with holistic participation and quality deliberation beyond party affiliations.

ii. Opinions were muted on external influences on GBS. Political interference is often felt though not directly. The political agenda is covert but surfaces especially during the election years.

iii. Performance Budgeting is there; but needs to be developed. In spite of the measures taken, the government budgetary system is never measured / cared for and this leads to complacency/irresponsibility at the time of framing.

iv. GAS/GBS Reforms are interrelated; GBS is the base on which GAS functions.

v. Public Expenditure Management (PEM) needs some reforms. The utilization for funds is not uniform round the year. Of course appropriations are not informed to the executives in time. Hence last-minute bunching of expenditure is almost a routine. This cannot happen in private sector.

vi. Sometimes schemes are proposed without proper plans for implementation. Adequate resources and facilities are not provided for.

4.5.2. Focus Group II – Private Sector executives (Finance / Non-Finance)

i. People are only interested in the taxation proposals; No one understands Government Budget proposals holistically. The discussions in the media also focus more on popular schemes than on the new schemes and their impact.

ii. The debates on the budgets are politically driven, and polemics rather than economic expediency become the real outcome.
iii. The defects of GAS are applicable to GBS also. They are inter-related.

iv. Several committees like the Administrative Reforms Committee and the various Finance Commissions have recommended reforms which have not been properly implemented. It is high time to act.

v. The planning function is too defused in Government. It must be transparent or else GBS will be a failure. Budgets are used as a sanction for spending, though they are supposed to be both planning and control tool.

4.5.3. Focus Group III - Prominent citizens

i. The budgets have become progressively unrealistic. Practicality is a victim, and performance of government budgets is never measured with modern tools. This leads to complacency both at the time of formation and implementation.

ii. Accountability is not clear and often ‘passing the buck’ becomes the ‘pet game’. This leads to irresponsibility manifested in terms proposals without modalities/means for implementation.

iii. The debates are centered on the impact of the proposals for the economically well off sections. The economically weaker sections do not have forums to express their views.

iv. There is no continuation in the Government priorities since independence. Proposals are based on un-substantiated assumptions of growth rate and other statistics and even poverty or BPL yardsticks have not been firmed up after 60 years of Independence. Hence budgets have become poorly compiled guesstimates.

v. Budgeting has become purely incremental and it carries over past sins. Government Budgets do not consciously consider the merit of the schemes. It fails to allocate funds based on proper cost – benefit estimates. The vociferous gets more.

4.5.4. In-Depth Interview

The budgetary control system is well constructed but the current GBS has to be tuned to the requirements of a growing nation under the phenomenon of globalization. Government is the
biggest spender and budget is the key process for expenditure approval. Hence this has to be periodically updated and sophisticated technique should be incorporated. However the senior officials appreciate the need for modernization and attempts are already being made. It is true that budgets are often ambitious with big claims revealed by vastness of ends not backed up by sufficient means. But India has withstood the recent economic crises in a better manner than the developed nations.

4.6. Reforms Needed in GBS- Analysis by Quantitative Approach

An analysis based on survey data collected through the questionnaire and hypothesis tests is taken up now as to the need for reforms in GBS. The questionnaire is given in Annexure A and detailed statistical analysis in Annexure E.

4.6.1 Hypothesis 13

Null Hypothesis: The perception of reforms needed in GBS is significantly less than or equal to the threshold level of need for reforms in GBS, with Mean Score ≤ 3, (i.e., $H_0: \mu \leq 3$) on a scale of 5. Alternative hypothesis is Mean Score > 3, (i.e.,$H_1: \mu >$), depicting dire need for reforms. The relevant test data are given in table 4.6.

<table>
<thead>
<tr>
<th>Mean</th>
<th>SD</th>
<th>t value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.05</td>
<td>0.52</td>
<td>33.36</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Primary Data

Since P value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence the perception of reforms of GBS is significantly higher than the expected condition (≤ 3) of Reforms in GBS. The primary and secondary data move in the same direction urging reforms. The perception comes out strongly supported by further analysis of the variables.

4.6.2 Hypothesis 14
Null Hypothesis: There is no significant difference between males and females with respect to the perception of Reforms needed in GBS. That is \( \mu_1 = \mu_2 \), with alternative hypothesis \( \mu_1 \neq \mu_2 \). The relevant test data are given in table 4.7.

Table 4.7 Perception of Reforms Needed in GBS - Difference between Males and Females

<table>
<thead>
<tr>
<th>Gender Groups</th>
<th>Mean</th>
<th>SD</th>
<th>t value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>4.04</td>
<td>0.49</td>
<td>-0.41</td>
<td>0.68</td>
</tr>
<tr>
<td>Female</td>
<td>4.06</td>
<td>0.56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

Since P-value is greater than 0.05, the null hypothesis is not rejected at 5% level of significance. Hence there is no significant difference between males and females with respect to the perception of Reforms needed in GBS. It supports the general perception for reforms in GBS.

4.6.3 Hypothesis 15

Null Hypothesis: There is significant difference among different age groups with respect to the perception of reforms needed in GBS. That is \( \mu_1 = \mu_2 = \mu_3 \), with alternative hypothesis \( \mu_i \neq \mu_j \). The relevant test data are given in table 4.8.

Table 4.8 Perception of Reforms Needed in GBS - Difference among Age Groups

<table>
<thead>
<tr>
<th>Age Groups</th>
<th>Mean</th>
<th>SD</th>
<th>F value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>3.93</td>
<td>0.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26-50</td>
<td>4.16</td>
<td>0.62</td>
<td>6.41</td>
<td>0.00</td>
</tr>
<tr>
<td>Above 50</td>
<td>3.98</td>
<td>0.52</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

Interpretation
Since P value is less than is 0.05, the null hypothesis is rejected at 5% level of significance. Hence there is significant difference between the Age groups with respect to the perception of Reforms needed in GBS. The middle age group wants more and quicker reforms than other two groups, because they are not only informed but also concerned with current exposures. The elder group is informed, but perhaps is relatively less vociferous. The younger group perhaps is yet not aware of the contexts and contours unlike the other two groups.

4.6.4. Hypothesis 16

*Null Hypothesis: There is no significant difference between Government and Non-Government employees with respect to the perception of reforms needed in GBS. That is $\mu_1 = \mu_2$, with alternative hypothesis $\mu_1 \neq \mu_2$. The summary test data are given in table 4.9.*

<table>
<thead>
<tr>
<th>Occupation Groups</th>
<th>Mean</th>
<th>SD</th>
<th>t value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Employees</td>
<td>4.00</td>
<td>0.49</td>
<td>-0.96</td>
<td>0.34</td>
</tr>
<tr>
<td>Non-Government Employees</td>
<td>4.06</td>
<td>0.53</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since P-value is greater than 0.05, the null hypothesis is not rejected at 5% level of significance. Hence there is no significant difference between Government and Non-Government employees with respect to the perception of Reforms needed in GBS. This provides a broad platform for ushering in reforms, as there is support from both the governmental staff and outside experts in this regard.

4.7 Reforms in GAS and GBS – Consolidated Review

In this section the study reviews the relationship between the present condition and reforms needed both in GAS and GBS. A consolidation of views is attempted to ensure whether there is a concurrence of the respondents of the two major focus areas of the study, namely reforms in GAS as well as in GBS. Here the test of significance of correlation is done.
4.7.1 Hypothesis 17

Null Hypothesis: There is no significant relationship between Present condition of GAS and Reforms needed in GAS. $H_0: r=0$, against $H_1: r\neq 0$. That is the correlation coefficient between them is insignificant or nil. The summary test data are given in table 4.10.

Table 4.10 Relationship between Present condition of GAS and Reforms needed in GAS

<table>
<thead>
<tr>
<th>Pearson's Correlation Coefficient</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.54</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Primary Data

Since P-value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence there is significant relationship between the Present condition of GAS and Reforms needed in GAS. Though the Correlation Coefficient is 0.54, still it stands accepted to be significant. This signifies that as satisfaction level with the present condition of GAS is not high, the need for reforms is high.

4.7.2 Hypothesis 18

Null Hypothesis: There is no significant relationship between Present condition of GBS and Reforms needed in GBS. That is the correlation coefficient between them is insignificant or nil. The summary test data are given in table 4.11.

Table 4.11 Relationship between Present condition of GBS and Reforms needed in GBS

<table>
<thead>
<tr>
<th>Pearson's Correlation Coefficient</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.60</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Primary Data

Since P-value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence there is significant relationship between the Present condition of GBS and Reforms needed in GBS. This establishes the conclusion that as satisfaction level with the present condition of GBS is not high, the need for reforms is high.
4.8. **Reforms Needed in GBS- Analysis by Qualitative Approach**

The qualitative data from the three Focus Groups and the In Depth interview on the Reforms needed in GBS is studied in this section.

4.8.1 **Focus Group I- Government Servants**

i. There is some confusion about Outcome Budget. It probably was not communicated well. It still can be introduced though in phases.

ii. Good support for enhancing the role of Performance Budgeting. This can be a good measure of budget efficacy.

iii. The Revised Estimates (R.E) compensates the over / under allocations made under the Budget Estimates (B.E): but inadequacy of funds and lapsing of funds are avoidable sins.

iv. In a huge country Reforms shall be aimed as a gradual process. These ideas, lofty though they may be, should not be hurried through.

v. Clear support for reforms with cautions as stated above was the consensus.

4.8.2. **Focus Group- II - Private Sector Executives (Finance/Non-Finance)**

i. The Progressive Finance Ministers have been enthusiastic about Reforms, but the rigid and antiquated bureaucracy has failed them.

ii. Zero-based Budgeting failed even in USA. We should not introduce it in India.

iii. Performance Budgeting is too feeble in its present form. It has to be reinforced.

iv. Budgets should cease to be a number crunching exercise and should be patterned on sound economics,

v. Whims and fancies of politicians or invisible powers should be kept at a distance

vi. Outcome Budgeting is the test tool to measure performance of Expenditure. Hardly 15 to 20% of the benefits reach the public. There must be complete introduction of this concept in all departments.
vii. Audit should be partly privatized. Propriety and Managerial Audit and Appraisal must be made an integral part of budgeting exercise.

viii. GAS and GBS are closely inter-related. There is need for integrating the entire system of GBS with GAS to ensure correspondence between plans and actual

4.8.3. Focus Group III- Prominent citizens.

i. The quality of Government Budgeting has shown only marginal improvement over the years.

ii. The scams in recent years have proved incompetency of the government to control expenditure. A shift to Zero-base system will ensure that departments seek allocation based on projected performance, rather than on past allocations.

iii. Budget Reforms cannot be isolated. They are linked with elevating moral standards of the government at all levels. The emphasis on honesty cannot be overstated.

iv. Budgets tend to become accounting documents. They should to reveal physical targets along with financial aspects.

v. ARC has strongly recommended Outcome Budgeting. This must be adopted.

vi. Budgets are one – point mechanism to control and direct the economy. They must be made a reliable instrument for ensuring better planning, efficient implementation and effective control culminating in good governance.

4.8.4. In-Depth Interview

The Public Expenditure Management (PEM) has improved over the years. Performance Budgeting is a good tool of measurement. The concept of Outcome Budgeting is still relevant and will play a big part. The FRBM is an unusual Reform mechanism by the Government of India and if the reforms are properly introduced and supervised the nation will benefit immensely.

4.9 Convergence of views both in Qualitative and Quantitative Analyses

In sum it may be stated that there is considerable support for reforms both in GAS and GBS, and this view parallels the global view in this regard, particularly in the developed world. The present state of the financial systems appears inadequate and reforms both in the accounting
and financial systems are called for. There is a broad convergence of views both in Qualitative (that is, survey questionnaire based) and Quantitative Analysis (that is, focus-group and in-depth interview based). This is expected because the questionnaire was developed with great care which captured present condition (status) and expected condition (reforms needed) in an elaborate and scholarly perspective. Further the sample respondents group and expert-groups are none too different to each other.

4. 10 Budgetary Reforms
The major Budgetary Reforms followed globally are:

i. Zero-based Budget
ii. Performance Budget
iii. Medium Term Fiscal Policy
iv. FRBM
v. Outcome Budget

A brief deliberation of each is attempted below.

4.10.1 Zero-Based Budgeting
Government budgeting systems based on simple accounting entries (line budgeting) is better changed to Zero-base system to ensure entities seek allocation based on projected performance, rather than on past allocations. This was introduced in the 1970s. It is defined as under:

“As the name suggests, every budgeting cycle starts from scratch. Unlike the earlier systems where only incremental changes were made in the allocation, under zero-based budgeting every activity is evaluated each time a budget is made and only if it is established that the activity is necessary, are funds allocated to it. The basic purpose of ZBB is phasing out of programs/ activities which do not have relevance anymore. However, because of the efforts involved in preparing a zero-based budget and institutional resistance related to personnel issues, no government ever implemented a full zero-based budget, but in modified forms the basic principles of ZBB are often used.”

The beneficial effects of ZBB are contained in Performance Budgeting and Outcome Budgeting. This system was pioneered in the USA but was given up as impractical due to various reasons. This never took off in India, though the ARC and other committees have generally recommended it.
4.10.2 Performance Budget

Tight budgets and demanding citizens put governments under increasing pressure to show that they are providing good value for money. Providing information about public sector performance can satisfy the public’s need to know, and could also be a useful tool for governments to evaluate their performance. The introduction of performance budgeting has been linked to broader efforts to improve expenditure control as well as public sector efficiency and performance. Thus, performance budgeting can be combined with increased flexibility for managers in return for stronger accountability for the results, so as to enable them to decide how to best deliver public services.

Performance information is not a new concept, but the governments have taken a closer look at integrating it into the budget process in the past decade as part of efforts to improve decision making by moving the focus away from inputs (“how much money will I get?”) towards measurable results (“what can I achieve with this money?”).

Unlike the traditional line item budget, a performance budget reflects the goal/ objectives of the organization and spells out performance targets. These targets are sought to be achieved through a strategy(s). Unit costs are associated with the strategy and allocations are accordingly made for achievement of the objectives. A Performance Budget gives an indication of how the funds spent are expected to give outputs and ultimately the outcomes. However, performance budgeting has a limitation - it is not easy to arrive at standard unit costs especially in social programs which require a multi-pronged approach. The benefits reaped by OECD countries in this context are worth noting.

“OECD Countries have reported a number of benefits from using performance information, not least the fact that it generates a sharper focus on results within government. The process also provides more and better understanding of government goals and priorities and on how different programs contribute to them.

At the same time, performance information encourages greater emphasis on planning and offers a good indication of what is working and what is not. This tool also improves transparency, by providing more and better information to legislatures and the public.

Nonetheless, OECD countries continue to face a number of challenges in developing and using performance information in the budget process to measure results, in
improving the quality of information and in persuading politicians to use it in decision making.  

The OECD has defined performance budgeting as budgeting that links the funds allocated to measurable results. There are three broad types: presentational, performance-informed, and direct performance budgeting.

4.10.2.1 Types of Performance Budgets

There are a few types of Performance Budgets which are briefed below.

i. Presentational performance budgeting

The focus in this method is on data. Performance information is presented in budget documents or other government documents. The information can refer to targets, or results, or both, and is included as background information for accountability and dialogue with legislators and citizens on public policy issues. The performance information is not intended to play a role in decision making and does not do so.

ii. Performance-informed budgeting

Here, resources are indirectly related to proposed future performance or to past performance. The performance information is important in the budget decision-making process, but does not determine the amount of resources allocated and does not have a predefined weight in the decisions. Performance information is used along with other information in the decision-making process. This situation is similar to what is followed in India today.

iii. Direct performance budgeting

This is a more dynamic process, as it involves allocating resources based on results achieved. This form of performance budgeting is used only in specific sectors in a limited number of OECD countries. For example, the number of students who graduate with a Master’s degree will determine the following year’s funding for the university running the program.

4.10.3 Fiscal Reforms and Budget Management Act (FRBM Act)

While the above steps are universally accepted credit must be given to GOI for formulating an enactment for fiscal prudence. Generally the Acts prescribe the law to be followed by the public, or a class of persons, or by the governments in its dealings with the public at large or a section of it. This Act on the other hand, is aiming solely to the things to be done by the
government itself. This act has a long background. The parliament passed FRBM Act on 7th May 2003 after a long debate of about 30 months. The government ultimately notified the Act on 5th July 2004 after adopting the Rules fettering the Centre itself from doing things that Parliament does not want it to do. The government itself is legally bound by the Act. The rules are even more unusual; the Centre is to issue them in order to constrain itself. The legislation route of fiscal consolidation is based on the premise that generally politicians in the government tend to spend more and reluctant to raise more revenue for the government as dictated by their self interests. The significance of FRBM Act can be seen from another angle. Wagner’s hypothesis that public expenditure will increase with increase in GDP indicates two things: the ability of the rising GDP to absorb increased expenditure and more priority sector expenditure that would ensure its quality and quantity.

4.10.3.1 Fiscal Indicators

This Act is the first step in putting reforms in quantified terms. The Act and the Rules have specified four fiscal indicators to be projected in the medium term fiscal policy statement. These are revenue deficit as percentage of GDP, fiscal deficit as percentage of GDP, tax revenue as percentage of GDP and total outstanding liabilities as percentage of GDP. The detailed of the requirements can be briefly stated as under.

i. Reduction of revenue deficit by an amount equivalent of 0.5% or more of the GDP at the end of each financial year, beginning with 2004-05 and bringing it down to Nil by 31.03.2009.

ii. Reduction of fiscal deficit by an amount equivalent of 0.3% or more of the GDP at the end of each financial year, beginning with 2004-05 and bringing it down to 3% of GDP by 31.03.2009.

iii. No assumption of additional liabilities (including external debt at current exchange rate) in excess of 9% of the GDP for the financial year 2004-2005 and progressive reduction of this limit by at least one percentage point of GDP in each subsequent year.

iv. No guarantees in excess of 0.5% of the GDP in any financial year, beginning with 2004-05.

v. For greater transparency in the budgetary process, the rules mandate the Central Government to disclose changes, if any, in accounting standards, policies and
practices that have a bearing on the fiscal indicators. The Government is also mandated to submit statements of receivables and guarantees and a statement of assets, at the time of presenting the annual financial statement.

vi. The Rules prescribe the form for the quarterly review of the trends of receipts and expenditures. The rules mandate the Central Government to take appropriate corrective action in case of revenue and fiscal deficits exceeding 45% of the budgeted estimates, or total non-debt receipts falling short of 40% of the budget estimates at the end of first half of the financial year. Further the Union Government should place three documents along with the budget, namely, the Macroeconomic Framework Statement, the Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement. In addition the Financial Minister will have to make a statement at the end of the second quarter on the trend of fiscal indicators and corrective measures if they deviate from the budget estimates beyond the extent stipulated in the FRBM.xxiii

4.10.3.2 Outcome

The state-wise break – up of fiscal deficit shows encouraging trends. Certain states in the Far-East region which had high deficit in 2005-06, has made good progress and all states are projecting the mandated level of 3% by 2014-15. This indicates that with some measure of compulsion and political will, fiscal deficit can be controlled. But other provisions of the FRBM Act have not been achieved. Table 4.12 gives State-wise Fiscal Deficit Past Trends and Future Targets.

4.11 Global Reforms

Countries across the globe have embarked upon reforms for different reasons and have implemented it in different ways, but they do share some common objectives. These can broadly be grouped into three categories: budget priorities such as controlling expenditure and improving allocation and efficient use of funds; improving public sector performance; and improving accountability to politicians and the public.

4.11.1 United Kingdom (U.K.) The United Kingdom has focused on reallocating funds to key budget priorities to improve efficiency and reduce waste. However, most performance reform initiatives have several objectives. Reforms in budgeting in U.K are in vogue for some time. Its governance structures, at least at the central level, are very similar to that of
India. A medium-term fiscal policy was indeed drawn up in 1985. This, however, was concerned only with taxation. Further, it was not followed up in later years. The basic issue here is to arrive at a reasonably true picture of the resource situation in a medium-term of 3-5 years and formulate truer estimates of different developmental schemes/programs/ projects within the limits suggested by the availability of resources and follow it up with well formulated annual budgetary estimates for executing the schemes. In the end, the accounts for the actual expenditure, the budgetary estimates and the plan document (the medium-term framework in the Indian context) should be integrated in such a way that a holistic picture emerges and the outcomes could be evaluated. Such a system has been put to practice in the UK where the process of reforms is still continuing. These are described below.

**Table 4.12: Fiscal Deficit- Past Trends and Future Targets**
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An improvised framework for the planning and control of public expenditure has been in operation in the UK since the 1998 comprehensive Spending Review (CSR). This framework is based on the following key principles:

i. Consistency with a long-term, prudent and transparent regime for managing the public finances as a whole;

ii. The judgment of success by policy outcomes rather than resource inputs;

iii. Strong incentives for departments and their partners in service delivery to plan over several years and plan together where appropriate so as to deliver better public services with greater cost effectiveness; and

iv. The proper costing and management of capital assets to provide the right incentives for public investment.

The framework has two components:

i. Departmental Expenditure Limit (DEL) spending, which is planned and controlled on a three-year basis in Spending Reviews; and

ii. Annually Managed Expenditure (AME), which is expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL. AME includes social security benefits, local authority self-financed expenditure, debt interest, and payments to EU institutions.

4.11.2 Canada: In Canada the reforms of the mid 1990s concentrated on reallocating funds and cutting back expenditure, while those of the late 1990s and early 2000s concentrated on developing and improving results-based management and accountability. With the election of a new government in 2006, the focus has again shifted to budget issues.

4.11.3 United States: Having fixed their objectives, governments have to decide how to build performance information into their budget and management systems. USA has introduced reforms through legislation. This ensures some degree of permanence, making it easier for reforms to continue if there is a change in government. But legislating for change is no guarantee that it will happen: it depends on political and administrative support, and on the implementation strategy. Several countries, including Canada, have a mixture of legislation and formal policy guidelines or, like the United Kingdom, they have simply used formal guidelines issued by the central ministries.
4.11.4 Australia: has followed an incremental approach to reform over the past 15 years. Australia says that its approach has allowed the government to proceed with care, making refinements to the plans along the way if unanticipated or unintended effects occur, while still keeping to a long-term path of reform.

4.11.5 Korea: introduced four major fiscal reforms with great speed. The advantage of this approach is that it creates great pressure for reform and helps to lower resistance to change, but it also demands a level of commitment in terms of political willpower and resources that may not be readily available in many countries. And it carries potentially high risks as it does not provide the opportunity to learn from mistakes and to adapt the reforms as they go along. Governments are more likely to adopt a “big bang” approach when there are strong drivers for quick change such as an economic crisis or a change in government. Without these drivers, it could be difficult to develop the pressure to introduce sweeping reforms.

4.11.6 OECD: Over two-thirds of OECD countries now include non-financial performance information in their budget documents, but this does not mean that it is being used to help make budget decisions. For that to happen, the performance information has to be integrated into the budget process.

4.12 Performance Budgeting in India

The concept of Performance Budgeting is essentially ‘a technique of presenting Government operations in terms of functions, programs, activities and projects’. Thus, governmental activities were sought to be identified in the budget in financial and physical terms so that a proper nexus between inputs and outputs could be established and performance assessed in relation to costs. Under performance budgeting, the emphasis would get shifted, from the means of accomplishment to the accomplishments themselves. The important thing under this technique was the precise definition of the work to be done or services to be rendered and a correct estimate of what that work or service would cost. A performance budget is prepared in terms of functional categories and their sub-division into programs, activities and projects and not merely in terms of organizational units and the objects of expenditure. A performance budget thus developed in terms of costs and results facilitates management control by bringing out the programs and accomplishments in financial and physical terms closely interwoven into one comprehensive document. In the context of planned economic development, accountability is not merely confined to ensuring that the amounts have been
spent for the various purposes and within the limits laid down in the budget. It also extended to ensuring that the expected results are achieved. Thus, it was necessary to ensure that the budget reflects the pattern of the Plan both in content and classification. The performance budget was a step towards achieving this.

4.12.1 Progress Made

i. Performance budgets were initially presented for a few Departments on a supplementary basis in 1969 and later its scope was enlarged to cover all the Ministries.

ii. Some State governments also made efforts on their own to prepare performance budgets.

iii. But the efforts came to be substantially diluted as the scope of the document was limited to plan programs.

v. The Departments continued the practice of preparing performance budgets annually in addition to their regular budget. The preparation of performance budget has become a routine affair without any discernible influence on expenditure management.

It, however, needs to be pointed out that the Working Group constituted by the First ARC had clearly warned against this approach. In their own words,

“The Working Group has given careful consideration to these aspects and is of the opinion that it would not be sufficient to have the performance budget document as a supplementary one to the existing set of documents, as in that case it will not have any impact whatsoever on the existing system. For one, the performance budget is being evolved to overcome the deficiencies in the existing budgetary process and framework and not to supplement it. The idea of a supplementary document in such a context would inevitably mean the continuation of the existing procedures, financial practices, accounting classification, etc., with their inadequacies. Indeed, if performance budgeting is not made an integral part of the budgetary process, but only an additional exercise, unconnected with the main process, the advantages that are expected of it would not materialize. Secondly, performance budget is not merely a matter of form; it represents a change in concepts that has significant effects on the approach to the budget and the decision-making process. The performance budget as a supplementary document would be somewhat in the nature of a fifth wheel to the coach.”

xxv
4.12.2 Current Situation
The performance budgets have been largely combined with the Outcome Budgets. This has diluted its relevance

“For the year 2007-08, the Outcome Budget and Performance Budget were merged and placed in one combined document, the latter providing information relating to the preceding year. This has been done in order to compare the performance of the past year vis-a-vis the performance indicators used for the budget year. The Ministries/Departments are required to prepare their respective outcome budgets by late March each year on the basis of the Annual Financial Statements presented in the parliament in February. The performance budget, now part of the outcome budget, would indicate the ‘outcome’ of the outcome budget of the previous fiscal year. Thus, while the Annual Financial Statement and outcome budget would be for the ensuing financial year, the performance budget would present the picture of actual achievement/performance for the financial year gone by.”

4.12.3 Performance audits
Performance audits review on an individual-entity basis whether an entity is maximizing and obtaining all revenue resources available and whether it is expending those resources effectively. Performance audits identify areas of improvement and allowing management to analyze independent feedback and reconfigure operations. They are an objective tool that can be customized for individual government entities. Data of performance audits do not have to be required as part of a comprehensive annual financial report to be useful.

4.13 Outcome Budgeting in India
This was a major reform initiative of the GOI. Due to the realization that ‘certain weaknesses have crept in the performance budget documents such as lack of clear one-to-one relationship between the Financial Budget and the Performance Budget and inadequate target-setting in physical terms for ensuing years’ it was felt that there was need for tracking ‘outcomes’ and not the readily measurable ‘outputs’. This found mention in the Budget speech of the Finance Minister (Budget 2005-06) which was re-emphasized by the Prime Minister in his letter to all Union Ministers in March 2005. The first outcome budget was passed in the Parliament on August 25, 2005. The guidelines for the 2006-07 outcome budget provided that each Ministry/Department will separately prepare the outcome budget documents in respect of ‘all Demands/ Appropriations controlled by them’. The key words
are ‘Outlays’, ‘Outputs’ and ‘Outcomes’. It has been recognized in the guidelines that converting ‘outlays’ into ‘outcomes’ is a complex process addressing “value for money” concerns; being more a management process than merely a financial process and admitting possibilities of different approaches and modalities, which may differ from Ministry to Ministry and program to program.

An analysis reveals that:

i. ‘Outlays’ imply total financial resources deployed for achieving certain outcomes.

ii. ‘Outputs’ have been defined as the ‘measure of the physical quantity of the goods or services produced through an activity under a scheme or program’. They are identified as an intermediate stage between ‘outlays’ and ‘outcomes’.

iii. ‘Outcomes’ are the end product/results of various Government initiatives and Interventions. They involve much more than mere ‘outputs’, since they cover the quality and effectiveness of the goods or services produced as a consequence of an activity under a scheme or program. The ‘outcomes’ are required to be measured keeping in mind the objectives of the program/scheme by following appropriate methodology.

But the expected benefits were not realized in actual budget implementation. The ARC report (para 4.12.5.7 page 87) has succinctly brought out the issue:

“However, the outcome budget for 2007-08 shows that in many cases the measurement of outputs and outcomes seems to have been mixed up. While the outputs could be measured in quantifiable terms, measuring outcomes is a difficult proposition given the fact that proposed outcomes of a specified program could be influenced by many other extraneous factors. It is also seen that in some cases Departments have merely reproduced the outputs targets as outcomes and, in many other places, general intents of the programs are described as outcomes.”

As stated above, in many cases outcomes and outputs were mixed up. The former is a qualitative aspect, influenced by many factors, while output is a measurable quantifiable factor. The Outcome Budget of 2007-08, consists of many such cases. The outputs are, in some cases, reproduced as outcomes; whereas in other cases general intents of programs are shown as outcomes. Details are shown in Annexure G.

More in desperation, than out of reality, the exercise is being diluted. The ARC itself is of the view that the Outcome Budget cannot be prepared for all Ministries/Departments simply by
way of declaration. It’s a complex process and a number of steps are involved before it can be attempted with any degree of usefulness. In many cases, the ‘outcomes’ would influence and be influenced by developments in other sectors. For example, rural electrification would influence the outcome of schemes related to education, health, irrigation and agriculture, to name a few. The view of the ARC is that a beginning may be made with proper preparation and training in case of the Flagship Schemes and certain national priorities.

4.14 GBS and Fund Management

The above steps of GOI are essential and even pragmatic exercises in a welfare economy aiming for greater public participation. Procedural difficulties should not ambush well-intentioned schemes. Reforms in GBS can bring about significant changes in many areas of government financial management. Specific areas are highlighted.

4.14.1 Uniform utilization of funds

Many departments do not spend the budgeted funds in a well planned way throughout the year. The figures of ARC show that many ministries having a BE of more than Rs. 1000 Crores could not spend even 67% of the amount in 9 months. Chart 4.5 gives the data.

Chart 4.5: Percentage Utilization of Funds in Select Cases

![Chart 4.5: Percentage Utilization of Funds in Select Cases](http://arc.gov.in/14threport.pdf) visited on 12-3-2013 report p 65 last visited on 12-3-2013
Public interest is the single most important prerogative of all governments the world over. It is this test which decides whether the government is efficient or not. This however, has been often clouded by various other considerations.

4.14.2 Timely flow of funds

Recent budgeting research has suggested that an outcomes view of reform can be enhanced with a process view (Smith, Cheng, 2006). Several issues need to be addressed in this regard. The Devolution of Funds between the Center and the states is a pointer in this context. The process involves several steps as illustrated by Chart 4.6.

Chart 4.6: Devolution of Funds from Union to States

There are several projects which lag behind due to inadequate availability of funds, while in a few projects huge sums of money is blocked up, as shown in earlier cases of fund utilization (Chart No 4.5). This suggests a process view as an imperative step.
4.15. Accrual Based Budgeting

While the Accrual Based Accounting System has received wide acceptance, its other fall out namely Accrual Based Budgeting System has not received much attention. But the GOI has given consideration to this lofty reform and discussions on adoption of the accrual system of accounting in the government have been on-going for quite some time. Even the Committee on Fiscal Responsibility Legislation, July 2000 was in favour of introduction of accrual accounting system and was inclined to make it a part of the Fiscal Responsibility and Budget Management Act, as it felt it would be an instrument of fiscal control.xxviii

Accrual Accounting and Budgeting –Global Status: The global scenario towards accrual based accounting is encouraging; but accrual based budgeting has not yet become popular. The position in some developed countries is given below. Only Canada, Australia and New Zealand have shifted to full accrual based budgeting. Countries like Korea and Switzerland are in the process. Table 4.13 gives the global scene country-wise.

4.16 Sum-up

Governments have been traditionally shy of reforms. This shyness accounts for the slow pace of reforms in various areas and financial reforms are no exception. But at the same time it should be considered that the states handle huge resources and proper utilization of them in the best interests of the public is of crucial importance. In fact the need for handling the funds with greater sophistication is more at the governmental level as the funds have greater economic relevance.

“It must be appreciated that the funds available with the govt. have an opportunity cost of not being available to the corporate and global economy. When dealing with the policies of expending such funds one now must be clearer about the outcomes sought and work towards delivering them efficiently within the government framework.”xxix

The analysis of both the qualitative and quantitative data strongly supports reforms. This is in line with the global developments in this field. The GOI has made some good beginnings with the introduction of FRBM Act, Performance Budgeting and the Outcome Budget concepts. But most of the exercises have not brought about the desired benefits. As a result the avowed goal of ‘good fiscal governance’ is still a long way to be achieved.
# Table 4.13 Status of Accrual Accounting and Accrual Budgeting in OECD Countries

<table>
<thead>
<tr>
<th>OECD Member</th>
<th>Accrual Accounting for Individual Agencies / Departments</th>
<th>Consolidated Accrual Reporting</th>
<th>Accrual Budgeting</th>
</tr>
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<tbody>
<tr>
<td><strong>G7 Economies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>Since FY 2002</td>
<td>Since FY 2002</td>
<td>Yes</td>
</tr>
<tr>
<td>France</td>
<td>Being introduced</td>
<td>Some, full accrual being introduced</td>
<td>ESA 95. Intends to move to modified accrual basis</td>
</tr>
<tr>
<td>France</td>
<td>Being introduced</td>
<td>Some, full accrual being introduced</td>
<td>ESA 95. Intends to move to modified accrual basis</td>
</tr>
<tr>
<td>Germany</td>
<td>Cash statements supplemented with accrual information</td>
<td>No</td>
<td>ESA 95. In preparation</td>
</tr>
<tr>
<td>Italy</td>
<td>Yes</td>
<td>Yes</td>
<td>ESA 95. Yes</td>
</tr>
<tr>
<td>Japan</td>
<td>Yes</td>
<td>Introducing</td>
<td>No</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Since FY 2000</td>
<td>From FY 2006</td>
<td>ESA 95. Since FY 2002</td>
</tr>
<tr>
<td><strong>Other Members</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>Since 1995</td>
<td>Since 1997</td>
<td>Since FY 2000</td>
</tr>
<tr>
<td>Austria</td>
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<td>No</td>
<td>No, but will be introducing modified accrual budgeting in accordance with ESA 95</td>
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<tr>
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<td>Some</td>
<td>Some</td>
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<tr>
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<td>Since 1998</td>
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</tr>
<tr>
<td>Korea, Republic of</td>
<td>Is introducing full accrual accounting</td>
<td>No</td>
<td>Is introducing full accrual budgeting</td>
</tr>
<tr>
<td>OECD Member</td>
<td>Accrual Accounting for Individual Agencies / Departments</td>
<td>Consolidated Accrual Reporting</td>
<td>Accrual Budgeting</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------------------------------------------</td>
<td>--------------------------------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>No*</td>
<td>No</td>
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</tr>
<tr>
<td>Mexico</td>
<td>No*</td>
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</tr>
<tr>
<td>The Netherlands</td>
<td>Since 1994</td>
<td>Introducing</td>
<td>ESA 95. For agencies since 1997. Is introducing full accrual budgeting</td>
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<tr>
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<td>ESA 95. Modified cash</td>
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<tr>
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<td>Since 1994</td>
<td>Since 1994</td>
<td>ESA 95. Is introducing full accrual budgeting</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Yes</td>
<td>No</td>
<td>Is introducing full accrual budgeting</td>
</tr>
<tr>
<td>Turkey</td>
<td>No*</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

* Most countries actually use modified cash accounting.
ESA 95: European System of Accounts 1995

END NOTES


2. The 14th ARC report http://arc.gov.in/14threport.pdf (para 2.3.3.1; page 6)- last visited on 21-3-2013.


5. Govilkar V.M.  Revisiting FRBM Act after the target date The Management Accountant June 2009 p 443-444


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