

## **STATE BUDGET: VARIOUS COMPONENTS**

The State Budget comprises of three parts:

1. Consolidated Fund
2. Public Account
3. Contingency Fund

**The Consolidated Fund** is the source for all the “usual” budgetary transactions whether of capital, revenue or loan nature. State Tax and Non-Tax revenues are entered into the Consolidated Fund and any expenditure which are to be met from the Consolidated Fund must be voted by the State Legislature. Expenditures of ‘Charged’ nature are also met out of the Consolidated Fund.

The Consolidated Fund itself comprises of two parts:

- a) the revenue account ; and
- b) the capital account.

The revenue account comprises expenditures covering the routine administration of the State, such as wages, salaries, maintenance and repairs, telephone expenses, day to day office running expenses and other overheads. Expenditures relating to the creation of assets - and this includes most (but not all) of Plan expenditure - are in the Capital account.

Revenue receipts are all those incomes which do not incur repayment liability. These include, in addition to the State’s own revenues, grants from the Central Government for the financing of State Plans, as well as non-plan grants.

Capital receipts include internal debt, loans from the Center and the State’s recovery of its own loans advanced to State Corporations, Co-operative Societies, etc., and are entered in the capital account. On the outlay side of the capital account, there are expenditures corresponding to the State’s own investment outlay and disbursements, which are comprised of repayment of State public debt and the loans and advances made by the State to the various entities. Thus, both the capital and debt portions of the Consolidated Fund are under the Capital budget.

**The Public Account** includes those funds which do not rightly belong to the State but which the State holds in trust for other entities. This would include such items as deposits from Municipal Corporations, pension fund accumulations of the employees’ provident fund, and reserve and depreciation funds. It could rightly be characterized as the fund for which the State acts as “banker”.

**The Contingency Fund**, as its name implies, is a fund for emergency use. It does not, in fact, contain any “real” money, but is an accounting figure that is included in the Budget to cover generally the decretal amounts and other unforeseen emergent expenditures. Expenditure from the Contingency Fund can be made with Cabinet consensus alone and hence have the advantage that the budgetary procedure - involving legislative approval - is circumvented; albeit the seal of Legislature

subsequently to the expenditure thus incurred is a must. The monetary ceiling of Contingency Fund in most states is raised every few years through the budgetary process.

#### STATE REVENUE RECEIPTS:

State revenue receipts are, as stated earlier, those receipts for which the State has no re-payment liability and which are used to finance items of revenue expenditure. They consist of State tax revenues, non- tax revenues and grants from the Central Government.

Revenue sharing is a built-in feature of the Indian fiscal scene. The Indian Constitution assigns to the State and Central Governments specific expenditure responsibilities - Irrigation, Power, and Agriculture, among others, are the sectors of State responsibility, while Defence, Posts and Telegraphs, Railways etc. fall in the Center's domain.

Similarly, a breakdown has been made in the case of tax revenues, where many taxes, in the interests of efficiency and uniformity, are assigned to the Central Government and they are States enjoined from tapping these sources.

Share in Central Taxes represents the automatic revenue sharing, known as devolution, which all States receive. The States receive percent of the net tax revenues of the Centre. The proportion, in which these taxes are to be shared between the Centre and the States and amongst the States, is determined by the Finance Commission, a statutory body.

#### State Expenditures:

Expenditures are classified under two headings:

- a) revenue expenditures ; and
- b) capital expenditures.

Broadly speaking, the terms 'revenue expenditures' and 'current expenditures' are used interchangeably just as the terms 'capital expenditures' and 'investment'. The correlation, however, is not exact. There is some investment expenditures on revenue account (basically capital expenditures), which are required for carrying out general administration of the State, such as housing for civil servants. Likewise, current expenditures shown up on the capital account. Formally, the difference between revenue and capital expenditure is determined on the basis of whether the expenditures are financed from revenue or capital receipts.

Plan expenditures may be either revenue or capital expenditures, since the expenditures of a non-capital nature are financed through Plan during the Plan period (they become Non-Plan committed expenditures at the termination of the Plan); but they are always "developmental".

**Revenue Budget:**

Revenue spending (revenue expenditure) takes place from this budget. Salaries of government employees and military staff, perks for ministers, office furniture, grants to local bodies, subsidies, interest to be paid on loans taken, and pensions are all accounted for here and referred to as revenue spending. Any expenditure for the normal running of the Government, which does not lead to the creation of assets, is called revenue spending. This spending must be financed from revenue receipts, i.e. revenue that the Government earns. The Government earns revenue in the form of taxes (corporate, income), duties (excise, custom etc.), receipts, fee and interest and dividends (if the Government makes investments).

**Capital Budget:**

Capital spending (capital expenditure) refers to the money spent on creating assets (roads, highways, and dams), buying land or building, purchasing machinery and equipment. Loans from the Centre to various institutions or Government-run companies are clubbed here, too. Also included are any investments made by the Government in shares or other such instruments. This spending is financed from capital receipts, the money that the Government gets from loans. The loans can be from the public (market loans), from the Reserve Bank of India (the country's Central Bank) or from financial institutions.

**Finance Bill:**

Finance Bill consists the Government's proposals for the imposition of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by the parliament.

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