

**The Process of
Federal Budget
Making**

A GUIDE

Legislative Oversight Tool Kit

The Process of Federal Budget Making: A Guide

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Foreword

This guide is part of a toolkit comprising a set of inter-related and complimentary tools. These tools have been developed as part of a USAID funded project, Strengthening National and Provincial Legislative Governance (SNPLG). It is being implemented by the Pakistan Legislative Strengthening Consortium (PLSC) comprising eight national and international NGOs.

At the heart of SNPLG project is the belief that building the capacity of the legislative branch to perform its basic functions namely, citizens' representation, oversight of the executive and law-making, are a must for a viable and strong democracy. Equally important is the need for encouraging and facilitating people and civil society to get involved in the legislative processes and to hold the legislature accountable. A legislature that is well-equipped to carry out its functions coupled with a proactive and informed citizenry provides solid foundations for parliamentary democracy and good governance.

Founded on the above rationale, SNPLG is divided into three programmatic objectives: legislative strengthening, capacity building of civil society, and the improved use of media and research in legislative endeavors. The project component being carried out by CRCP focuses on the empowerment of civil society for legislative oversight and advocacy.

It is hoped that this booklet and others in the series would help enhance the capacity of civil society organisations and activists to understand, track and influence legislature, and eventually contribute to the strengthening of parliamentary democracy in Pakistan.

Introduction

Budget is the annual financial statement outlining the expected revenues and expenditures of the government for the coming year. It also reports on the actual expenditures and revenue during the year just ended.

The Financial Year in Pakistan starts on July 1 and ends on June 30. The process of budget formation starts as early as October.

Part 1: Budget Development

Budget Call Circular (BCC)

The first step in the formation of budget is the issuance of the Budget Call Circular (BCC) by the Ministry of Finance. It is issued to all the ministries, divisions and departments of the government. It explains the procedure for preparation of Budget estimates. A detailed timeline is also given in the BCC for completion of various stages of the Budget. Agencies are requested to submit a statement of: (i) permanent expenditure on the current budget (ii) projected expenditures on existing development projects (iii) proposals for new expenditures, and (iv) proposals for expenditure on new development projects.

Preparation of Budget Estimates

Keeping in view the past actual expenditures, current trends and future expectations, all the departments prepare estimates in minute details. These estimates are formulated separately for current, non-development and development expenditures.

The Budget is divided into two main sections, namely:

- i) Revenue Budget
- ii) Capital Budget

The Revenue Budget presents current or day-to-day non-development expenditures. The current revenue derived through taxes, duties and other miscellaneous receipts is used to finance debt repayments, running of civil government, defense etc. If revenue receipts are

greater than the current and non-development expenditures, the surplus amount is transferred to Capital Budget. If revenue receipts are less than the current expenditures, the government has to plug the gap through borrowings.

The Capital Budget is intended for development projects in the country. The capital expenditure is generally met from the revenue surplus, reserve funds and borrowings for specific or general purpose.

Annual Development Plan

The development projects for the year are outlined in Annual Development Plan (ADP). It indicates the financial allocation for and targets of various development schemes. It is prepared by the Planning Commission in consultation with the Ministry of Finance and the Provincial Governments. The Plan is finally approved by the National Economic Council.

The preparation of Annual Budget Plan starts as early as November. The size of the plan is fixed by taking into consideration the requirements of the economy and plan targets. The plan is communicated to the executing agencies and the provincial governments by the Planning Commission. The sector wise development programs are formulated by sponsoring agencies and finalized by the Planning Commission after a detailed discussion. These allocations are then considered, first by the Priorities Committee in March/April and then by the Annual Plan Coordination Committee in April/ May. The National Economic Committee gives final approval to the plan.

Resource Estimation

Prior to determining the size of the plan, the Ministry of Finance determines the resources available to undertake development projects. This exercise is completed in coordination with the governmental agencies concerned, particularly Central Board of Revenue (CBR) and Provincial Finance Department. Following are the principal components of resource estimation:

- i) *Public Savings*: the surplus of revenue receipts over current expenditures;
- ii) *Net Capital Receipts*: recovery of loans, saving schemes and prize bonds proceeds etc.;
- iii) *Foreign Economic Assistance*; and
- iv) *Deficit Financing (Bank Borrowing)*.

Revised Estimates

The Revised Estimates for the current year are also prepared. These estimates include provisions for authorized expenditure which is expected to be incurred before the close of year. If revised estimates for the year exceed the authorized grants, these should be supported by documentary evidences to prove that the increase has been duly authorized by the competent authority. The executing agency will also indicate how the excess is to be met. The excess may be met with one of the following ways:

- i) Appropriation of savings in the existing grants;
- ii) Appropriation from other items; and
- iii) Supplementary grants.

If revised estimates are less than the authorized grants, the reasons for under-utilization of the grants have to be stated.

Review of the Budget Proposals

The proposals submitted by different departments and ministries are reviewed. The review of the budget proposals varies greatly depending on whether the expenditures are fixed or new. Most of the current budget is treated as fixed; it is not reviewed in detail unless there is an extraordinary change in the estimates from the previous year. All establishment (i.e. personnel) and pension costs, debt servicing and office administration fall under the category of fixed expenditure.

Public Participation

The Ministry of Finance arranges for pre-budget seminars in federal and provincial capitals, which are attended by the representatives of private sector, academia and non-governmental organizations. It is generally believed that the feedback provided during these seminars is seldom incorporated in the final budget. The government has never put in place a mechanism for incorporation of such suggestions. The parliamentarians are hardly aware of the budget process and consequently there is hardly any liaison between public and the Parliament on budget deliberations.

Submission of Budget Proposals to the Cabinet

Budget proposals prepared by the Ministry of Finance are then submitted to the federal cabinet. The budgetary proposals are considered in the cabinet and then approved for presentation to the Parliament.

Part II: Presentation of Budget in the National Assembly

Among the fundamental principles of democracy is the 'power of the purse' vested in an elected Parliament. Concomitant to this right is the responsibility on the legislature to ensure that the budgetary measures it authorizes are fiscally sound and in line with the needs of citizens. This requires informed debate and scrutiny of the proposed budget. A tokenistic involvement on the part of legislators would mean that it is in effect relinquishing the power of the purse conferred to it by the Constitution.

A. Constitutional Framework

Constituents of a Money Bill

The Constitution of Pakistan defines that a Bill or amendment is considered a Money Bill if it contains provisions dealing with all or any of the following matters:

- a) the imposition, abolition, remission, alteration or regulation of any tax;
- b) the borrowing of money or the giving of any guarantee by the Federal Government, or the amendment of the law relating to the financial obligations of that Government;
- c) the custody of the Federal Consolidated Fund, the payment of moneys into or the issue of moneys from that Fund;
- d) the imposition of a charge upon the Federal Consolidated Fund, or the abolition or alteration of any such charge; and
- e) the receipt of moneys on account of the Public Account of the Federation, the custody or issue of such moneys.

A Bill is not deemed to be a Money Bill if it only provides:

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- a) for the imposition or alteration of any fine or other pecuniary penalty or for the demand or payment of a license fee or a fee or charge for any service required; or
 - b) For the imposition, abolition, remission, alteration or regulation of any tax by any local authority or body for local purposes.

Federal Government's Consent Required for Financial Measures

A Money Bill or a Bill or amendment, which if enacted and brought into operation would involve expenditure from the Federal Consolidated Fund or withdrawal from the Public Account of the Federation is not introduced or moved in the National Assembly except by or with the consent of the Federal Government.

Federal Consolidated Fund and Public Account

All revenues received by the federal government, all loans raised by it and all moneys received by it in repayment of any loan, form part of the Federal Consolidated Fund.

All other moneys received by or on behalf of the federal government or received by or deposited with the Supreme Court or any other court established under the authority of the Federation, are credited to the Public Account of the Federation.

Custody of the Federal Consolidated Fund and Public Account

The custody of the Federal Consolidated Fund, the payment of moneys into that Fund, the withdrawal of moneys from it, the custody of other moneys received by or on behalf of the Federal Government, their payment into and withdrawal from the Public Account of the Federation and all other connected matters are regulated by Acts of Parliament.

Annual Budget Statement

The Annual Budget Statement is a statement of estimated receipts and expenditure of the federal government of that year, which is known as the annual budget statement. The statement shows separately:

- a) The sums required to meet expenditure described by the constitution as expenditure

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- charged upon the Federal Consolidated Fund; and
- b) The sums required to meet other expenditure proposed to be made from the Federal Consolidated Fund.

Charged Expenditure

The following expenditure is charged upon the Federal Consolidated Fund:

- (a) the remuneration payable to the President and other expenditure relating to his office, and the remuneration payable to
- i) the Judges of the Supreme Court;
 - ii) the Chief Election Commissioner;
 - iii) the Chairman and Deputy Chairman of the Senate;
 - iv) the Speaker and the Deputy Speaker of the National Assembly; and
 - v) the Auditor General
- (b) Secretariat of the Senate and the National Assembly: The administrative expenses including the remuneration payable to officers and servants of the Supreme Court, the department of the Auditor General, the Office of the Chief Election Commissioner, and of the Election Commission;
- (c) all debt charges for which the Federal Government is liable, including interest, sinking fund charges, the repayment of capital, and other expenditure in connection with the raising of loans, and the service and redemption of debt on the security of the Federal Consolidated Fund;
- (d) any sums required to satisfy any judgment, decree or award against Pakistan by any court or tribunal; and
- (e) any other sums declared by the Constitution or by an Act of Parliament to be so charged.

Procedure relating to Annual Budget Statement

The part of the Annual Budget Statement that relates to expenditure charged upon the Federal Consolidated Fund is discussed but cannot be submitted to the vote of the National Assembly. The Annual Budget Statement as it relates to other expenditure is submitted to the National Assembly in the form of demands for grants, and the Assembly has the power to

assent to or refuse any demand or a reduction in a demand.

B. Fiscal Legislation in the National Assembly

Presentation of the Budget

- 1) The budget is presented to the assembly on such day and at such time as the leader of the house may appoint.
- 2) The finance minister or in his/her absence any other minister acting on his/her behalf presents the budget.
- 3) The only proceeding on the day on which the budget is presented is the speech of the finance minister or a minister acting on his/her behalf and the introduction of the Finance Bill.
- 4) No discussion on the budget takes place on the day on which it is presented to the assembly.
- 5) The budget is not referred to a Standing Committee or to a Select Committee.

Demands for Grants

Demands for grants are arranged by ministry and broken down for each major program. Each demand contains a statement of the total grant proposed and a statement of the detailed estimate under each grant divided into items. No demand for grant can be made except on the recommendation of the government.

Stages of the Budget

The Budget is dealt with by the assembly in the following stages:

- 1) General discussion on the budget as a whole.
- 2) Discussion on appropriation (in respect of charged expenditure).
- 3) Discussion and voting on demands for grants (in respect of expenditure other than charged expenditure), including voting on motions for reduction, if any.

The Speaker allots days for different stages of the budget. At least two days elapse between the day the budget is presented and the first day allotted by the speaker for the general

discussion. At least four days are allotted for general discussion on the budget.

General Discussion

- 1) On the days allotted for general discussion the budget, the assembly may discuss the budget as a whole or any question of principle. No motion is moved at that stage, nor is the budget submitted to the vote of the assembly.
- 2) The finance minister or a minister acting on his/her behalf has a right of reply at the end of the discussion.
- 3) The speaker may prescribe a time-limit for speeches.

Cut Motions

A member may move a cut motion to reduce the amount of a demand in any of the following ways:

Disapproval of Policy Cut

Disapproval of a policy cut entails a cut motion whereby the mover out rightly disapproves a demand for grant. It is presented in the form: 'that the amount of the demand be reduced to Rupees 1'. A member giving notice of such a motion indicates in precise terms the particulars of the policy which s/he proposes to discuss. The discussion should be confined to the specific points or a point mentioned in the notice and it is open to members to advocate an alternative policy.

Economy Cut

The Economy Cut is moved in the form: "that the amount of the demand be reduced by a specified amount" thus representing the economy that can be affected. Such specified amount may be either a lump sum reduction in the demand or omission or reduction of an item in the demand. The notice indicates briefly and precisely the particular matter on which discussion is sought to be raised. Speeches should be confined to the discussion as to how economy can be affected.

Token Cut

The token cut is introduced in order to ventilate a specific grievance which is within the sphere of the responsibility of the government. It is moved in the form: “that the amount of the demand be reduced by Rs. 100.00”. The discussion on token cut should be confined to the particular grievance specified in the motion.

Notice of Cut Motions

If notice of a motion for reduction in any grant has not been given two days before the day on which the demand is taken up for consideration, a member may object to the moving of the motion. The objection prevails unless the speaker suspends this rule and allows the motion to be made.

Conditions for Admissibility of Cut motions

A cut motion is admitted if it:

- i) Relates to one demand only;
- ii) seeks to increase a grant or alter the destination of a grant;
- iii) relates to expenditure charged on the Federal Consolidated Fund;
- iv) is clearly expressed and does not contain arguments, inferences, ironical expressions, imputations, epithets or defamatory statements;
- v) is confined to one specific matter which is stated in precise terms;
- vi) does not reflect on the character or conduct of any person whose conduct can only be challenged on a substantive motion;
- vii) makes suggestions for the amendment or repeal of any existing law;
- viii) does not refer to a matter which is not primarily the concern of the government;
- ix) does not relate to a matter which is under adjudication by a court of law having jurisdiction in any part of Pakistan;
- x) does not raise a question of privilege;
- xi) been discussed in the same session and on which a decision has been taken;
- xii) does not anticipate a matter which has been previously appointed for consideration in the same session; and
- xiii) does not relate to any matter which is pending before any court or other authority performing judicial or quasi-judicial functions. However, the speaker may allow a matter concerned with the procedure or subject or stage of enquiry

to be raised if s/he is satisfied that it is not likely to prejudice the consideration of the matter by a court or an authority.

Admissibility of Cut motions

The speaker decides whether a cut motion is admissible under the rules and may disallow any cut motion when, in his/her opinion, it is an abuse of the right of moving cut motions or is calculated to obstruct or prejudicially affect the procedure of the assembly or is in contravention of the rules.

Voting on Demands for Grants

- 1) Each demand for grant is discussed separately.
- 2) When notices of several cut-motions relating to the same demand are given, the motions are discussed in the order in which the heads to which they relate appear in the budget.
- 3) Before a question is put in respect of a demand for grant, all cut-motions in respect of that demand are discussed and voted upon.
- 4) At the time when the sitting is to terminate, the speaker puts every question necessary to dispose of all the outstanding matters in connection with the demands for grants.

Vote on Account

- i) A motion for vote on account states the total sum required to be voted. Various amounts needed for each division, department or item of expenditure which compose that sum, are stated in a schedule appended to the motion.
- ii) Amendment may be moved for the reduction of the whole demand for grant or for the reduction or omission of the items of which the demand is composed.
- iii) Discussion of a general character may be allowed on the motion or any amendment moved. Details of the grant are not discussed further than is necessary to develop the general points.

C. Fiscal Legislation in Senate

Constitutionally, the Money Bill can originate only in the National Assembly. The Legal Framework Order (LFO) of 2002 provides that simultaneously with the laying of Finance Bill in the National Assembly, a copy of the Money Bill is transmitted to the Senate. The Senate within seven days makes recommendations to the National Assembly.

The Money Bill was referred to the Senate in the year 2003 and 2004. There are no provisions in the Rules of Procedures and Conduct of Business in the Senate as to how Money Bill should be dispensed with. However, procedures are gradually evolving through conventions of the House. It was decided that after a Bill is laid on the table of the House, a member may, within two days, give notice of a proposal for making recommendations together with the statement of reasons for such proposals in writing to the secretary. These recommendations should be made with reference to the Finance Bill and the Annual Budget Statement.

The recommendations are placed before the House for referral to the Senate Standing Committee on Finance and Revenue. The committee considers these recommendations and submits its report. The House considers the report of the committee and finalizes recommendations. The recommendations are then submitted to the National Assembly for consideration.

Schedule of Authorized Expenditure

An authenticated Schedule of Authorized Expenditure is drawn which is approved and signed by the prime minister. This schedule is the sole authority for withdrawal of money from the Federal Consolidated Fund in the Annual Budget Statement. The schedule reflects the extent of expenditure to be made under a specific grant/ appropriation. It also specifies the expenditure charged upon the Federal Consolidated Fund.

Part III: Budget Disbursement

Release of Funds

After legislative and executive approval of the Budget, Finance Ministry sends a release letter to ministries, departments and agencies and their respective offices of the Accountant General of Pakistan Revenue (AGPR) or Accountant General (AG) advising that funds are being made available against their budgets. AGPR/ AG offices in turn inform district

accounting/ treasury offices of the availability of their funds.

The federal government releases funds at specific intervals according to specific formulae and percentages. The provinces release allocations to district governments on the first of every month so that the funds are available for the coming month.

Budget Implementation

Ministries/divisions are required to send a monthly statement of expenditure to the Ministry of Finance through financial advisors. A mid-year review of the budget based on reconciled accounts is conducted. The review helps formulate a strategy for budget implementation for the remainder of the fiscal year. There are clearly established procedures for approved reallocation of expenditures from one line item to another. The Principal Account Officer (PAO) has the power to reallocate funds within the department below a certain threshold. Reallocations above a certain threshold and transfers between major budget heads must be approved by the Ministry/ Departments of Finance at the time of each month's reconciliation process.

In-year flexibility for the budget process is provided by the use of six and nine-month lists of excesses and surrenders, and supplementary grants for essential expenditures. If funds for excess expenditure are not available within existing grants, a supplementary grant can be approved by the Finance Department on a temporary basis. All supplementary grants are subject to approval by the Parliament at the time of the next year's budget.

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