“Classification of Public Budget”

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Paper – 6.1

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Introduction: -

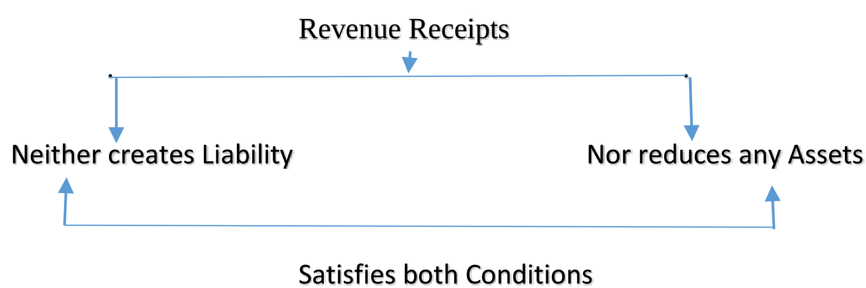
In olden days, a budget was more or less only a statement of the financial plans of the Govt. But now the importance of the Government activities is fully recognized. The actual role of the Govt. transactions in the life and working of the economy cannot be underestimated because of the immense impact which they have.

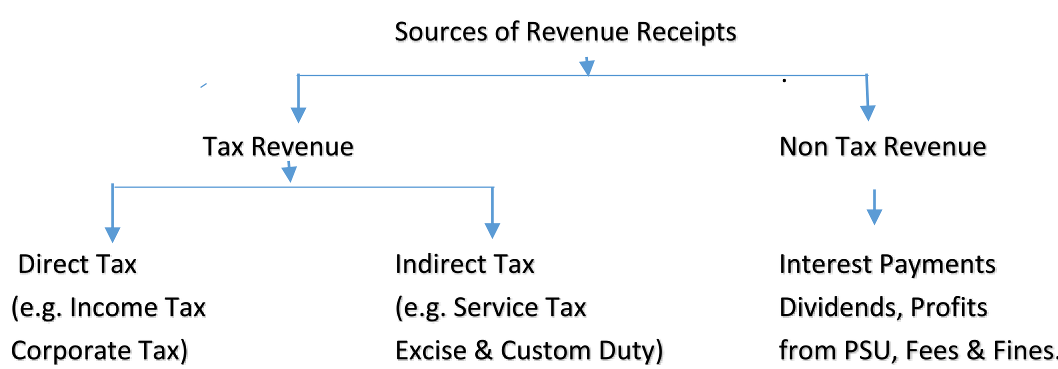
Let us move on the classification of Budgets from the economic standpoints.

Capital Budget & Revenue Budget:

1) Revenue Budget: - It deals with the revenue aspect of the Government budget. It explains how revenue is generated or calculated by the Govt. and how it is allocated among various expenditure heads. Revenue budget has two parts: **i) Revenue Receipt ii) Revenue Expenditures.**

i) **Revenue Receipts: -** Receipts which neither create any liability nor cause any reduction in the assets of the Govt. are referred as Revenue receipts.





Revenue Expenditure: - An Expenditure that neither creates assets nor reduces a liability is categorized as revenue expenditure

Revenue Expenditure

Neither creates an Asset

Nor Reduces any Liability

Revenue expenditure is incurred on the normal functioning of the Government and the provisions for various services. For example, payment of salaries, pensions, interests, expenditure on administrative services, defense services, health services, grants to state etc.

Revenue Budget are generally prepared for a time span of one year, covering the financial accounting year. For Governments, Revenue budget serve as an integral part of fiscal policy.

Capital Budget: -

Capital Budget deals with the capital aspect of the Govt. budget and it consists of:

(i) Capital Receipts ii) Capital Expenditures.

Capital Receipts: - Capital Receipts refer to those receipts which either create a liability or cause a reduction in the assets of the Govt. It refer to those items which are non -recurring and non – routine in nature.

Capital Receipts

Either creates a Liability

Or reduces an Assets

Satisfies any one Condition

Sources of Capital Receipts

Borrowings (e.g. Borrowing by the Govt. from R.B.I., World Bank, I.M.F.)

Recovery of Loans (e.g. Recovery of Loan from State Govt. or Union Territories)

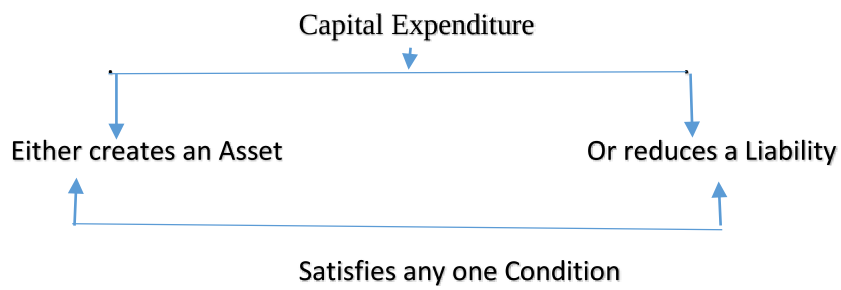
Other Receipts

Disinvestment (e.g. Sale of Shares of PSU)

Small Savings (e.g. N.S.C., K.V.P. Post Office deposits)

In case of Certain Capital receipt (like borrowings) there is future obligation to return the amount along with interest.

Capital Expenditure: -Capital expenditure refers to the expenditure which either creates an Asset or causes a reduction in the Liabilities of the Government.



Capital Expenditure consist of capital payments on acquisition of assets like Land, Building, Machinery, Equipment, as also Investment in shares etc. Loans & Advances granted by Central Govt. to State and Union Territory Govt., Govt. Companies, Corporations and other parties are also part of Capital Payments. Capital Expenditure is non-recurring in nature. It is incurred on long period development programmes, like Metro or Flyover. So it adds to Capital Stock of the economy and increases its productivity.

From the above discussion it follows that the key difference between Capital Budget and Revenue Budget is that Capital budget assesses the long –Term financial viability of Investments by comparing future cash inflows and out flows whereas Revenue Budget is a forecast on revenue that will be generated. Both these budgets are very important for the success and stability of the Govt.