

**UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS**

MASTER'S THESIS

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**OUTCOME BUDGET IN INDIAN UNION BUDGET: A CASE STUDY
OF THE SCOPE AND FEASIBILITY OF INTRODUCING OUTCOME
BUDGET INTO INDIAN DEFENCE BUDGETING**

Ljubljana, March 2011

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STATEMENT

I, Mukesh Kumar Sinha, hereby certify to be to the author of this Master's thesis, which was written under the mentorship of Prof. Dr. Marko Hocevar, University of Ljubljana, Slovenia. I herewith agree the thesis to be published on the website page of ICPE and the Faculty of Economics, University of Ljubljana, Slovenia.

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INTRODUCTION

Definition of the problem. During the past decade the role of government has been steadily changing, with increasing emphasis being placed on setting overall direction through policy and planning, on engaging stakeholders and citizens, and sometimes on empowering stakeholders or partners to deliver programs and services. It is rolling back the frontiers of the state through liberalization of markets, by contracting out provisions of public services and selling state industries and other assets. The shift has been on ‘steering than on rowing the boat’ by forming public-private partnerships and by other types of private initiatives – shift of the state as direct provider of services and transformation into the enabling state. The role of state being first and foremost in its constitutional role to underpin the citizen-state relationship rather than provision of services or redistribution of incomes and wealth. At the same time, the environment for policy and planning has increased in complexity. The ownership of issues is often unclear, especially when more than one department and often more than one level of government are involved. Community is also increasingly claiming ownership of policy issues and process. Globalization and fiscal resource limitations contribute to the confusion. In this complex environment the demand for robust and effective public policy development is steadily increasing, as much the capacity of managers, policy analysts, planners, and others involved in the design and delivery of policies and programs. Public policy manifests the political philosophy in common sense and common conscience of the citizens as a whole which extends throughout the state and is applied to matters of public health, safety, and welfare, etc. It imports something that fluctuates with the changing economic needs, social customs, and moral aspirations of the people often manifested in through the changing political philosophies.

The allocation to defence budget in India, in general, has been growing, particularly during the last ten years. From a budgetary allocation of Rupees 67,000 crores (670 billion rupees, equivalent to \$14.88 billion approximately at a conversion rate of 1 US dollar = 45 Rupees) during 2004–2005, it has rapidly grown to Rupees 141,703 crores (1,417.03 billion rupees, equivalent to \$31.48 billion approximately at a conversion rate of 1 US dollar = 45 Rupees) as allocated during the financial year 2009–2010. Although a major share of growth during 2009–2010 can be attributed to increase in pay and allowances of services personnel and civilian officers/staff in pursuance of implementation of Sixth Central Pay Commission (hereinafter: CPC) recommendations by the government of India, a substantial growth in defence budgetary allocation cannot be disputed. While there is a very rigorous process towards scrutiny and examination of demands for grants towards defence budget by the services headquarters, ministry of defence, ministry of finance and the parliamentary standing committee on defence before the defence budget gets approved by the parliament no such rigorous activity is pursued towards the outcome of budgetary estimation.

Defence budget refers to allocation for expenditure against various demands for grants pertaining to the following wings of defence forces:

1. army;
2. navy;
3. air force;
4. director general of ordnance factories;
5. research and development;
6. capital outlay.

The first five heads of demands referring to the specific organizations primarily relate to the revenue expenditure for these organizations. Revenue expenditure refers to the »operating« and, or »running« expenditure of the services and the organizations (Singh, 2008). It primarily refers to the expenditure under the heads of »pay and allowances«, »stores«, »works«, »transportation«, and »miscellaneous«. The last or sixth demand of 'capital outlay' takes care of the capital expenditure requirement of the three services and the departments mentioned above. Capital expenditure refers to the expenditure related to the creation of tangible assets. As can be observed from the nomenclature itself the budgetary allocation takes care of the Indian army, navy, air force and two other establishments of ordnance factories and research and development. But there are certain new entities which have emerged during the course of time have been merged with one or other aforesaid demands for the budgetary purposes. It means that other than links of budgetary grants these organizations have no direct dependence on the respective services organizations (Ghosh, 1996).

In the case of army demand two important organizations, namely; (i) Director General of Quality Assurance (hereinafter: DGQA), and (ii) Director General of National Cadet Corps (hereinafter: DGNCC) gets their budgetary support/allocation through the army's demand. Though both have separate administrative headquarters their linkage to army's demand has been arranged as a means of convenience. In budgetary terms, the allocation to army or other organization as mentioned above refers to one major demand. One major demand normally consists of several minor heads of expenditure such as »pay and allowances«, »stores procurement«, »works«, »transportation«, »miscellaneous«, and several other heads of expenditure. So, for the budgetary purpose, the DGQA and DGNCC gets categorized as two separate minor heads and get budgetary allocation through the army demand.

In the case of navy demand only one other organization, namely, Joint Staff or Headquarters Integrated Defence Staff (hereinafter: HQIDS) has been linked for budgetary purposes. HQIDS is basically an integration of the army, navy and air force for effective and efficient coordination of the three services in normal and contingent conditions. It has taken shape to integrate the services towards their functioning. The intent is to develop it into a Combined Defence Staff (hereinafter: CDS). Thus, without any linkage with the navy as such the integration has been done to facilitate budgetary requirements. However, as regards the other defence demands of air force, dgof and research and development there is no such intrusion for budgetary purposes.

The capital outlay demand is an all inclusive demand taking care of the capital requirements or expenditure of the three services and organizations. In a generic context, all those procurement or expenditure which leads to creation of tangible assets is known as capital expenditure. It also carries a twin criterion of cost and life – that is, the items under capital should be more than rupees ten lacs of cost and life of more than seven years (Ghosh, 1996).

The Indian defence budget proposal planning and submission to the ministry of finance is an intricate, intensive and massive exercise. The process emanates from the primary or unit budget holder and goes through various channels to reach the financial planning directorates of the three services and the departments/organization. The respective services financial planning directorate carries further scrutiny and examination of the proposal of the unit directorates. After due scrutiny and consolidation of the proposals »projection« of the respective services is made by the services financial planning directorates. These »projections« are forwarded to the budget division of the ministry of defence, where the final budget estimates of services and organizations are scrutinized, examined and consolidated before forwarding the same to ministry of finance, government of India for approval. Since defence budget is part of government of India's Union budget it is laid before the floor of the Parliament along with the same for approval. However, before being laid before the floor of the Parliament each and every demand of the defence budget is separately examined by a separate Parliamentary Standing Committee of Defence.

On one hand there is such elaborate scrutiny and detailed examination towards preparation of defence budget estimates (hereinafter: BE), on the other hand there is no such detailed examination of the outcome of the estimated expenditure. Though there is a statutory provision in the form of »Appropriation Account« (hereinafter: AA), which is submitted to the Indian Parliament by the statutory auditor to the government of India viz., Comptroller and Auditor General of India (hereinafter: C&AG). The AA is routed through the ministry of defence at the expiry of a financial year giving details of amount expend against the allocation in the various defence demands. However, it does not quantify the physical outcomes against the budgetary allocation. In an era of transparency and public accountability the outgoes of state exchequer it is important to know and assess the physical outcomes of the expend amount *vis-à-vis* the estimation (Norton, 2002). Outcome budget would analyze expenditure by the purpose for which it is to be spent and relate it as far as possible to the results which it is hoped to achieve. For more than a decade, major efforts have been made to improve the problem solving capacity and the quality of services of governments and their administrations. Within public finance, one of the most important reforms during this period of 'reinventing government' is the transformation from input to output budgeting.

The first efforts to establish a performance-based budget date from the interbellum. A couple of years after the World War-II, the Hoover-committee recommended that »... the whole budget should be refashioned by the adoption of a budget based upon functions, activities and projects: this we designate a 'performance budget'« (Hoover commission, 1949). The

advice of the Hoover-committee was followed-up in the early 60s, when Robert McNamara, secretary of defense in the Kennedy administration, asked the Rand Corporation in Santa Monica to design a system that would facilitate communication between the planners and 'budgeteers'. The experiment with the so-called Planning, Programming and Budgeting System (hereinafter: PPBS) worked well at the department of defense and so it was declared applicable to all federal departments and agencies. In his speech, president Johnson argued that the use of the most modern methods of program analysis would ensure a much sounder judgment through more accurate information, pinpointing those things that we ought to do more, spotlighting those things that we ought to do less (Williams,2001). Unfortunately, it did not bring what expected in other policy areas due to variety of reasons and not long afterwards PPBS passed away (Wildavsky, 1961).

Several studies have been carried out towards outcome budget. But those have been carried out in the realm of general budget, which do not include »defence« *per se*. The government of India has also introduced outcome budget for all the sectors under Union budget but has exempted ministry of defence from the domain of outcome budget (Ministry of Finance, Government of India, 2008). Therefore, this thesis will examine the issues related to outcome budget and explore the possibility of including Indian defence budget within the domain of outcome budget.

Purpose of the thesis. Outcome budget is an emerging concept in the budgetary process (Lawrence, 1997). It is an useful concept because of the following:

1. The outcome budget adds on to the accountability of the (defence) budget holders towards the estimation of expenditure as well as the actual expenditure.
2. Introduction of outcome budget in defence budgeting can make the system more transparent.
3. It can facilitate improved information system for productive and meaningful decision making process.
4. Output and outcome has the physical and qualitative dimension respectively of the budgeting and expenditure process. Therefore, on one hand it can provide the required physical output of the expenditure; on the other, it can also generate information on the qualitative aspect of expenditure and the budgeting process.

The thesis intends to argue for and against the purpose of introducing outcome budgeting in Indian defence budget and will particularly emphasize on the following aspects:

1. In what manner the outcome budget has been introduced in other countries, especially in the developed countries?
2. Why and how the concept of outcome budget has been introduced in India and the basis for exempting demands under defence budget from its domain?
3. How the best practices followed world over in implementing outcome budget can be effectively introduced in Indian defence budget?

4. How the theme and basic premise of outcome budget can also be let known to the actual working hands preparing defence budget?

Outcome budget is generally perceived as the physical quantification of the estimation of expenditure or budget. Through which one can easily assess the success of budget planning and estimation of expenditure. If physical outcomes match with the intended outcomes then the success of the budgetary exercise can easily be gauged. In case of any shortcoming the precise problem of linking estimation with actual expenditure can further be examined. If necessary, it could be curtailed also. Other than providing a measurable physical outcome it has the potential of making the defence budgeting exercise more transparent. Transparency and linkage with physical outcomes can further limit the burgeoning defence budget and in the long run take the modality of budgeting towards an »affordable« defence budget.

On the issue of »why the research proposal is interesting and who would benefit from it«, it can be stated that in an age of transparency the various estimates of expenditure need to be assessed from the actual outcome of the estimation. In a developing country like India, where defence budgeting is still treated as »holy cow« the assessment of outcomes (to estimated expenditure) will not only make the system more transparent but also instill a sense of greater accountability amongst the budget holders. It will also provide the physical and measurable outcomes of the intended expenditure. It will generate better insight of the defence issues and facilitate the legislature, viz., Indian parliament a better pragmatic control of defence expenditure *vis-à-vis* its outcome. The budget formulators will know the areas where expenditure do not follow the estimation and try to modulate and modify the assessed estimates accordingly. It will also put the priorities in correct perspective. In the developing economy of India the defence expenditure should also commensurate with the other indicators of growth like, education, improvement in infrastructure, upgradation of elementary requirements of food, housing and clothing, etc. That is, the priorities require to be put in correct perspective. Insight of outcome budget in ministry of defence can also help conceptualizing »affordable defence budget«.

Objectives of the thesis. The basic objectives of this thesis are enumerated below:

1. To understand the concept of outcome budget and its linkage with the General (Union) budget.
2. To describe the concept and methodology of outcome budget introduced in its pioneering countries.
3. To identify the purport and intent of introducing outcome budget in India and the basis and rationale of exempting defence budget from its domain.
4. To understand the linkage of outcome budget with accountability – whether, it could show the path to enhanced accountability in the defence budgeting system and also make the system more transparent.

5. To record and analyze the best practices followed and adopted by the other countries in implementing outcome budget in defence and assess the various parameters of its possible introduction in Indian defence budgeting process.
6. To what extent the introduction of outcome budget in Indian defence budget will make the system more transparent.

Methodology of the thesis. The aim of the thesis proposal is to work with an observable like defence budget and define the concept of outcome budget in the context of Indian defence budgeting. The research approach will be descriptive and deductive in nature as the concept of outcome budget is known the world over and have also been introduced in India. Though the general concept of outcome budget has been introduced in the Indian milieu an attempt will be made to study the feasibility of introducing the outcome budget in the defence budgeting of India.

The method of research would be in the lines of its objectives:

1. The process would start with defining the concept of outcome budget as understood the world over as well as in India.
2. The next step will be to develop an understanding of outcome budget as an issue towards measurability of physical and quantifiable outcomes to estimation of expenditure.
3. It will be attempted to find the correlation of outcome budget with the concepts of accountability and transparency, which will be attempted through the study of concept of outcome budgeting across the world and the best practices used by the developed countries.
4. The next step would be to define and describe the various steps and stages of budgetary process followed in ministry of defence, government of India and examine the suitability of implementing the outcome budget in defence budgetary formulation.
5. The subsequent step will be to identify the purpose behind introducing outcome budget in India; to compare it with the concept of outcome budget as introduced in other countries, and assess the intent of its introduction in India with respect to the countries (where it has already been introduced).
6. After assessing the intent of introducing outcome budget in India an attempt will be made to understand the rationale of exempting the defence budgetary demands from the ambit of outcome budget; and subsequently explore the possibility of introducing the same (outcome budget) to defence budget also. The rationale of exemption of defence budget from the overall ambit of outcome budget shall be assessed on the basis of available documents of government of India.

Keeping the research problem and research objectives in mind **case study** will be used as a research strategy. Since the case study has »considerable ability to generate answers to the question ‘why’ as well as the ‘what?’ and ‘how’ questions« it has been felt and found appropriate to use this research strategy for the stated research problem.

The research shall be exploratory and explanatory in nature. Exploratory research in the beginning will lead to answers of the question: relationship of outcome budget with general budget; basis of introducing outcome budget in India with rationale of exempting defence budget from its domain. On exploration of said aspect an attempt will be made to understand the need of linking defence budget with outcome budget.

Data collection and data analysis. As »case study« has been adopted as a research strategy the data collection and informal sampling will be done and obtained through the means of interaction amongst the (senior) government officials and services personnel. The main source, however, would be from the secondary sources/data. The circular of ministry of finance, government of India introducing outcome budget will serve as the starting point.

Limitation of the thesis. Outcome budget refers to measuring the quantifiable and physical targets of the estimation of expenditure as well as the qualitative aspect. It dwells on both the said aspects to generate the best results of the budgetary allocation and exercise. Through the stated thesis it will be attempted to establish the advantages of introducing the outcome budget in Indian defence budgetary formulation. It shall strive to link the advantages of accountability, transparency and measuring the actual physical outcomes with the estimation of expenditure within the Indian defence budget making system.

Suggestion of linking the defence budget to outcome budget with distinct advantages of measurability of estimations, will give new insight to the policy makers towards introducing defence budget to the domain of outcome budget.

Quantifiable outcomes will also make the defence budgetary process more transparent and make the defence expenditure estimation exercise more rigorous towards its outcome. This can lead to improved resource utilization in defence and curtailment of expenditure. This on the long run can foster to the concept of »affordable budget«.

Structure and scheme of chapters in the thesis. The general structure of chapters in the thesis will be as follows:

Introduction: The chapter will introduce the research topic along with the statement of research problem and the research methodology to be followed.

Chapter 1. Concept of Budget and Outcome budget: This will focus on concept of budget and the broad categories of budgeting practices including outcome budget.

Chapter 2. Indian defence budgeting: This chapter will describe the structure of Indian defence budgeting including the various elements and accounting structures. It will also examine the various stages of defence budget formulation and its linkage with the union budget.

Chapter 3. Outcome budget and defence budget: This chapter will examine the possibility of introduction of outcome budget in Indian defence budget. It will discuss the various advantages and disadvantages, if any, as regards the introduction of the same. It will also study the outcome budget with the appropriation account.

Chapter 4. The rationale for outcome budgeting – an international comparison of the Indian defence sector with the development of public policy and practice in the United Kingdom: This chapter will examine and compare the rationale of outcome budgeting in Indian defence with the development of public policy and practice in the United Kingdom.

Conclusion: This chapter will contain the recommendations which can be followed in the field of outcome budgeting and will also summarize the conclusion.

1 CONCEPT OF BUDGET AND OUTCOME BUDGET

A budget occupies a leading place among the special tools of the government employed to direct and control the affairs of a nation. The budget has played an important part in the history of all countries. In fact, there are few rights or political principles of greater importance to a nation than the plans, formed in advance, to determine what public revenues shall be raised and what expenditure shall be authorised. It is through budgeting that a modern government runs. Government budgeting is one of the major processes by which the use of public resources is planned and controlled.

There was a time, when the budget was considered merely a report for the information of the Legislature; but now the budget controls and directs the economic affairs of a country. In 1934, A. E. Buck commented that »the budget is destined to become even more necessary to the governments of the future than it is to those of the present«. This comment is justified by the position a budget occupies today in the modern governments. Today, the budget is the nerve-centre of public economy. It has developed into a major instrument of social and economic development of a country.

1.1 General budget

The word 'Budget' is derived from the French word *Bougette*, which means a small leather bag or pouch. It was first used in England to describe the white leather bag that held the seal of medieval court of the Exchequer. Later, the Chancellor of the Exchequer's bag containing his proposals for financing government expenditure became known as his 'budget'. When he presented his proposals to the Parliament, he used »to open his budget«. This phrase was first used in 1773. Gradually, the word 'Budget' came to be used for the proposals themselves carried to Parliament for approval, instead of the container of the budget. The word has been now used commonly in all countries and it has been incorporated in many languages.

1.1.1 Definitions of general budget

A budget is a description of a financial plan. It is a list of estimates of revenues to and expenditures by an agent for a stated period of time. Normally a budget describes a period in the future not the past. Different scholars have defined the budget in different manner. Jeze (1910) describes budget as a »Forecast and an estimate of all the public receipts and expenses for the certain expenses and receipts, an authorization to incur them and to collect them.« Buck (1926) refers to three essential elements in a budget viz., (i) a financial plan, (ii) a procedure for formulating, authorizing, executing and controlling the plan and (iii) some governmental authority responsible for each successive stage in the procedure.

The Oxford dictionary defines a budget as »a statement of the probable revenue and expenditure for the ensuing year, with the financial proposals founded thereon, annually submitted by the Chancellor of the Exchequer for the approval of the House of Commons«.

A budget is a list of all planned expenses and revenues. It is a plan for saving and spending. In microeconomics a budget is an important concept, which uses a budget line to illustrate the trade-offs between two or more goods. It is an organizational plan stated in monetary terms with the following purposes:

1. Provide a forecast of revenues and expenditures i.e. construct a model of how our business might perform financially speaking if certain strategies, events and plans are carried out.
2. Enable the actual financial operation of the business to be measured against the forecast.

The French Public Accounting Law defines budget as a »document which forecasts and authorises the annual receipts and expenditures of the State and of the other branches of service, which by virtue of the law are subjects to the same rules and regulations.«

In India the Annual Financial Statement (hereinafter: AFS) is generally referred as the budget. It is the estimate of expenditure (i.e. withdrawals from the Consolidated Fund of India) for each ministry/department are embodied in the demands which may be one or more than one, for a ministry/department. These demands are presented on a gross basis i.e. after excluding recoveries which are adjusted in accounts in reduction of expenditure; of course, these recoveries are also exhibited in the respective demand 'below the line' (Ghosh, 1996). The decision to obtain parliamentary approval for outgo from the Consolidated Fund of India on a gross basis only was taken by the ministry of finance in early 1952 in consultation with the Comptroller and Auditor General of India. The consideration was that it would not be correct to seek parliamentary approval only for that part of the expenditure which cannot be met from recoveries, and also because expenditure and recoveries are not evenly spread over the whole financial year, which may cause, at least, in theory, a vote for a negative expenditure in the 'Vote on Account' period.

Generally, there are four segments in a demand, viz. charged, voted, revenue and capital. The estimates which constitute charged expenditure are not required to be voted by the Lok Sabha, although there is nothing in the Constitution which prohibits a discussion on it. However, even the estimates of the charged expenditure are indirectly voted when the appropriation bill which includes all expenditure – charged as well as voted – is discussed and passed by both the houses of parliament.

If we analyze the aforementioned definitions it can be observed that budget means: »(a) a review of the revenues collected, expenditures incurred and changes in the composition of the national debt and other matters during the fiscal year which has immediately preceded the time when the budget is presented; (b) an estimate of expenditures during the forthcoming year and the extent to which it is expected to be covered at the existing tax rate; and (c) proposals for such changes of tax remissions or increase as may be required to balance the expenditure« (Gupta, 1967).

1.1.2 Functions of budget

As per Harper Cost and Management Accounting, budgets can fulfill one or more of the following functions:

1. **Mapping.** A budget can be used to detail the road to be traveled in fulfillment of an organizational objective. It details all the steps to be taken, and therefore can act as a check on the overall viability of the organization's objectives.
2. **Controlling.** The budget can ensure the achievement of objectives by placing a planning control framework over the steps to be taken.
3. **Co-coordinating.** By spelling out the linkages between parts of the organization's plan, the budget can help to co-ordinate activities.
4. **Communicating.** The budget is a means for management to explicitly inform staff and the wider public what the organization will be doing.
5. **Instructing.** A budget is often just as much a form of executive order as an organizational plan since it lays out the requirements of the organization – it may therefore be regarded as a managerial instruction.
6. **Authorizing.** As well as an instruction, the budget is an authorization to take action within the specified limits. In that respect, the budget performs a delegating function.
7. **Motivating.** Budgets can act as a motivational tool to encourage managers to perform within targeted limits.
8. **Performance measurement.** A budget may provide a benchmark against which actual performance can be measured.
9. **Decision-making.** A well-designed budget can be a useful tool in evaluating the consequences of proposed changes in actions, since it should be possible to track the effect of any change throughout the organization.

Different budgeting methodologies allow the budget to perform these roles in different ways and to differing extents. For example, the planning programming approach can be clearly seen as underpinning the decision-making function. Conversely, one of the criticisms of the incremental approach is that it does not allow for full consideration of proposed changes in action as it is a more backward-looking method; it could be argued that incremental budgeting does not support decision making very well.

1.1.3 Existing budgeting methods

The evolution of budgeting over last 60 years has resulted in new types of budgets, each with a different focus like: performance budgeting, program budgeting, and zero based budgeting, output and outcome budgeting. These budgets have evolved as distinct forms incorporating new ways of conceptualizing and measuring performance, and building on the lessons of what has gone before. Today governments often utilize more than one budget type. For example, output budgeting may be used in conjunction with a program budget framework. An understanding of performance oriented budgeting in any form requires acknowledgement that they have not necessarily fully replaced the traditional form of budgeting – ‘line item budgeting’. However, the common point of departure for the development of alternative, performance oriented budgeting, has been the recognition of the limitations of line item budgeting.

1.1.3.1 Line item budgeting

In traditional line item budgeting systems, public expenditures by government for the coming year are listed according to what money is spent on ‘line items’. Items record how much money a particular agency or sub – unit is allowed to spend on salaries, equipment, infrastructure, consumables and other items. Line item budgeting is about controlling aggregate expenditure of agencies by stating the limits of spending on each item in the budget allocation process. It does not attempt to identify the objectives of government activity or what activities would be undertaken to promote those objectives. As a result, line item budgets do not give information about why money was spent, or about the efficiency or effectiveness of programs (World Bank, 1998).

Line-item budgeting also encourages an historical or incremental approach to the budget. That is decisions have tended to be based on re-funding what happened in the past without necessarily examining the results of the existing government programs. Similarly, changing priorities and circumstances requiring more substantive budget changes are not readily accommodated. The existing programs tend to have first priority in the budget processes. Moreover, the absence of a planning component means that line item budgets were traditionally tied to short, one – year time frames. It is still the most widely used approach in many organizations, including schools, because of its simplicity and its control orientation. It is referred to as the »historical« approach because administrators and chief executives often base their expenditure requests on historical expenditure and revenue data. One of its

important aspect is that it offers flexibility in the amount of control established over the use of resources, depending on the level of expenditure detail (e.g., fund, function, object) incorporated into the document.

The line-item budget approach has several advantages that account for its wide use. It offers simplicity and ease of preparation. It is a familiar approach to those involved in the budget development process. This method budgets by organizational unit and object and is consistent with the lines of authority and responsibility in organizational units. As a result, this approach enhances organizational control and allows the accumulation of expenditure data at each functional level. Finally, line-item budgeting allows the accumulation of expenditure data by organizational unit for use in trend or historical analysis (Handa, 1979).

Although this approach offers substantial advantages, critics have identified several shortcomings that may make it inappropriate for certain organizational environments. The most severe criticism is that it presents little useful information to decision makers on the functions and activities of organizational units. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit and are often unintuitive. In addition, it may invite micro-management by administrators and governing boards as they attempt to manage operations with little or no performance information. However, to overcome its limitations, the line-item budget can be augmented with supplemental program and performance information.

1.1.3.2 Incremental Budgeting

In incremental budgeting the previous year's budget for a department or division is carried forward for the next annual budget. It is adjusted for known factors such as new legislative requirements, additional resources, service developments, anticipated price and wage inflation and so on. It is known as incremental budgeting because the process is mainly concerned with the incremental (or marginal) adjustments to the current budgeted allowance.

Advantages of incremental budgeting:

1. Easily understood (as it is retrospective), makes marginal changes and secures agreement through negotiation;
2. Administratively straightforward (and therefore cheap);
3. Allows policy makers to concentrate on the key areas of change. Ministers, elected representatives and senior officials are not required to study long and detailed budgetary documents;
4. Particularly useful where outputs are difficult to define/quantify; and
5. Stable and, therefore, changes are gradual.

Disadvantages of incremental budgeting:

1. Backward looking – focus more on previous budget than future operational requirements and objectives;
2. Does not allow for overall performance overview;
3. Does not help managers identify budgetary ‘slack’;
4. Often underpinned by data or service provision which is no longer relevant or is inconsistent with new priorities;
5. Encourages systemic inertia and ‘empire building’;
6. Tends to be reactive rather than proactive; and,
7. Assumes existing budget lines are relevant and satisfactory.

1.1.3.3 Performance budgeting

Performance budgeting is a generic title for a number of different budget formats. The goal of performance budgeting is to link the input of resources to agency outputs. This requires the agency to define performance measures for each activity it carries out, prepare performance reports, and develop a budget that reflects what the agency will accomplish for the resources allocated.

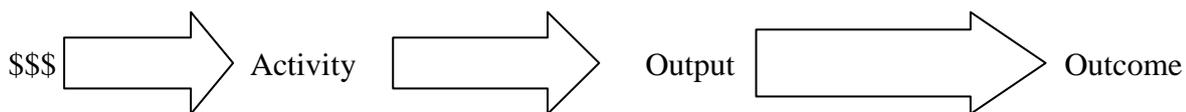
A different focus is seen in performance budgeting models. The first steps to improve the line item budgeting were undertaken in the 1950s and 1960s by reformers seeking to address the disadvantages of the line item budget system. As per World Bank (1998) the introduction of ‘performance budgeting’ reflected management concern with efficiency or the ‘relationship between what governments did and how much it cost’. It did this by dividing the proposed spending of a government agency into activities and developing a set of workload and unit cost measures for these activities. In a strict performance budgeting environment, budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of an activity to be provided in that time period. The total budget for an organization is the sum of all the standard unit costs multiplied by the units expected to be provided. Although this strict approach may be useful for certain types of operations, many organizations require a more flexible performance approach. For example, expenditures may be based simply on the activities or levels of service to be provided and a comparison of budgeted and historical expenditure levels.

Evaluation of performance indicators has a major role in providing credible information to decision-makers. Such an evaluation is not easy in intangible areas. Premchand (1993) has identified this issue as follows:

»Performance indicators should follow the objective set for the organisation. These objectives should be specific, disaggregated, and measurable in one form or the other. Indicators in such a context seek to serve as a bridge between the objectives, resources allocated and the organisation’s outputs. They could indicate the following aspects:

1. Throughput or volume;
2. Productivity and cost; Time target;
3. Demand for services;
4. Availability of services; and
5. Outcome«.

A performance budget is an integrated annual performance plan and annual budget that shows the relationship between programme funding levels and expected results. It indicates that a goal or a set of goals should be achieved at a given level of spending. An effective performance budget does more than act as an object class, programme, or organizational budget with anticipated outcomes. It identifies the relationships between money and results, as well as explaining how those relationships are created. This explanation is a key to managing the programme effectively. As variances between plans and actual occur, managers examine the resource inputs and how they relate to outcomes to determine program effectiveness and efficiency. A program performance budget defines all activities, direct and indirect, required by a program for support, in addition to estimating activity costs. By tracking the cost and number of units for each activity, output, and outcome, unit cost information also may be generated.



The performance approach is generally considered superior to the line-item approach because it provides more useful information for legislative consideration and for evaluation by administrators. Further, performance budgeting includes narrative descriptions of each program or activity—that is, it organizes the budget into quantitative estimates of costs and accomplishments and focuses on measuring and evaluating outcomes. Finally, the performance approach eases legislative budget revisions because program activities and levels of service may be budgeted on the basis of standard cost inputs. The advantages of performance budgeting include, more comprehensive decision making (a move toward greater rationality and away from incremental); greater managerial control over the budget – the agency has more influence in the decision making phase of the budgetary process because the agency can provide more compelling information about the agency’s budget; and the performance budget format provides a means of evaluating agency performance.

The current performance movement has its roots in the Anglo-Saxon countries, notably in New Zealand and to a lesser degree Australia, Canada and the United States (OECD, 1997; OECD, 2005). However, it is sometimes very difficult to develop meaningful performance measures for some government activities. Performance budgeting has limitations owing to the lack of reliable standard cost information inherent in governmental organizations. Further, the performance approach does not necessarily evaluate the appropriateness of program activities in relation to reaching an organization’s goals or the quality of services or

outputs produced. Consequently, the performance approach has become most useful for activities that are routine in nature and discretely measurable (such as vehicle maintenance and accounts payable processing) – activities that make up only a relatively modest part of the total educational enterprise. A survey on Budget Practices and Procedures conducted by the OECD and World Bank (2003) reveals that only 7 out of 38 countries (18.4 %) have established performance, i.e. performance targets set for the whole budget. In addition, performance is provided in 19 out of 38 countries (49.6 %), ranging from less than 25 to more than 75 % of the budget. It is only fair to note that the cut off line between performance budgeting and providing performance information is somewhat arbitrary. But in sum, performance budgeting may offer considerable enhancement to the line-item budget when appropriately applied.

According to Chartered Institute for Public Finance and Accounting (hereinafter: CIPFA), UK, the professional body for people in public finance, the following issues are possibly contributing to the slow development of performance-based budgeting:

1. Public entities need to be clear about what they are trying to achieve. Therefore, there needs to be clear strategic direction in the organization (which may not always be the case).
2. Translating strategic goals and objectives into performance measures can be very difficult. In many public services, outcomes are difficult to measure and there is a tendency to fall back upon less appropriate output and input measures.
3. Systems for collecting cost and performance information may need to be developed. Costing out services can be difficult and in particular decisions on how to deal with overheads are problematic.
4. Problems may exist in respect of presenting this information to those making decisions on budgets. Information may need to be presented in appropriate formats to a variety of users. If information on performance is separated from accounting operations then this will hinder the ability for it to penetrate decision-making processes associated with the operations.
5. There may be procedural problems caused by failure to change existing budgeting rules and processes. Organizations continue to publish budget and performance in separate documents.
6. A lack of political acceptance of reform may prevail. Performance information represents a threat to the ‘political’ aspect of budgetary decision making since its explicit measurements tend to limit the discretion politicians can exercise. It has to be said, however, that in a complex environment of competing interests it is difficult to see how any rational, planning-based system can be expected to totally replace political decision making.
7. Management may not accept a performance budgeting process. There are often problems in defining who is accountable for performance and managers may fear that they will be reprimanded for failure to achieve published performance targets, and thus may try to avoid being accountable (CIPFA, 2009).

1.1.3.4 Program and Planning (Programming) Budgeting System (PPBS)

Planning, Programming, Budgeting System (PPBS) is one form of performance budget. This approach was created during the early 1960's and was tested in the department of defense, USA. It worked well for the military, but many of the strategies employed by the department did not translate well into civilian agencies. PPBS is a three-stage system: it begins with a five-year plan that identifies goals for the agency; programs are then developed to achieve the goals and objectives outlined in the plan; and then budgets are made to translate broad program goals into comprehensible budget figures.

Program budgeting refers to a variety of different budgeting systems that base expenditures primarily on programs of work and secondarily on objects. It is considered a transitional form between traditional line-item and performance approaches, and it may be called modified program budgeting. In contrast to other approaches, a full program budget bases expenditures solely on programs of work regardless of objects or organizational units. As these two variations attest, program budgeting is flexible enough to be applied in a variety of ways, depending on organizational needs and administrative capabilities.

Since the 1960s program budgeting has been widely adopted throughout the world in the form of performance oriented budgeting system. There are several variants of this system. Its evolution in the USA included a planning capability. In 1965 President Johnson introduced Planning-Programming Budgeting Systems, or PPBS, as the first systematic attempt to establish a form of national program budgeting into the US federal agencies (Melkers & Willoughby, 2001). In other countries program performance budgeting (hereinafter: PPB) or program management budgeting (hereinafter: PMB) was adopted. This was an attempt to combine efficiency and effectiveness in performance criteria. For example, in Australia, at the federal level of government, PMB was defined as 'the drawing together of all resources involved in the implementation of a program and constant monitoring against policy objectives laid down by the government of the efficiency and effectiveness of the delivery of that program'.

Program budgeting differs from approaches previously discussed because it is much less control-and evaluation-oriented. Budget requests and reports are summarized in terms of a few broad programs rather than in the great detail of line-item expenditures or organizational units. PPB systems place a great deal of emphasis on identifying the fundamental objectives of a governmental entity and on relating all program expenditures to these activities. This conceptual framework includes the practices of explicitly projecting long-term costs of programs and the evaluation of different program alternatives that may be used to reach long-term goals and objectives. The focus on long-range planning is the major advantage of this approach, and advocates believe that organizations are more likely to reach their stated goals and objectives if this approach is used.

However, several limitations exist in the actual implementation of this approach, including changes in long-term goals, lack of consensus regarding the fundamental objectives of the organization, lack of adequate program and cost data, and the difficulty of administering programs that involve several organizational units. Yet despite its limitations, program budgeting is often used as a planning device while budget allocations continue to be made in terms of objects and organizational units – a process that has been adopted in many schools throughout the nation. As with performance budgeting, PPB information may be used to supplement and support traditional budgets in order to increase their informational value.

1.1.3.5 Zero-Based Budgeting

Zero-base Budgeting (hereinafter: ZBB) is another form of performance budget. It represents a more radical approach, requiring an agency to justify its entire budget allocation each year. Usually, an agency is only required to justify changes (increases) to the previous budget allocation, and only that proposed increase is analyzed. Under ZBB, an agency has to be able to not only defend proposed additions to the budget, but the previous allocation as well (Austin, 1977). In actuality, under this system, the agency would have to prove that it needs to exist each year.

The basic tenet ZBB is that program activities and services must be justified annually during the budget development process. The budget is prepared by dividing all of a government's operations into decision units at relatively low levels of the organization. Individual decision units are then aggregated into decision packages on the basis of program activities, program goals, organizational units, and so forth. Costs of goods or services are attached to each decision package on the basis of the level of production or service to be provided to produce defined outputs or outcomes. Decision units are then ranked by their importance in reaching organizational goals and objectives. Therefore, when the proposed budget is presented, it contains a series of budget decisions that are tied to the attainment of the entity's goals and objectives (Cheek, 1977).

The central thrust of ZBB is the elimination of outdated efforts and expenditures and the concentration of resources where they are most effective. This is achieved through an annual review of all program activities and expenditures, which results in improved information for allocation decisions. However, proper development requires a great deal of staff time, planning, and paperwork.

The term 'zero-based' came from the requirement that all programs were considered to have no funding at the beginning of each budget cycle. Zero-based budgeting represents a major shift from the idea of incremental resource allocation changes to evaluating the performance of the entire range of government activities. The process required all departments to identify their programs, and to rank and justify the existence of each program in order of importance to departmental goals and objectives. Higher ranked programs were more likely to continue to be funded. Zero-based budgeting was a bottom of process, which required each manager

to be responsible for the process of ranking and justifying the value and continued existence of programs. But this is a difficult and complex process, particularly so for agencies with diverse goals (Austin & Cheek, 1979). It requires a great deal of time and effort on the part of agency staff. Consequently, Zero-based budgeting has not emerged as a widely adopted form of performance based budgeting.

The main shortcoming of ZBB was that it was simply too complicated and overwhelming. ZBB requires a huge amount of data to be properly implemented, and both agencies and politicians alike balked at the challenge of dealing with the volume of work. Wildavsky and Hammond (2006) wrote the following comment:

»... a zero-base budget – calling for a relative evaluation of each major item in the budget as compared to every other, and explicitly rejecting reliance on a historical base – could be described but could not be practiced. Comprehensive, zero-based budgeting vastly overestimates man’s ability to calculate and grossly underestimates the importance of political and technological constraints.«

1.1.3.6 Target-base Budgeting

Target-base Budgeting (hereinafter: TBB) places the responsibility for budgeting at the senior management level. Politicians and senior bureaucrats are forced to make macro resource allocation decisions (the »targets« are allocation figures), which allows the individual agency to develop a budget within the specified target. TBB gives responsibility for both policy initiatives and resource allocation to elected officials. Once the officials have set macro budget limits, decentralized implementation of those decisions takes place at the agency level. This lets the agency make the best possible use of its resources with minimal interference from the central budget office. The shortcomings are that elected officials may not know enough to make good decisions about resource allocations (then they have to ask the agencies!), or, alternatively, agencies may have too much discretion in the allocation of their resources. This approach is less rational than zero-based budgeting, but it is far more amenable to most because it recognizes the importance of politics in the budget making process.

1.1.3.7 The UK experience

In the UK it was realized in the mid-sixties that traditional budgeting was not suitable for assessing the performance of the ministry of defence in using scarce resources as they provide no basis for analysis, planning and informed decision making (Hartley, 1993). The traditional budget did not show any of the products of the defence industry nor their costs of production. It was recognized that programme budgeting provided such a framework.

The programme budgeting introduced in their defence ministry in 1965 originally consisted of 14 major programmes further sub-divided into some 700 programme elements like, an

aircraft carrier, a single ship, etc. Each of these elements was properly costed and a ten year planning period was used for the ministry's functional costing system. It was considered that the programme budgeting would provide a proper framework to decision makers to ask logical questions about the purpose of each activity or programme, cost of the programme, and whether the cost commensurate with the objectives gained. It was expected thus, to improve the quality of decision making.

1.1.3.8 The priorities approach

It is often believed that one way to achieve efficiency in allocation of resources is to develop the 'priorities' and allocations as per the priorities. When the adoption of zero-based budgeting technique was being advocated for adoption in defence, it was suggested by the department of expenditure, ministry of finance, that even drawing up of priorities by various services would help in this direction and can substitute for the zero-based budgeting. That is, to facilitate the decision as to how a given budget can be spent, a list can be drawn up by ranking schemes on the basis of urgency. The more important ones could be at the top and the less important ones at the bottom. However, the ranking does not mean that money should go to the first item until no additional amount is needed for it and so on, for one can spend a limitless amount on the first item. Even if it had a limit, depending on various constraints such as supply, then also it does not make sense to spend up to that limit. For, after several crore have been spent on the first item, more benefit would be achieved by spending the next few crore on the second item.

The priorities list also does not mean that more should be spent on the higher priority item than on the lower item. A priority list thus reveals nothing about how much should be spent on a particular item.

The notion of priority makes sense if one is concerned with spending a very limited amount in a very short time frame. Then one has to follow the rule 'First thing first'. But if one is concerned with allocation of budget then a priority list does not help in solving the problem.

An overarching issue revolves around the question of how to evaluate budgetary systems. Based on his examination of performance budgeting, Premchand (1993) offers a number of criteria against which a system can be assessed: success in reducing public expenditure growth; fiscal marksmanship; contribution to national development; and allocative efficiency. Such criteria would, of course, require adaptation if they were to be applied to Results Oriented Budgeting as they would need to focus on the accomplishment of outcomes (including efficiency related outcomes). Generally, the review of these initiatives tells us that implementation of these systems encourages a shift in responsibility at the level of the agency for resources used and outputs and outcomes to be achieved. It encourages a focus on performance, whether it is defined in terms of processes, outputs or outcomes, at differing levels within government. With the use of new technologies, this performance focus is becoming increasingly possible. In addition to linking budgeting to performance, it

encourages a link to audit. Additionally, changes from traditional budgeting systems to performance budgeting can act as a change agent, encouraging managers to change attitudes towards the management of resources, outputs and outcomes. Finally, performance budgeting permits a long-term approach with a focus on policy options, though it may not cope with a rapidly changing external environment.

Taking the above lessons into account, the analysis of different methods of programme budgeting advances four principles which need to be satisfied in order to move beyond traditional budgeting to performance budgeting. First, the basis of budgeting needs to move from being inputs based to being outputs based. Second, programmes are the basis of analysis and this need to be reconciled with organizational structures. Third, there needs to be management accountability for programme outputs. Fourth, programmes need to rank in order of preference, thus enabling priorities to be set.

1.1.3.9 The existing defence budgetary practice in India

Under the Constitution, Budget has to distinguish expenditure on revenue account from other expenditure. Government Budget, therefore, comprises (i) Revenue Budget; and (ii) Capital Budget. Revenue Budget consists of the revenue receipts of Government (tax revenues and other revenues) and the expenditure met from these revenues. Tax revenues comprise proceeds of taxes and other duties levied by the Union. The estimates of revenue receipts shown in the AFS take into account the effect of the taxation proposals made in the Finance Bill. Other receipts of Government mainly consist of interest and dividend on investments made by Government, fees, and other receipts for services rendered by Government. Revenue expenditure is for the normal running of Government departments and various services, interest charges on debt incurred by Government, subsidies, etc. Broadly speaking, expenditure which does not result in creation of assets is treated as revenue expenditure. All grants given to State Governments and other parties are also treated as revenue expenditure even though some of the grants may be for creation of assets.

Capital Budget consists of capital receipts and payments. The main items of capital receipts are loans raised by Government from public which are called Market Loans, borrowings by Government from Reserve Bank and other parties through sale of Treasury Bills, loans received from foreign Governments and bodies and recoveries of loans granted by Central Government to State and Union Territory Governments and other parties. Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares, etc., and loans and advances granted by Central Government to State and Union Territory Governments, Government companies, Corporations and other parties. Capital Budget also incorporates transactions in the Public Account.

1.2 Need for change in the existing method

Critics of traditional budgeting argue that it is slow, cumbersome, expensive and hinders effective management during rapid change. Operation of the current budgeting process sometimes require tremendous amount of persuasive powers. The shortcomings of the traditional budgeting system can be listed as follows:

Inflexibility. The fixed-period of the budget inhibits organizations from adjusting priorities as conditions change. Innovation and competitors do not work to an exact calendar year. Also, the budget year often does not necessarily coincide with the business cycle of the organization. Consequently, most budgets are misaligned with the outside world from the outset.

Another problem with traditional methods of budgeting is that they are protracted, involving preparation by many departments, followed by collation and review by senior management before final approval. This increases the gap between the budget and ever-changing market and regulatory environments.

Most financial and performance management systems are designed around the annual budget. Consequently, they focus attention on short-term finances. While this is a necessary part of management, it is not enough. To survive, the organizations also need to change itself for the future. For instance, once the budget is approved, the organizations works within its confines reconciling results to the original flawed numbers. Budget increases are hard to achieve. Thus, the budget reduces the organizations ability to adapt to changing conditions.

Cost reduction. Since few organizations systematically derive their budgets from the outcomes they need to achieve, budgets can only be based on the previous year's budget, increased for inflation. Consequently, there is no way of challenging budgets logically. Doing the same things take the same resource, regardless of management dictates. Prescribing budget cuts harms outcomes and reduces productivity. The key to efficiency gains is doing things more simply.

Disconnection. Usually budgets are produced by individual departments in isolation. However, outcomes for example, innovative products and satisfied customers are hardly ever produced by a single department alone. As a result, there is a mismatch between resources and outcomes. Most budgets are formed bottom-up. The lowest level organizational units are asked to submit their estimates of expenditure for the next year. Senior management, meanwhile, has made a forecast of the income it expects to receive. There is a negative variance between the forecast revenue and the sum of the department's budgets. The variance is resolved by lengthy discussions or arbitrary decisions, both of which cause dissatisfaction and demotivation.

The fundamental problem with the current approach to budgeting is its lack of an explicit connection with strategy, outcomes, processes and customers. There are causal relationships

between these things, yet these relationships are rarely used explicitly to produce budgets. The disconnection between what is needed and what is spent results in the setting of financial targets which are at odds with the intended outcomes of the organization. This leads to the use of more resources than necessary, or a failure to produce outcomes of the quality possible.

Time consuming. Among the typical problems of traditional budgets are that they quickly become out-of-date; the budgeting process is extremely time-consuming, and thus highly wasteful; and a process meant to provide insight into operational requirements ends up focusing exclusively on financial outputs. When an organization eliminates the traditional budgeting process and institutes the more adaptive management processes of beyond budgeting, it begins to manage in a way that is in alignment with lean production practices. Fixed financial targets are replaced with targets based on key performance indicators.

Governments have traditionally produced annual budgets which set out the sums to be voted to specific purposes during the coming year. The allocations would be expressed as a hierarchy stating the overall service distributions which are then broken down according to 'subjective headings', such as salaries, building costs, travel costs etc. The purpose of such allocations was to express priorities for spending and to establish a control mechanism to ensure that money was used for the purposes for which it was voted and not diverted to other uses or for fraudulent purposes. The system allows an audit trail to be followed to trace how cash has been spent.

One approach, pioneered in New Zealand is to allocate and control spending through accruals accounting rather than cash accounting. This simply means that instead of recognising cash payments as they are made, budgets are made according to the resources used in the year. Current incomes and expenditures are recognized when they become due rather than when they are paid. Capital spending is planned and controlled according to the resources used (depreciation and capital charges) rather than cash paid (cash contributions to capital spending and debt payments). The idea is that the budget and control process should make the best allocation of the resources used for current and capital spending and not be distorted by any one year's cash implications.

There is a caveat to make about the approach. One of the motivations for it in New Zealand and perhaps elsewhere is to reduce the size of the apparent spending on capital as resource use is accounted for over the project's life rather than the financing period. However, Treasuries everywhere are also interested in cash flows because the cash flows have to be financed. Accounting for resources used does not relieve governments of the need to finance spending. Even with a resource accounting and budgeting system in place, cash will still be important.

At the same time as accruals budgeting and accounting were adopted, various governments also attempted to define 'outputs' to be included in the budget and performance management

processes. The underlying idea is that politicians act on behalf of the people as purchasers of outputs from public servants and private and voluntary sector contractors. To be able to carry out that responsibility well they need to know what they are getting for the money, not just how much they are spending.

In some cases the idea of 'buying outputs' is extended to dividing the governments into those parts which 'buy' services or outputs and those which 'sell' them. Sometimes the 'sellers' really are sellers and are located outside government. The UK government was an enthusiastic exponent of this division. For example the executive agencies are essentially service providers financed through a contractual arrangement to supply a certain volume of work at a given price. The internal market in the NHS was organized along similar lines. Services in local government that were subject to compulsory competitive tendering were similarly split between buyers and sellers. While not a necessary step in the process of developing output-based budgeting and control, it has been a common approach, especially where there has been a desire to check the costs of service provision against the prices available in the market.

Today, budget has become one of the primary tools of management. It is a master financial plan of the government. A government budget has many objectives to achieve. Some of the most important objectives of budget are (1) to serve as a tool for management; (2) to facilitate a functional approach to expenditure; (3) to ensure accountability and transparency; and (4) to achieve intended objectives of macro-economic policies.

A tool for management. A budget is an operational document and as such, it serves as a valuable tool for management. The emphasis is on projects, programmes and activities for which there is managerial responsibility in terms of cost, time and accomplishments. According to Schick (1996), the traditional role of the budgetary office is one of:

1. specifying items of expenditure;
2. monitoring compliance with regulations;
3. ensuring that inputs are those agreed in the budget; and
4. intervening as deemed appropriate.

In a new role, such offices need to determine how they:

1. control totals;
2. establish priorities; and
3. seek efficiency.

Hence, according to Schick (1996), the major reform of central budget offices has been to move away from a focus on the allocation of the incremental increase in funding to one where managerial improvement is the priority. Pollitt (2001) identifies a number of key interfaces for the integration of financial management and performance management:

1. **Budget making and target setting.** Without this link there will be no confidence in performance targets and targets may become arbitrary or of secondary importance.
2. **Budget making with monitoring and reporting of performance.** This links allocations to performance and raises questions of how to increase incentives for performance.
3. **Budget implementation with performance measurement.** Month by month budget allocations may change because of external factors but performance measurement systems may not be able to detect the contribution of those changes to effectiveness.
4. **The accounting system and the performance measurement system.** Often accounting systems are aggregated at the level of the department whilst performance measurement systems may measure the performance of individual delivery units thus making an efficiency dialogue problematic.

Thus, Pollitt (2001) concludes that »the literature reviewed does not permit any firm generalizations to be made about the relative importance of different single variables, but the level of decision making does seem to be mentioned with particular frequency, and clearly both the type of budget and the prevailing accounting system go a long way towards determining where the ‘starting line’ is for any exercise in integration«. He sets out a table of contexts where integration would be easier and more difficult. This is reproduced as follows:

Table 1: Key variables for integration

Integration would be easier in a context where:	Integration would be more difficult where:
Strategic target/objective setting is linked to resource allocation.	Historical incrementalism is the basis of resource planning and allocation.
Global or output-based budgeting is in place.	Line item budgeting is in place.
Full cost activity accounting is in place.	The programme in question consists of a set of tangible and measurable products or services.
The programme consists of nonstandardised non tangible, »ideal«, services.	Integration is being attempted at the levels of programme priorities management and operational management.
The effects of the programme can only be detected in the long-term.	The impact of a programme can be seen soon after the services or products are delivered.
Even when »result[s]« are detected, attribution to the programme is uncertain.	The results (outcomes) can be confidence (rather than there being reason to suspect that they were caused by other factors.

Source: C. Pollitt, Integration variables, 2001, p. 27.

Functional approach: Classification of budget through the functional approach enables all the items of expenditure in a particular field of activity to be grouped under one functional category, e.g. defence, education, health, establishment expenses, etc., irrespective of the department or the agency, which actually incurs the expenditure. It is argued that this gives a clear picture of the government's effort in each field.

Accountability: Accountability is a concept in ethics and governance with several meanings. It is often used synonymously with such concepts as responsibility, answerability, blameworthiness, liability, and other terms associated with the expectation of account-giving. As an aspect of governance, it has been central to discussions related to problems in the public sector, nonprofit and private (corporate) worlds. Accountability has been the outstanding feature of the budget. One of the well-established principles of parliamentary democracy is that the legislature exercises a control over spending of public moneys and that no taxes or levies are imposed without its express sanction. The objective is to ensure the financial and legal accountability of the executives to the legislature and within the executive, to ensure similar accountability on the part of the subordinate agencies to the one immediately above in the hierarchy of delegation. The adoption of the budget should play a key role in setting priorities, making choices about how tax money are spent, and ensuring that the people and their elected representatives understand the objectives and consequences of budget decisions.

In recent years, however this process has got diluted and bogged down by political bickering and special interests seeking undue influence. Therefore the budgeting process needs to give policy makers the tools necessary to restore and maintain public trust through the chain of

accountability. There is a need to create a culture of accountability through which the policy makers can review what the public is getting for its money and making changes to policies and programs to improve results.

The public availability of frequent and useful quality information on fiscal and budget decisions and outcomes is a pre-requisite for accountability. Without such information it is not possible to hold public officials to account for the use of resources. Lack of accountability creates an incentive for corruption. Also, the lack of reliable information on the use of public resources can cripple any attempt to uphold sanctions against corruption. Fiscal and budget transparency is therefore a pre-requisite in any anti-corruption programme, as an underpinning to both preventative and curative measures.

The institutionalisation of transparency in budget practices creates the demand for those types of government systems which are keys to combating corruption: namely an independent, effective and efficient auditing system, an internal accountability system and an information system that produces timely and accurate information. Should increased demand for transparency happen within the context of a broader budget reform programme that draws on the tenets of new public management, it is bound to include measures of government performance, such as client satisfaction surveys. These surveys can play a pivotal role in exposing corrupt practices, both those directly related to the misuse and embezzlement of public resources, and those that involve bribes and the abuse of the economic power of the state over an individual or company.

To achieve objectives of macro-economic policies: Macroeconomic policy addresses the overall aggregates of the economy: prices, output, employment, investment and savings, government balances, and balances on the external account. The goals of macroeconomic policy include creating conditions for sustained growth; price stabilization or inflation control; reducing unemployment; smoothing economic cycles and volatility in output and employment; correcting aggregate and sectoral imbalances; reducing poverty, and providing greater equity for all, especially the marginalized. There are three major policy instruments to manage these macroeconomic aggregates, namely:

1. fiscal policy;
2. monetary policy, and
3. exchange rate policy.

Budget is used as an instrument for implementing macro-economic policies. Government decides the sectors in which investment is considered necessary and accordingly, investment is stepped up in those sectors. To the extent macro-economic policies are properly implemented, the national income of the country goes up. The desire to make budgets more participatory and transparent is part of a larger agenda to 'democratize' the formulation of macroeconomic policy frameworks. The design of macroeconomic frameworks and policies which take into account the voices and interests of women and poor people are critical in the

fight against gender inequality and poverty. Macroeconomic policy-making often remains sheltered from broad public scrutiny and debate. This is due in part to the belief that macroeconomics is both a neutral subject, devoid of social content, and a technical subject best left to experts. However, the technical content of macroeconomic policies often disguises their social content. These policies are enacted within a context of institutional structures and power relations among economically differentiated social groups. Macroeconomic policies also produce a variety of social outcomes by determining which groups get what out of the economic pie. Scrutinizing public budgets is an important step towards understanding the social content of macroeconomic policies currently in place and democratizing the process of macroeconomic policy-making.

Government policies, whether in defense or any other sector, must be affordable. Affordable policies require a sustainable macroeconomic balance, which is critical to the long-term economic health of a country. To attain a sustainable macroeconomic balance, governments must give high priority to exercising discipline over public expenditure.

1.3 Outcome budget

Beginning in the 1990s, a new wave of performance oriented budgeting was taking shape in public administration in several countries. Outputs and outcomes budgeting is an approach that focuses budget decision making and accountability on three core issues:

1. Outcomes: What influence the government wishes to have on the community by its actions;
2. Outputs: How the government wishes to achieve that influence;
3. Performance indicators: How the government and the community know whether the influence is being achieved in an efficient and effective manner (Chan, 2002).

The goals of the output and outcomes budgeting are twofold. One is to allocate resources (inputs) in line with government priorities or the objectives government seeks to achieve by implementing their chosen policies. The other is to relate the budget's resource allocation, or how the funds are planned to be used, to expected results or impacts (outputs and outcomes).

1.3.1 Definition and concept of outcome budget

The concept of output and outcome budgeting is closely linked with the 'inputs' and the 'processes'. The inputs in a traditional budgeting system can be defined as the provision of allocation from the Parliament to the estimated expenditure. Input budgeting is common in line item budgeting. These budgets typically appear in the form of accounting documents that express minimal information regarding purpose or an explicit object within the system. In the traditional input budget management, since the input of budget resource is controlled strictly, the expenditure user lacks the independence and flexibility of management. They are only responsible to the input, not the output and outcome. What the expenditure controller

needs to do is to make sure that the expenditure user obeys correlative rules in the course of the budget, but not to demand the user to accomplish the required performance, virtually the yardstick and criterion of measuring and examining the performance are not existent at all. Similarly, processes refer to determination of allocation of resources for the funding on one program instead of another based on what that program offers. A program budget is a budget in which expenditures are based primarily on programs of work and secondarily on character and object. It is a transitional type of budget between the traditional character and object budget, on the one hand, and the performance budget on the other. The major contribution of program budget lies in the planning process, i.e., the process of making program policy decisions that lead to a specific budget and specific multi-year plans.

The Outcome Budget serves as a progress card on what various ministries and departments have done with the outlay announced in the annual budget. It is a performance measurement tool that helps in better service delivery; decision-making; evaluating programme performance and results; communicating programme goals; and improving programme effectiveness.

1.3.2 Emergence of outcome budget

Outcome-focused budgeting is closely linked to the planning process in governments. For a government entity to focus on outcomes, goals and objectives must be identified and tied to budget allocations for the achievement of those objectives. This premise argues that mission-driven (synonymous with outcome-focused) governments are superior to those that are rule-driven because they are more efficient, are more effective in producing desired results, are more innovative, are more flexible, and have higher employee morale (Osborne & Gaebler, 1993). In the context of increased governmental scrutiny of governmental costs, including schools, this model may receive more emphasis in the future.

Outputs are the products of public bodies, defined as children taught in schools, operations performed in hospitals, lengths of road built and maintained, police patrols carried out and so on. Such definitions now appear in budgets in many parts of the world. The underlying idea is that politicians act on behalf of the people as purchasers of outputs from public servants and private and voluntary sector contractors. To be able to carry out that responsibility well they need to know what they are getting for the money, not just how much they are spending. In some cases the idea of 'buying outputs' is extended to dividing the governments into those parts which 'buy' services or outputs and those which 'sell' them. Sometimes the 'sellers' really are sellers and are located outside government. The UK government was an enthusiastic exponent of this division. For example the Executive Agencies are essentially service providers financed through a contractual arrangement to supply a certain volume of work at a given price. The internal market in the 'National Health Scheme' (hereinafter: NHS) was organised along similar lines. Services in local government that were subject to compulsory competitive tendering were similarly split between buyers and sellers. While not a necessary step in the process of developing output-based budgeting and control, it has been

a common approach, especially where there has been a desire to check the costs of service provision against the prices available in the market. Once governments have established measures of outputs they can then calculate the unit costs of those outputs. So, the cost of educating a child through a year of school, the average cost of a surgical procedure, the cost of a mile of resurfaced road and so on can be established, rather than only having the annual cash spent to run a school, hospital or engineering department. What happens to this cost information is up to the government. In practice, no government has abandoned input and output based budgets when they have moved towards an outcome-based approach. This is for two main reasons:

1. Probity and the need for an audit trail for cash mean that, for services provided by employees rather than contractors, the government needs to be clear where the money it has voted is spent. There can be degrees of flexibility in how the money is spent, managers being given scope to move money about in the search for better ways of doing things. Even in the case of contracted services, the controls needed by the purchasers may include some control over inputs, such as nursing hours, qualified staff etc.
2. It is hard to exercise accountability solely for outcomes because
 - First there is the problem of measurability. Some services are more suited than others to outcome specification and measurement. Processes such as education and healthcare interventions are relatively easy to measure, while outcomes for justice services such as public tranquility or environmental services such as public satisfaction with a beach are less easy to measure.
 - The second problem is that of causality. While outcomes may be measurable, pinning down those outcomes to the performance of the managers or workers in the services can be difficult. The more high-level the outcome, such as ‘economic prosperity’ or ‘educated population’ the more factors are involved in producing the outcome and therefore the harder it is to hold any one organization or manager to account for the effects.
 - The third problem is that of time. Some outcomes, such as changes in the morbidity of the population, can be measured only over long periods and pinning down the budget holder’s contribution to those outcomes in a single budget year will be tenuous. This is especially so where the budget holder has no control over the other variables.

For these reasons, performance budgeting has tended to develop outcome definitions and measurements in parallel with output controls and with some form of input control. Different countries have used the notion of progressive adoption of inputs, outputs and outcomes budgeting. In 2002 the OECD identified Brazil, France, Germany and Ireland as being at the stage of focusing primarily on reforming the budget process to a results based one. Denmark, Ireland, Netherlands, Norway and Sweden gave considerable emphasis to monitoring activities and outputs (Pollitt& Bouckaert, 2000). The shift in focus to outcomes is relatively new and interested governments include those in the USA, UK and Australia has been

following a system of capability-based defence outcome budgeting for more than a decade. In Australia the defence outcomes are the results that the Government seeks from Defence, and are achieved through the successful delivery of outputs.

The introduction of performance budgeting in the USA has a long history. The concern for economy and efficiency in Government budget dates back to 1912 when the Taft Commission on Economy and Efficiency stressed the importance of budgeting in accordance with the subject of work to be done. However, little of comprehensive nature was done along these lines, until project budgeting and the activity schedules of the US Department of Agriculture was undertaken in 1934. Almost the same time the Tennessee Valley Authority undertook budget classification in accordance with programmes and accomplishments. In 1946, the Department of Navy presented its fiscal year 1948 budget both on the traditional object basis and on the programme basis. These developments in federal budgeting laid the basis of the first Hoover Commission. The term 'performance budgets' appealed to the Commission to designate the budgetary reforms recommended by them. Its Recommendation No. 1 in its report on the Budgeting and Accounting read as follows:

We recommend that the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based on functions, activities and projects: this we designate as a »Performance Budget«.

In the USA the Armed Forces were among the pioneers in budget reclassification under programme lines. Their efforts were given additional encouragement and a legal basis by the enactment of Title IV of the National Security Act in 1949. This provided improved machinery for budgeting and financial control in the Armed Services, as also for ascertaining the costs of specific activities. The Programme Budget System that was developed was based on performance-type appropriation structure which was made up of eight titles, which were as follows:

1. Military Personnel Cost.
2. Maintenance and Operation.
3. Procurement and Production.
4. Military Construction.
5. Army National Guard.
6. Reserve Personnel requirements.
7. Research and Development.
8. Military construction, civilian component.

Within these appropriations there were 46 budget programmes, which were subdivided into 146 projects and some of these projects and subprojects were further subdivided into station operating accounts. Typical programme budget classification in the Army was as follows:

- **Appropriation: Procurement and production.**
 Programmes: Vehicles (non combat),
 Industry preparedness measures, weapons.
 Projects: Artillery, chemical weapon, small arms.
- **Appropriation: Military personnel.**
 Programmes: Subsistence, travel of the Army, pay of the Army.
 Projects: Pay and allowances of enlisted personnel,
 Pay and allowances of officers.
 Sub-projects: Commissioned officers, Army nurses and WMSC.

Programme budgeting in the army in the US contributed to an increased emphasis on programme costs in broad terms. The information system improved the cost of specific additions to the military establishment, and the cost of additional activity become available. Knowing the costs of each activity helped in developing a cost-effective analysis. Better integration of budgetary decisions and policy decision came about (Ghosh, 1996).

1.3.3 Importance of outcome budget

This current wave of performance oriented budgeting had its genesis in the reforms of the theory and practice of public sector administration in the previous decade. They include:

1. A shift away from inputs and processes to a focus on results in the form of outputs and outcomes
2. Devolution and decentralization of government activities along with the introduction of performance management systems to control what was being done
3. A shift from the traditional annual budget cycle to multi-year expenditure frameworks as the basis for the annual budget process
4. Recasting the public as customers, consumers and clients
5. The promotion of the ideas of competition and choice being achieved by deregulation and mercerization through privatization, contracting out and competitive tendering.

The origins of these reforms to public administration have been described as a ‘marriage of the ideas’ of the ‘new institutional economics’ and business type managerial system (Hood, 1998). The new institutional economics with its public choice, transaction costs and principal agent theoretical building blocks has helped to promote the doctrine of contestability, user choice, transparency and the role of incentive structures. According to Hood (1998) the ideas of scientific management along business lines have promoted doctrines of portable professional management, discretionary power to achieve results, development of appropriate cultures and measurement, and adjustment of outputs. Importantly, these doctrines have been accompanied by a shift in the value systems of public administration, as well as underpinning new ways of doing things, including budgeting.

Also underpinning the budgetary changes are the objectives of public expenditure management (PEM). These are advocated by multilateral institutions and adopted by many governments as the basic objectives of the resource management system of government, of which budgets are central. These objectives, as expressed by the World Bank are (1) maintain aggregate fiscal discipline to achieve effective control over budget totals; (2) promote allocative efficiency whereby resources are allocated in accordance with government priorities; (3) promote operational efficiency or the cost efficient delivery of services (World Bank, 1998). The PEM has given added emphasis to matching spending with policy priorities and spending for results at least cost.

Output and outcomes budgeting as part of spectrum of reforms is usually accompanied by changes to planning, reporting, auditing, accounting and information systems and legislative arrangements. For example, a number of OECD countries have changed to accrual accounting which improves management information about costs and assets and facilitates a closer integration of financial and performance measured (Pollitt, 2001, p. 19). However, the degree of integration of output and outcome budgeting with other changes and systems should not be overstated. An international review by Pollitt (2001) of government efforts to produce an integrated financial and performance management system suggests that the technical, cultural and political requirements of integration are extremely difficult to achieve in practice. Like other budgeting systems that have before it, output and outcomes budgeting in practice may involve a hybrid approach. It can include line budgeting and it may or may not maintain a programmed structure.

2 INDIAN DEFENCE BUDGETING

As per the Indian Constitution (Article 112) a statement of estimated receipts and expenditure of the government of India is required to be laid before the Parliament in respect of every financial year, which runs from 1st April to 31st March. This statement is entitled »Annual Financial Statement« (AFS) and is commonly known as the Budget.

2.1 Structure of defence budget

The estimate of expenditure from the consolidated fund included in the AFS and required to be voted by the Indian parliament are submitted in the form of Demands for Grants. Generally, one demand for grant is presented in respect of each ministries or department. However, in case of large ministries or departments more than one demand is presented. The budgetary requirements of the defence services consist of the following six demands for grants:

1. Demand No. 17: defence services: army;
2. Demand No. 18: defence services: navy;
3. Demand No. 19: defence services: air force;

4. Demand No. 20: defence ordnance factories;
5. Demand No. 21: defence research and development;
6. Demand No. 22: capital outlay on defence services.

The budgetary requirements of the defence accounts department, canteen stores department, secretariat of ministry of defence, share contribution/loans advanced to defence public sector undertakings and defence pensions, are provisioned through two separate civil demands for ministry of defence, viz., Demand Nos. 15 and 16.

The requirements of the coast guard organization and the border roads organization are provided for by the department of revenue and ministry of surface transport respectively. However, the functional control remains with the ministry of defence.

The revenue demand, which means the 'running or operating' expenditure of the three services and other departments are provided through the first five demands of the Defence Services Estimates (hereinafter: DSE), i.e., demand nos. 17, 18, 19, 20 and 21. The capital requirements of the three services and the departments are met through the demand no. 22. While there are five demands to take care of the revenue requirements there is only one demand to take care of the capital requirements of the three services and the departments. The revenue demands primarily refers to the expenditure under the heads of »pay and allowances«, »store«, »works«, »transportation«, and »miscellaneous«. The capital expenditure refers to the expenditure related to the creation of tangible assets. As can be observed from the nomenclature itself the budgetary allocation takes care of the requirement of the three services and the departments. It includes expenditure on land, construction works, plant and machinery, naval fleet, aero engine, heavy and medium vehicles and an omnibus classification called »other equipment« (Ghosh, 1996). It also carries a twin criterion of cost and life – that is, it should be more than rupees ten lacks and life of more than seven years.

The approval of parliament is taken for the »gross« expenditure provision under different demands for grants. Receipts and recoveries, which includes items like sale proceeds of surplus/obsolete stores, receipts on account of services rendered to state governments and to other ministries, and other miscellaneous items are deducted from the gross expenditure to arrive at the net expenditure of the defence services. In common parlance this figure of net expenditure is considered as defence budget. For voting it is the gross amount that is taken into account and that is the limit of spending and not the net amount. But in the common parlance the net budget, thus arrived at by deducting receipt and recoveries from the gross expenditure, is known as defence budget.

Background of Defence Planning in India. Before independence, the defence services worked on a system of contract budget. Defence expenditure was pegged at Rs 55 crore per year, which was more than half of the central government's revenue. There was no serious threat from outside (except during World War II) and this amount was more than adequate to

maintain the establishment. The savings were not allowed to lapse but put away in the Defence Reserve Fund that was utilised to finance measures for re-equipment of the defence services, thus freeing the Government from having to provide fund money greater than the contract amount.

Expenditure on defence rose steeply soon after independence in 1947. However, there was no planned effort and defence programmes consisted mainly of outright purchases from abroad, drawing heavily on available Pound Sterling reserves. In the late 1950s, some efforts were made to initiate domestic weapons production by the ministry of defence. The Sino-Indian conflict in 1962 aroused a new defence consciousness in the country. After taking care of immediate post-war requirements, systematic defence planning started in 1964. Defence requirements were assessed on a five-year basis and the First Five Year Defence Plan (1964–1969) was drawn up. This plan took into account the resources available and assistance which could be expected from friendly foreign countries. The plan was primarily based on an expansion and modernisation programme considered necessary by each service in the light of the respective threat perception assessed. It also proposed a defence production base that would gradually reduce the country's external dependence, provide for improvements in border roads and communications, and a modest expansion of Defence Research Development Organisation (hereinafter: DRDO).

The Government recognised the imperative need to synergise 'defence' and 'development' instead of planning each on a separate and un-related level. The ministry of defence emphasised the »inevitable need to harness all resources of the country for the country's defence and for the defence effort to derive full sustenance from the country's economic development plans«. Thereafter, the National Development Council authorised the Chairman of the Planning Commission to review the needs of both development and defence. A Planning Cell was established in 1965 in the ministry of defence 'to deal with the wider aspects of defence planning'. The new system was intended to facilitate medium and long-term defence planning and to maintain constant liaison with the Planning Commission and other ministries. It was expected that the ministry of defence would derive maximum advantage from the development effort by being able to place its priorities for consideration along with the overall economic and industrial plans drawn up by the Planning Commission. The contents of the general, as well as, the defence budget of the government of India have normally been widely discussed and debated. However, the focus mostly has been on the magnitude of the budget rather than the system of budgeting. Yet it is the system that needs to be the focus of discussions and requires reforms. Over a period of time, the budget documents had become quite static in terms of structure, content and communication of results. With the demands of those needing information from the budget changing with time, reforms in the structure and content of the defence budget had become overdue.

2.1.1 Various elements of defence budget

There are some conceptual problems in understanding what constitutes the defence expenditure. Though different countries adopted different definitions, in India, it is the money spent on the three services – the army, the navy, the air force – and the organizations of ordnance factories and the research and development. Every year a statement of money spent during the previous year and an estimate of that proposed to be spent on defence in the coming year is submitted to the Parliament. This is done through the fairly exhaustive document known as DSE. The DSE, as a document, has evolved over a period of time to its current structure. Though its structure has largely remained the same in form and contents, it has had modifications. It is believed by many that, as a public document, its existing format is adequate to convey the objectives of the government. The comments/reactions to a budget presentation are made in terms of judgment on magnitude of allocations for army, navy, air force, and research and development organizations.

2.1.2 Accounting structure

Budget classification gives information on government operations and provides the form and structure necessary for analysis and policy – making. The purpose of budget classification is to present the data in such a manner that it gives information desired from different points of view. It is also an objective of budget classification to present the budget data in the form in which parliament can be made to be aware of the technicalities of the budget and accord its approval to it.

There are two ways in which budgetary data may be classified. One, on the basis of the departments that incur the expenditure and the other, is to classify receipts and expenditure on the basis of functions, programmes and activities.

Classification of expenditure on the basis of the departments in which they were incurred do not permit easy economic analysis of the impact of government. It is also not in conformity with the way in which national income accounts are being compiled. The government of India in 1974 decided to switch over to a functional and programme classification of accounts, namely; sectors, functions, programmes, activities and objects.

According to functional classification, government activities may be classified under three groups like: (1) General Services, (2) Social and Community Services, (3) Economic Services.

Under this scheme, a five tier classification has been adopted, namely, sectoral, major head, minor head, sub head and detailed heads of account.

General Services are those that are required for governance such as Police, Defence, External Affairs, Tax collection, District Administration, Fire Protection, etc. This sector is

sub-divided into six sub-sectors, namely; (1) Organs of State (Parliamentary, Head of State, Judiciary, Audit, Council of Ministers and Elections), (2) Fiscal Services (Agencies for collection of taxes), (3) Interest payments and debt services, (4) Administrative services, such as Public Service Commissions, District Administrations, Police, Jails, etc., (5) Pensions and miscellaneous general services and (6) Defence services.

The structure and classification of military budgets vary from country to country. The amount and nature of information made public are affected by different conventions of pricing and classification as also the convention of secrecy. Three classifications of military expenditure can be tabulated for illustrative purpose:

Table 2: Classification of military expenditure

SIPRI	US Department of Defence	NATO
I	II	III
1. Pay and allowances military personnel	Pay and allowances of military personnel	Outlays on military personnel
2. Pay of civilian personnel	Operations and maintenance	Civilian pay and allowances
3. Operations and maintenance	(includes pay and allowances of civilians)	other equipment, supplies,
4. Procurement	Procurement	Procurement of major equipment, procurement of missiles
5. Research and development	Research, development, testing and evolution	Other equipment, supplies and operations evaluation, operations (part)
6. Construction	Construction	NATO-common infrastructure (national) construction
7. Pensions to retired military personnel	Pensions to retired military personnel	Pensions to retired military personnel
8. Military aid	Military assistance	
9. Civil defence	Civil defence	
10. Paramilitary forces	Family housing	
11. Military aspect of atomic energy, space, etc.		Other expenditure

Source: A. K. Ghosh, Classification of military expenditure, 1996, p. 56.

1. The first classification is from a report by the Stockholm International Peace Research Institute (SIPRI), which states that military expenditure ‘as a general rule’ is considered

to consist of items 1 to 6 of the first list of the table above. However, items 7 to 11 are also regarded as military expenditure.

2. Appropriations of the US department of defence encompasses all the items in the SIPRI list except number 10 (paramilitary forces) and 11 (military aspect of atomic energy and space), operations and maintenance including civilian pay.
3. The NATO definition of the 'defence contribution' of member countries incorporates all of the SIPRI list except civil defence. In the NATO classification, Research and Development is put in the category 'other equipment, supplies and operation'.

2.1.3 Arrangements of Services and Departments

Different services and the departments within ministry of defence are included in the defence budget through the various above listed demands for grants. While the army, navy, air force, director general ordnance factories and research and development are separate demands for grants various smaller organizations are included within these five demands for budgetary purposes.

2.1.4 Inter services organizations

In the case of army demand two important organizations, namely: (i) Director General of Quality Assurance (DGQA) and (ii) Director General of National Cadet Corps (DGNCC) get their budgetary support/allocation through the army's demand. Though both have separate administrative headquarters their linkage to army's demand is purely for the budgetary purposes.

In the case of navy's demand only one other organization, namely, Joint Staff or Headquarters Integrated Defence Staff (hereinafter: HQIDS) has been linked for budgetary purposes. HQIDS is basically an integration of the army, navy, and air force for effective and efficient coordination of the three services in normal and contingent conditions. It has taken shape to integrate the services towards their functioning. The intent is to develop into a Combined Defence Staff (CDS). Thus, without any linkage with navy as the integration has been done to facilitate budgetary requirements. However, as regard the other defence demands of air force, director general ordnance factories and research and development there is no such intrusion for budgetary purposes.

2.1.5 Linkage with Indian Union budget

The defence budget is part of the union budget. Though it is examined separately by the Parliamentary Standing Committee on Defence it is included as part of the (Indian) union budget and presented before the Parliament for approval. Approval of various supplementary

demands and contingency demands are following the same principles and guidelines as prescribed for the overall union budget.

2.2 Formulation and approval

The Indian defence budget proposal planning and submission to the ministry of finance is an intricate, intensive and massive exercise. The process emanates from the primary or unit budget holder and goes through various channels to reach the financial planning directorates of the three services and the departments/organizations. The respective services financial planning directorates carry detailed scrutiny and examination of the proposal of the unit directorates. After due scrutiny and consolidation of the proposals, »projection« of the respective services is made by the services financial planning directorates. These projections are forwarded to the budget division of the ministry of defence, where the final budget estimates of services and departments/organizations are scrutinized, examined and consolidated before forwarding it to the ministry of finance, government of India for approval. Since defence budget is part of government of India's union budget it is laid before the floor of the parliament along the same for approval.

2.2.1 Defence budget formulation stages

The formulation of DSE is done in three stages. The first stage involves review of the expenditure during the current year in relation to the sanctioned budget estimates (BE) and identifying heads of expenditure which could call for revision in the later stages. The second stage includes further provision in aiming at a revised estimates (hereinafter: RE) compiled with the forecast with the BE of the next year. Third stage is the formulation of the final RE and the BE for the next year. The modified appropriation which is the modification of the RE is the final appropriation towards the close of the financial year, making the appropriation as closer as possible to the final actual (expenditure).

The general principles for preparation of budget estimates by the services and the departments are laid down in the Financial Regulations for Defence. It states that no precise rule can be laid down for determining the amounts proposed to be included in the budget estimate, or for checking the amounts included in them. However, it points out an intelligent discretion and foresight with reference to the effect that events occurring or impending at the time when the estimates are under preparation are likely to have on the receipts or expenditure. In all cases accounts should be taken of factors such as the expenditure in the previous year, changes in policy and probable trend of prices, etc. The principal factors to be taken into account in preparation of the budget estimates are as follows:

1. To account for the expenditure during previous year;
2. To account for the events occurring or impending at the time the estimates are under preparation;
3. Probable trend of prices;

4. To account the impact of changes in policy, if any.

As per the Financial Regulations for Defence Services (1983, p. 82) the expenditure for which provision is made in the DSE fall broadly under the following categories:

1. Pay and allowances of regular personnel of defence services;
2. Payment to industrial establishment employed in store depots, factories, etc.;
3. Transportation charges;
4. Miscellaneous expenses;
5. Payment for stores;
6. Works expenditure;
7. Pensions.

Even though pension has been referred as part of DSE it does not figure the defence budget estimates. It is a separate demand for grant and not considered as part of defence budget. Further, the Financial Regulations also states that expenditure falling under categories (1) and (7) above represents for the most part, obligatory charges and unavoidable commitments dependent on the strength and composition of armed forces and various other factors which are governed by the policy decisions of the government of India and are, therefore, controlled centrally by the armed forces headquarters (Financial Regulations, 1983, p. 82).

Accordingly, expenditures under stores, works, transportation, etc., are considered susceptible to control against budget provisions and expenditures under the categories of pay and allowances and pensions are considered to be totally obligatory charges.

2.2.2 Services budget formulation

The process of budget formulation in the services starts with the unit formations, which prepares the expenditure requirement for the unit. After due compilation and rationalization by higher formations it reaches the financial planning directorates of the three services. Detailed scrutiny and assessment of the requirements are carried by them with the broader objectives. After compilation and assessment the budgetary requirements are categorized into the proper accounting heads. The financial planning directorates generally have different sections to look after the capital and revenue requirements. Those estimations are then submitted to the finance division of the ministry of defence as »projection« of the services.

2.2.3 Organizations budget formulation

Estimation in respect of ordnance factories are prepared by the different factories and submitted to the budget division of their headquarters office. The basic principles of estimation of expenditure are guided by the Financial Regulations. In addition, the projections of supplies sought by the services are also taken into consideration while making the projections. The budget division in the headquarters carries out a detailed examination

and assessment of the requirements of various factories before submitting the consolidated figure of their projection to the budget division of the ministry of defence.

In the case of research and development organization the basic budget estimation is carried out by the different laboratories within the organization. Their projections are compiled by the budget wing of the headquarters office before forwarding the same to ministry of defence.

2.2.4 Role of ministry of defence

The projections made by the services and the departments at various stages are subjected to detailed vetting and discussions by the finance division of ministry of defence. The examination by the finance division in the ministry of defence focuses on the following factors:

1. The trend of expenditure under various heads of accounts up to November month of the ongoing financial year;
2. The capacity to spend funds, the requirements for which have been proposed;
3. The need to introduce any new schemes, which could not be introduced earlier, due to resource crunch;
4. Additional funds required for contracted schemes, keeping in view past trends, likely deliveries of stores contracted, etc.;
5. Increased commitments due to increase in activities such as repairs/refits/overhauling of equipment;
6. The commitment to defence public sector undertakings in respect of ongoing projects in ship/aircraft-building and other equipment;
7. Actual variations and likely variations in the exchange rates;
8. The impact on account of government decisions such as sanction of dearness allowance, interim relief, hike in tariffs and transportation rates, petroleum products, etc.

The scrutiny carried out is minute of every estimate and all the relevant factors are taken into account while making recommendations for the RE for the current year and the BE for the ensuing year. This scrutiny with reference to various aforementioned factors leads to rationalization of projections made by the service headquarters and departments under the ministry of defence. The scrutiny is not a mere arithmetical exercise but analysis of existing and changing scenario before arriving to any judgment.

2.2.5 Examination by ministry of finance

The projections made by the services and the departments are examined separately by the ministry of defence before making the projection to the ministry of finance for approval. Since defence budget is part of the non plan expenditure it is not examined by the planning commission, as in the case of plan expenditure. The budget under non plan category is

separately examined by the ministry of finance. Accordingly, the defence budget is assessed and examined by the ministry of finance. The generic principle of examination of RE is the ongoing trend of expenditure in defence and the expected budgetary outgo during the rest months of the financial year. This is done within the overall financial resource of the government. As regards the BE for the subsequent financial year along with the aforesaid parameters the expected trend of defence expenditure is also considered.

2.2.6 Examination by parliamentary standing committee on defence

As a legislature reform the defence budget is also examined by the Parliamentary Standing Committee on Defence before the same is discussed in the parliament for its approval along with the union budget. The Parliamentary Standing Committee on Defence consists of the prescribed number of Members of Parliament (hereinafter: MPs) from the Lok Sabha and the Rajya Sabha. While examining the defence budgetary projection the committee carries out detailed discussion with the senior officers of the ministry of defence and the three services and the different departments and organizations. The examination and discussion are carried out in order to assess the budgetary projection of the defence.

2.2.7 Presentation to parliament with union budget

The defence budget forms the part of union budget. It is accordingly placed before the floor of the parliament for legislative approval and passage of the budget. Various demands for grants are separately examined and debated in the parliament. Normally dates are fixed for discussion and debate on different demands. Each and every demand is individually approved and passed before the total number of demands contained in the union budget is approved and passed by the parliament.

2.2.8 Discussion and approval

Discussion on defence budget starts with the laying of DSE (of the subsequent financial year) on the floor of the House by the Defence Minister before the same gets approved by the parliament. Debate follows subsequently with active provision of information on the defence budget by the members of the Parliamentary Standing Committee on Defence. During the course of discussion each and every demand under the defence budget is debated. If required, additional information is also provided to the parliament by the ministry of defence.

2.3 Appropriation and audit

Pursuant to debate and discussion on the union budget voting follows in the Lok Sabha for the passage of the budget. Once passed a concurrent bill »Appropriation bill« is also introduced in the Lok Sabha for the legislature approval of the withdrawal of funds from the

consolidated fund of India. Enactment of Appropriation Act facilitates withdrawal of money from the government exchequer.

2.3.1 Appropriation bill

Introduction of Appropriation bill is a constitutional requirement to withdraw money from the government exchequer. As the name suggests, it is provisioned to appropriate money from the government exchequer to make the union budget effective. With reference to the union budget the actual transfer of funds to different spending ministries and authorities takes through the passage of this bill. Expenditure is provided for under 'votes', with one or more covering the functions of each department or office. The first part of the estimate for each vote (referred to as the ambit) provides an outline of the services to be financed. The ambit is incorporated in the annual Appropriation Act and so represents the purposes for which funds have been authorized. Generally, there are four segments in a demand, viz. charged, voted, revenue and capital. The estimates which constitute charged expenditure are not required to be voted by the Lok Sabha, although there is nothing in the Constitution which prohibits a discussion on it. However, even the estimates of the charged expenditure are indirectly voted when the Appropriation bill which includes all expenditure – charged as well as voted – is discussed and passed by both the houses of parliament. Appropriation bill shows the total amount required in respect of each of the segments of a demand, viz. charged, voted revenue and capital. It has, therefore, been held that reappropriation of funds from one segment to the other is, constitutionally, not permissible.

Under clause (3) of article 266 of the Constitution of India, no money can be appropriated out of the consolidated fund, except in accordance with law and for the purposes and the manner provided in the Constitution. It is the Appropriation Act enacted after the Appropriation bill has been passed by both houses of parliament and has, thereafter, received the assent of the President that provides the legal authority to the executive to appropriate moneys out of the consolidated fund. Accordingly, the Defence Services Estimates become effective with the approval and passage of Appropriation bill. Requisite number of copies of Defence Services Estimates is distributed by the budget division of the ministry of defence to services headquarters and the various departments/organizations.

2.3.2 Allotment of expenditures

The Defence Services Estimates presented to the parliament and used as the mail reference document by the ministry of defence and the various budgetary arms under it. It basically contains six major demands for grants. Under revenue expenditure, a major head represents each of the services, viz., army, navy, air force; and two organizations of ordnance factories and research and development. Thus, there are five major heads under the defence revenue demands. The sixth major demand is a composite one accounting for capital items of expenditure of all services/departments.

The Defence Services Estimates along with the major heads also contain details of the minor heads within each major head. The minor heads reflects the various heads of expenditure such a pay and allowances, revenue stores, revenue works, transportation, miscellaneous, etc. The details of budgetary information contained in the Defence Services Estimates rests up-till the minor heads only. The magnitude of these minor heads can be visualized from the fact that some of the components such as revenue stores budget, are larger than the budgets of many provincial governments.

2.3.3 Appropriation audit

Appropriation audit refers to the audit of expenditure against the money appropriated from the government exchequer. This is basically a mechanism to ensure the proper utilization of budgetary allocations. There is a statutory provision in the form of »Appropriation Account«, which is submitted to the Indian parliament by the statutory auditor to the government of India viz., the Comptroller and Auditor General of India. At the end of each financial year, each department or office is required to prepare an account, known as the Appropriation Account, for each voted service administered by it. The statutory requirement is for the Appropriation Account to provide details of the outturn for the year against the amount provided based on the cash amounts of payments and receipts.

Article 33 of the Constitution of Ireland provides for the appointment of a Comptroller and Auditor General to control on behalf of the State all disbursements and to audit all accounts of moneys administered by or under the authority of the Oireachtas. Section 3 of the Comptroller and Auditor General (Amendment) Act, 1993 provides the legislative base for this audit by imposing a duty on the Comptroller and Auditor General to audit in each year the Appropriation Accounts for the previous financial year prepared by the Departments and Offices of State.

The object of the Appropriation Accounts, broadly, is to disclose:

1. That the moneys indicated therein as having been disbursed, were legally available for, and applicable to, the service or the purpose to which they have been applied or charged;
2. That the expenditure conforms to the authority which governs it;
3. The effect of re-appropriations ordered by the Ministry/Department.

Following the said practice the Appropriation Accounts in respect of defence services, signed by the Controller General Defence Accounts (hereinafter: CGDA)/Secretary Defence (Finance) and by the Defence Secretary gives the actual expenditure against allocations under various minor and sub heads. The said Appropriation Account is routed through the ministry of defence on the expiry of a financial year. The reasons for variations of actuals against allocations are also indicated. However, it does not throw adequate light on physical achievements (outputs) in respect to a bulk of the items since the document is not intended to be an account on performance. However, there are exceptions. For two organisations –

military farms and military engineering services – assessment of performance is given in separate sections.

2.3.4 Relevance of appropriation audit and budgetary control

The appropriation accounts do not throw adequate light on physical achievements (outputs) in respect to a bulk of the items since the document is not intended to be an account on performance. However, there are exceptions. For two organizations – military farms and military engineering services – assessment of performance is given in separate sections. Under the present system, getting an overall picture of budget in financial/physical terms and the actual performance is not easy and requires a lot of derivation, collation of information.

The principles of expenditure and defence budgetary control are contained in Financial Regulations (1983). Describing the budgetary control it states that:

The principle upon which the control, internal audit and account of defence expenditure are conducted are minute scrutiny of the estimates, a careful examination of all demands for money or stores before supply, a strict control over the application of funds and stores to the service for which they are supplied, a concurrent check and internal audit of the account of such expenditure when rendered (Financial Regulations, 1983, Rule 106 (iii) of Part 1).

Statutory audit by the Comptroller and Auditor General (C&AG) and examination by the Public Accounts Committee which are *ex post facto* examination are expected to promote an atmosphere so that waste does not take place and economy is achieved.

Budgetary control is envisaged in three distinct stages:

1. Initial distribution of budgets;
2. Watching of expenditure against allotments;
3. Re-appropriation.

The ultimate responsibility for ensuring that expenditure does not exceed the corresponding budget allotment rests with the Principal Staff Officers (hereinafter: PSOs) at the service headquarters, within whose control the related activities fall. This responsibility is undertaken by the Director General administering the activities concerned (Appendix 3). They in turn ensure that the budgetary provisions, as contained in the Defence Services Estimates are allotted to respective commands and lower formations. It is the primary responsibility of the authorities to whom allotments are made to watch the progress of expenditure and to ensure that expenditure does not exceed the allotment. The focus of attention is to see that expenditure is within the allotted budget and on the regularity and propriety aspects of expenditure.

2.3.5 Limitation of the existing budgetary system

The present system is largely input oriented. It focuses on expenditure in generic terms, i.e., in terms of pay and allowances, stores, transportation, etc. Those are not given in terms of targets and its actual requirement. It also does not contain details as regards a number of major components of expenditure. The figures of expenditure on certain categories such as 'stores', 'works', 'transportation', 'miscellaneous', etc., are such that it is not clear as to why and for what the funds are provided.

The basic classification of defence budget is divided into two, viz., 'revenue' and 'capital'. Even in this regard, the classification was until recently carrying legacies of the past and did not reflect the basic nature of certain items. In several areas, assets of a capital nature were being classified under revenue. Consequently, capital assets are under pitched. Further, the omnibus nature of several (category) of items under capital expenditure indicated as 'other equipment', 'aircraft', etc., do not reveal adequate information on specific items of expenditure. In terms of budgetary allocation, the allocations under these heads are of large magnitude. Also, the allocations are inappropriately placed in different heads. For instance, the word 'maintenance' nowhere figures under revenue budget but is covered under 'pay and allowances', 'stores', etc. Under the present system, getting an overall picture of budget in financial/physical terms and the actual performance is not easy and requires a lot of derivation, collation of information.

The time taken for transactions is not reflected in the financial information reports pertaining to a budget, and a continuous update of information on liabilities incurred by various sanctioning/spending authorities is not available. Defence budget and accounts offer little insight to outsiders on the end result of budgeted expenditure. Even in the existing structure outcome budget can be evolved in ministry of defence without waiting for the development of a programme budget in a number of areas of activities in defence. It has been suggested that a two-volume outcome budget, one for placing in public domain and another for internal use can be prepared in the ministry of defence. A crucial aspect for achieving success in evolving any improved budgetary systems for evaluation of results in the defence set-up would be the development of a total and comprehensive financial information system. The review and monitoring of committed liability under various contracts and supply orders has also advocated as part of this exercise (Sivasubramanian, 2006).

Also, Appropriation Accounts on the existing pattern do not seem to be serving much purpose – much less providing a basis for the exercise of a parliamentary financial control, since they do not bring out what amount has actually been appropriated against the sanctioned provision under each scheme/activity; only the position of heads involving deviations are reflected and, that too, in a cryptic manner.

3 OUTCOME BUDGET AND DEFENCE BUDGET

3.1 Introduction of Outcome budget

Outcome based performance budgeting (outcome budgeting from hereinafter) symbolizes a shift from traditional budgeting in the sense that it goes beyond budgeting by inputs (how much can we spend) towards budgeting by measurable outcomes (what can we achieve with what we spend). Almost all developed countries in the world have adopted outcome based budgeting techniques in their efforts to provide high quality effective services to their citizens. In fact, even in the developing world, select countries in Africa are venturing in to this area, with requisite technical support being arranged by agencies like the World Bank, African Development Bank and others.

During the year 2005, India showed its interest in adopting outcome budgeting her interest to join the move towards outcome budgeting with the then finance minister, P. Chidambaram presenting the country's first ever 'outcome budget', which was more in the nature of a pre-expenditure statement, to the Parliament. The department of expenditure, ministry of finance on 30th December 2005, issued guidelines for preparation of an outcome budget which was introduced by the finance minister in Para 100 of his budget speech (budget 2005–2006). The need for an outcome budget arose due weaknesses that have crept into the performance budget, given the absence of a clear one-to-one relationship between the financial budget and the performance budget. The components in the format for the outcome budget comprise financial outlays, projected physical outlooks, and projected/budgeted outcomes (intermediate/partial and final).

The system of budget, as evolved by the ministry of finance, thus included the outcome budget from the ensuing year i.e., the financial year 2006–2007 and performance budget for the previous financial year (2005–2006). Introduction of the performance budget format included linkage with not only the financial budget but also the outcome budget. The key terms 'outlays', 'outputs' and 'outcome' in the budget have been defined by the Ministry of Finance as follows:

'Outlays imply total financial resources deployed for achieving certain outcomes. Outputs are a measure of a physical quantity of the goods or services produced under a scheme or a programme. They are usually an intermediate stage between outlays and outcomes. Outcomes are the end products/results of various initiatives and interventions, including those in partnership with public sector undertakings, autonomous bodies, etc. They involve much more than mere output since they cover the quality of the goods or services'.

Ministry of finance in its office memorandum dated 12th December 2006 stated that: »Preparation of the Outcome budget is an evolving and dynamic process, which will require detailed scrutiny and examination on yearly basis, with value addition based on the

preceding year's experience.« It lists some important steps in the conversion process, which are as follows:

1. Defining intermediate and final outcomes specifically in monitorable and non monitorable terms;
2. Standardizing unit cost of delivery;
3. Benchmarking the standards/quality of outcomes and services;
4. Capacity building for requisite efficiency at all levels, in terms of equipment, technology knowledge and skills, including human resource development;
5. Ensuring adequate flow of funds at the appropriate time to appropriate level avoiding both delay and 'parking' of funds;
6. Setting up effective monitoring and evaluation system, to indicate the directions for further calibration and honing of the processes, to deliver the intended outcomes;
7. Involving the community/target groups/recipients of the services, with easy access and feedback systems.

The Finance Minister in his foreword to the outcome budget document on 25th August 2005, aptly stated: »I must caution that outlays do not necessarily mean outcome. People of the country are concerned with the outcomes.«

The ministry of finance has recognised that, in respect of certain ministries, the conversion of outlays into outcomes is a complex process. The ministry of defence and certain other departments have been exempted from preparation of outcome budget. But it is evident that the principles enunciated in regard to the outcome budget in the civil ministries such as benchmarking standards/quality of outcome in services, standardising unit cost of delivery, capacity building for requisite efficiency at all levels in terms of equipment, technology, knowledge and skills, and to further ensure flow of appropriate funds at the right time to the right level, with neither delay nor »parking« of funds, effective monitoring, evaluation and feedback system are equally applicable to the defence setup. The outcome budget, linked with performance budget, should not merely reflect results of a year but also indicate the progress in achieving certain long-term objectives, such as cumulative performance and final outcome. As an example, hypothetically if an outcome budget has been finalised reflecting the goal and vision of the self reliance plan, formulated in 1993, which aimed at 70 per cent self-reliance in certain areas of defence production over a 10-year period, it would have known by now what has been achieved and where the government has fallen short. This would have helped in taking corrective measures for the next decade to reduce imports and achieve greater self-reliance. The eleventh report on the demand for grants of the Standing Committee on Defence (April, 2006) has emphasised the need to enhance indigenisation and reduce imports. It is felt that the formulation of an outcome budget would help to monitor the results with respect to the plan. Making a distinction between outputs and outcomes, the Twelfth Finance Commission (hereinafter: TFC) addressed this issue by saying in its report: »The conventional Budget exercises have focused on allocation of resources to different heads, without taking into account how these government expenditures get translated into

outputs and outcomes. Outputs are the direct result of government expenditure and outcomes are the final results. The TFC added: »Although in the past there have been attempts at introducing performance budgeting, such endeavors have receded in importance. There is need to bring back performance budgeting as an integral part of the preparation and evaluation of budgets, both for the Centre and the states.«

Performance Budgeting. Based on the recommendations of the Administrative Reforms Commission in their Report on »Finance, Accounts and Audit«, a system of performance budgeting by ministries handling development programmes were introduced in 1969. The performance budget document is presented by specified ministries along with their annual report and detailed demands for Grants shortly after the presentation of general budget. The financial budget gives current year's revised estimates and next year's budget estimates in financial terms whereas the Performance Budget is supposed to detail the physical performance expected to be achieved from the projected expenditures. Unfortunately, the performance budget did not get the importance it deserved. There were no incentives or penalties for the government agencies, say in terms of Budget allocation, to be accountable for the promised performance. Budget allocations in successive years were made following a different set of norms in which actual performance on ground was only a peripheral parameter. The emphasis was on getting more budget allocations and »spending« more, which may be »spending« in a technical sense that the money has merely left the government's cash chest. Whether it has been actually used for intended purposes, diverted or parked in some extra-governmental account was left to be discovered by auditors and researchers. The performance budgeting framework in vogue since 1969 suffered from neglect due to a lack of clear one-to-one relationship between the financial and the performance budgets and inadequate target-setting in physical terms for the ensuing year.

The background for mutating the dysfunctional performance budgeting system with an outcome budgeting system was set with the passage of the Fiscal Responsibility and Budget Management Act (hereinafter: FRBM), 2003 that came into force on 5th July 2004. Through the FRBM the government wanted to send a strong message that it was not aiming to cut expenditure budgets. Instead, the government was keen to improve the »quality and content« of public expenditure and consolidation of public expenditure portfolio to provide focused attention to certain Flagship Programmes of nation building and distress reduction. The outcome budget sprang up with such forethought. While presenting the budget for 2005–2006, the Finance Minister declared, through the Fiscal Policy Strategy Statement appended with the budget as required under the FRBM Act »to put in place a mechanism to measure the development outcomes of all major programmes«.

Outcome budget is an extension and refinement of the concept of performance budget in vogue since 1969. It goes beyond outputs typically discussed in traditional performance budgets and also talks of outcomes, the ultimate objectives of state intervention. Thus, while construction of school building may be one measurable output but more remotely placed are ultimate outcomes like enrolment, retention, and good academic performance of students. If

properly implemented as per intent, the ‘outcome budget’ can be a powerful institutional mechanism to focus attention to the fructification of ultimate intentions behind making expenditure provisions in the budget.

The process of conversion of outlays into outcomes is long and complex one, which differs from ministry to ministry and programme to programme, with several intermediate stages and complementary resources required in achieving intended impact. The cause and effect chain is not always direct, and several environmental factors influence the actual impact and outcomes. Some of the important steps in this conversion process are as follows:

1. Outcomes to be specifically defined in measurable and monitor-able terms;
2. Intermediate outputs should also be defined wherever required;
3. Standardizing unit cost of delivery;
4. Benchmarking the standards/quality of outcomes and services;
5. Capacity building for requisite efficiency at all levels, in terms of equipment, technology, knowledge and skills;
6. Ensuring flow of right amount of money at the right time to the right level, with neither delay nor »parking« of funds;
7. Effective monitoring and evaluation systems;
8. Involvement of the community, target groups, recipients of the service, with easy access and feedback systems.

3.2 Various ministries under exempted category

Though the ministry of defence and a few other ministries/departments have been exempted from the preparation of the outcome budget, they have been asked to carry out this exercise for internal reviews and to voluntarily decide to place it in the public domain, fully or partially. The memorandum called for a tabular format which could be visualized as »vertical compression and horizontal expansion« of the budget estimates (BE) as given in Volume II. The implication of introduction of outcome budget had an implication for the ministry of defence in the form that an outcome budget was required to be evolved from the year 2006–2007 even within the existing structure and format of the budget without waiting for the development of a programme budget in a number of areas of activities in defence.

3.3 Rationale for exemption

Ministry of defence and some others have been exempted from the requirement of presentation of outcome budget to the parliament. The rationale for exemption though has not been mentioned in the ministry of finance’s referred circular it can be assumed that it has been done partly due to concerns on level of disclosure of operational matters and partly due to a realization that outcomes of defence spending are difficult to spell out in »quantifiable/monitor-able« terms. However, even the »exempted« departments were

requested to carry out this exercise for internal use and voluntarily decide to place it in public domain, fully or partially.

3.4 Utility of outcome budget in defence budget

Outputs are a measure of physical quantity of goods or services produced through an activity under a scheme or programme. They are usually an intermediate stage between 'outlays' and 'outcomes'. It intends to capture intermediate 'outputs' before identifying and measuring the 'final outcome'. Therefore output and outcome in Indian defence budget can be understood as two separate issues. While defence hardware acquisitions can be termed as »output«, the »outcomes« are more long-term, intangible, and inter-linked with non-defence parameters. There can be no meaningful discussion on budget outcomes in a short-term perspective. Outcome budgeting is impossible without long-term planning. Therefore, the macro trends in defence budgeting and planning need be examined first.

There is a tendency to equate capability planning as implying acquisition of more capable equipments than those in the inventory. Capability is defined as the ability to achieve »desired operational effects under specified standards and conditions through of means and ways to perform a set of tasks. A capability is not a platform or asset. It's the ability to achieve a desired result affecting the battle-space. Capabilities are identified based on tasks required. The concept of Capability Based Planning (hereinafter: CBP) recognizes the interdependence of systems (including materiel and people), doctrine, organization and support in delivering defence capability. It emphasizes the need to examine options and tradeoffs among the capability elements in terms of performance, risk and cost, so as to identify optimum force development investments. It focuses on goals and states and encourages innovation. It starts by asking questions regarding what need to be done rather than what the equipments are being replaced. The outcome of CBP should be an effective investment strategy that develops and sustains the capability priorities identified through the planning process.

The introduction of outcome budget in defence will further enhance and ensure accountability at all levels. Outcome will be readily transparent to all those involved in the management of budget as well to the parliament and the tax payers. It can further improve and improvise the existing resource utilization. There is always a demand from the services for large and larger allocation on the ground of defence preparedness. It has been claimed that lesser allocations during the preceding years have created huge gaps in fulfillment of defence requirements. On the other hand, ministry of finance claims improper utilization of resources by the services. Introduction of outcome budget has distinct possibility of removing this distrust by showing improved resource utilization and providing measurable and tangible results.

3.5 Possibility of outcome budget in defence budgeting process

The defence budget documents follow largely a line item budgeting rather than programme-cum-scheme basis allocation. So it is classical input-budgeting paradigm. Before we can meaningfully talk of outcome budgeting in defence, we should have a programme/scheme orientation for making budget allocations. From a consideration of the various issues about defence planning and need for programme budgeting, it may be seen that nothing can really change without serious effort being made to rationalize the force structure, bring in programme based budgeting with emphasis on costs of programmes, developing the alternatives to achieve the policy objectives and exercising choice among them on the basis of analysis and judgment to bring closer link between planning and budgeting. The introduction of PPBS (Programme Planning Budgeting System) in the United States Defence was to increase the impact of relevant analyses on high-level decisions by connecting them to budgeting via the programme concept. The defence budgeting has been largely unrelated to military strategy. They were treated as almost independent activities, carried out by different people, at different times, with different terms of reference, and without a method of integrating their activities. One year at a time financial planning in the context of separate financial and force planning laid undue emphasis on this year's costs to the neglect of effectiveness and future costs. One need not be looking for long term financial commitments for planning, for that can never be made and can become an excuse for not planning. This planning has to be on the basis of programmes for capability building and it should be a continuous activity. 'Programming' can provide a bridge between defence planning and budgeting, which can make both output oriented. To say the obvious, unless the defence plan is output oriented, defence budget cannot be output oriented and unless costs of programmes are worked out in all its dimensions, the link between planning and budgeting would be very weak. The plans have to be reviewed to see whether the programmes (which have been costed) are affordable on the basis of available resources after meeting the competing needs. The consequences of today's decisions on future budgets are required to be worked out. So a medium-term framework for defence budgeting is absolutely essential.

Defence budget classification is object-wise, with programme elements totally missing for budgetary purposes. Many new codes of classification of expenditure have been introduced, but all of them object-wise, getting into more and more details, to capture on 'what' the money is spent on but not on the 'why' of it. The programmes which are to be sustained under each 'function' (services and department) do not figure as a budgetary classification anywhere (Ghosh, 1996, p. 68). The existing system only ensures that expenditure does not exceed the budget provision made. It has no means of ensuring economy and efficiency in spending the budgetary allocation. The budget is not designed to attain a defined set of objectives and targets set out in a management plan.

3.6 Advantages

So how does the preceding discussion on defence planning help in outcome budgeting? As discussed above, an outcome budget intends to relate the amounts budgeted with the results intended to be achieved. Acquisition of individual defence system or creation of military units by themselves is not the objective of the use of public funds. It is supposed to strengthen certain defence capability, which should come out of a capability based defence planning process. What are the present and future threats? What are the alternatives across the three services and extended security set up to meet those threats? What is the most cost effective response, within the resource envelope committed by the government, to meet that threat?

3.6.1 Accountability

An International Symposium for Chairpersons of Parliamentary Budget Committees of OECD member countries on ‘holding the executive accountable: the changing role of parliament in the budget process’ aimed to assert legislative control over executive expenditure by firstly, constraining fiscal aggregates and secondly by enlarging legislative control over revenue and spending. The Conference declaration set out the conditions that good governance requires:

»most crucially, this requires an active partnership around the budget – the major vehicle of both government policy and democratic control. To be effective, parliaments require timely, coherent and credible information from the executive on resources and performance. Several parliaments of OECD member countries are re-examining their internal organization and processes for the discussion of the budget. Parliamentary budget processes and policies support sound governance when they promote fiscal responsibility, transparency, a future orientation, as well as all the financial commitments which are not included in the budget, and when they demand credible information on the nature, cost and impact of public policies« (OECD, 2001).

Introduction of outcome budgeting in defence has the possibility of bringing managerial revolution with emphasis on performance and accountability in a broader sense. The change in budgeting system can lead to devolution of responsibilities and authority, and emergence of responsibility centers. The responsibility centers can be held accountable not only for the revenue expenditures but also the projects and programmes under the capital head. Outcome budget can provide better expenditure management and also improvise better account classification system, which could reinforce outcome budgeting. For instance, the budgetary programmes can be made service-wise and organization-wise, ensuring control and accountability on the basis of organizations that get the budgetary allocations.

3.6.2 Transparency (confidentiality versus lack of scrutiny)

Provision of transparency in the budgetary practices is one of the major landmarks of outcome budgeting. Linkage and identification of physical output with the budgetary provision ensures the deemed outcome, whereby making the system more and more transparent. Even in case of intermediary output it can be linked with the desired final outcome. It emboldens the paradigm that the tax payers have a right to know the utilization of tax payers money. In an age of openness and transparency the outcome budget can foster and reinforce the transparency of defence budgeting practices.

The relationship between good governance and better economic and social outcomes is increasingly acknowledged. Transparency – openness about policy intentions, formulation and implementation – is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner. OECD member countries are at the forefront of budget transparency practices. At its 1999 annual meeting, the OECD Working Party of Senior Budget Officials asked the Secretariat to draw together a set of Best Practices in this area based on member countries experiences. The Best Practices are in three parts. Part 1 lists the principal budget reports that governments should produce and their general content. Part 2 describes specific disclosures to be contained in the reports. This includes both financial and non-financial performance information. Part 3 highlights practices for ensuring the quality and integrity of the reports. The major budget report of Part 1 is as follows:

Budget reports:

1. The budget is the government's key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.
2. The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly. In no case should this be less than three months prior to the start of the fiscal year. The budget should be approved by Parliament prior to the start of the fiscal year.
3. The budget, or related documents, should include a detailed commentary on each revenue and expenditure programme.
4. Non-financial performance data, including performance targets, should be presented for expenditure programmes where practicable.
5. The budget should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained.

6. Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each programme. Similar comparative information should be shown for any non-financial performance data.
7. If revenue and expenditures are authorized in permanent legislation, the amounts of such revenue and expenditures should nonetheless be shown in the budget for information purposes along with other revenue and expenditure.
8. Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.
9. Expenditures should be classified by administrative unit (e.g. ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
10. The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (below).
11. The budget should include a discussion of tax expenditures in accordance with Best Practice 2.2 (below).
12. The budget should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (OECD 2002).

Failure to follow sound financial management procedures in the military sector is often justified by the need for secrecy to protect national security. It is possible that some degree of confidentiality is necessary in the area of national security. However, there appears to be a tendency to conflate the concepts of »sensitivity« and »confidentiality« and to use the need for confidentiality in some areas of the military sector to reduce opportunities for scrutiny by appropriate management and oversight bodies in government and by civil society. Military-related issues – in particular, those relating to military intelligence – are sensitive in all societies. Even long-established democracies retain varying degrees of confidentiality in the realm of national security. It is important to be clear, however, about the distinction between confidentiality and the lack of public scrutiny. It is possible to retain a high degree of confidentiality in highly sensitive areas without compromising the principle of public accountability. A highly non-transparent military sector provides the perfect cover for off-budget transactions. The point of issue here is that when a significant portion of a country's military expenditure occurs off-budget and is fed by off-budget revenues, not only are core principals of fiscal responsibility in the public sector violated. It is also highly likely that the operational capacity of the armed forces will suffer and that the military will not receive value for money. Thus, the enhancement of transparency is, of course, not a purpose of its own, but should create conditions for a better allocation and authorization and control by parliament, which are at the heart of a democracy. In addition, transparency might be instrumental for effectiveness and efficiency.

3.6.3 Linkages to physical outcomes

Outcomes may be defined in terms of acquiring a certain capability (such as volume coverage of X per cent of airspace for surveillance on 24 x 7 basis or on an hourly refresh rate basis, area coverage of land/sea for surveillance, X time elapsed before an unfriendly plane is intercepted in air, or mobilization of forces and equipment at border X within time Y or retaliate an attack of type A with an counter-attack of Type B within time C or capability to neutralize threat of simultaneous engagement at front A and front B) in a certain time frame (Becker,1978). Each of such capability build-up should be the basis of a programme covering different services, DRDO, DPSUs and other agencies with a proper monitoring structure of its own and a basis of preparing an outcome budget. Equipping the armed forces whilst controlling costs and timelines. Mechanization of X per cent of infantry battalions by year Y may be an intermediate output and ability to defend a measurable area X at border Y may be an outcome. Acquisition of individual defence systems or induction/equipping of certain military units would then figure as mere 'projects' as a programme, encompassing both revenue and capital expenditures. These are few illustrative suggestions to define outputs and outcomes in defence budget. Many aspects of defence management like housing, transport, hardware maintenance and other logistics have lower sensitivities in disclosures and more amenable to monitoring through quantifiable physical targets that can be linked to budget. For example, X per cent housing satisfaction by year Y can be an outcome for the defence budget boosting force morale. Similar budget-linked quantitative targets can be set for welfare of ex-Service personnel as part of outcome budget. As recognized by the ministry of finance, while laying down the principles of outcome budgeting, achievement of certain objectives is not always within the power of a particular ministry/department. Complementary funding and support of other agencies may also be needed to achieve its budgeted outcomes. (School, hospital or house ready without electricity or approach road or other supporting infrastructure to be provided by someone else.) (The term »complementary extra budgetary resources« in MOF guidelines refers to the resources committed for the purpose by the entities other than the government, e.g., the state governments, which are necessary to fructify the intended outcomes.) This applies to ministry of defence as well whose efficacy depends on the outcomes of say ministry of home affairs and external affairs. Security goes well beyond strategic and military considerations, to involve political, economic, social, technological and even environmental factors. Emerging concerns also include dwindling energy and water resources, which could become the root of future conflicts. MOD can raise, train and equip battalions which may not quickly reach border outposts. The outcome of 'ability to mobilize troops at the border X in Y days' may not be realized if the border roads infrastructure takes time to develop. Military's engagement with conflict management in troubled regions of the country is too well-known to bear reiteration. These aspects can be factored in a comprehensive capability-based planning document and then in the outcome budget.

3.6.4 Better utilization of resources

A key element in the budget planning is to expand strategic investments and keep the budget balanced in improving performance through better management. Improved stewardship of the government can help it better achieve its mission and improve the quality of life for all. Outcome budget brings effectiveness in utilisation of public resources.

Once a budget has been approved by the legislature and monies appropriated, the goal is to ensure the efficient and effective use of resources to implement sectoral priorities. This requires careful monitoring and evaluation of operational performance both within the armed forces and by civil servants. Funds appropriated should be spent for the purposes and in the amounts intended. Well functioning financial management information systems (hereinafter: FMIS) are critical if decision makers and public-sector managers are to obtain the financial data they require for controlling aggregate expenditure, prioritizing among and within sectors and operating in a cost-effective manner. Additionally, it is extremely important that irregularities identified in the course of monitoring are addressed, lest a climate of noncompliance be created or reinforced. Particular attention should be given to ensuring the transparency of procurement processes and their conformity to good procurement practices. The growth of defence budget and its present magnitude make it necessary to ask whether there are adequate mechanisms to efficiency in the use of these resources. In seeking better efficiency in the use of resources one approach is to seek systematic quantitative analysis in issues concerning military choices between alternatives. This kind of analysis could be helpful in narrowing down the choice among 'efficient' alternatives when judgment at a higher level can be used for actual choice. This way the quality of judgment could improve. In properly framing these analyses, the input-output relationship to determine the most efficient combination of inputs to get a given 'output' at the minimum cost can be used. Such kind of analysis has the distinct possibility of providing the optimum combination of inputs, e.g., the optimum combination of platforms and weapon systems to get the best value for money.

The other approach is the quest for better efficiency in the use of resources is to have improved institutional arrangements within the government to substitute for price mechanism. In this approach there is concentration on improvement in budgetary methods to provide a proper framework for decision making as also appropriate incentives to achieve the efficient use of resources.

It can be observed that both these approaches are interdependent, as better allocation of budgetary resources involves questions of input-output relationships and vice versa. While analyzing alternatives in terms of inputs and outputs one has to ultimately think in terms of programmes, that is, a combination of activities that produce specific end products. But so far, there has been budgeting on the basis of objects of expenditure, viz., pay and allowances, stores, capital outlay, etc., neglecting the concept of programmes which these expenditures are supposed to support.

To ensure efficiency in resource utilization, new budgeting methods with the following characteristics could be followed:

1. A budget framework that indicates planned expenditure on programmes and projects over an extended period.
2. An organization-wise budgeting, particularly in support areas to secure economy in the objects of expenditures.
3. A management information system to monitor progress of programmes and provide data for analysis.
4. A conscious endeavor to link inputs to outputs and a cost-benefit analysis to search out and examine possible courses of action.
5. A decentralized budget management system so that the actual spenders are also made responsible to achieve the objectives with efficiency.

The problem of allocating resources within the ministry of defence involves not only allocating the budget but also choosing the right military doctrines, weapons, proper postures, and adopting right manpower policies. Only when the allocation of resources is considered in this general framework, one can expect to get more out of any level of budget allocation for defence.

One of the main virtues of budgets based on programmes categories is that it can draw attention to relatively important tradeoffs, that are otherwise neglected. Further, resources can be diverted from one programme to another or from one activity to another within the same programme.

The issue of substitution between one programme to another, as also the issue of quality versus quantity, then assumes importance. The main object of programme budgeting should be to enable the decision-makers to choose between alternative programmes and give up those programmes and activities, which are no more relevant and thereby save resources for diversion to more beneficial programmes. 'Substitution' is the key concept which is totally lacking in decision making process today. The defence budget, no wonder, goes up relentlessly without one being sure whether the really important programmes are getting the required resources.

3.6.5 Improved planning and implementation of schemes

Defence planning involves the conceptualization of plans and decisions for the execution of defence policy. As stated by General V. P. Malik (retired) and Brigadier Gurmeet Kanwal (retired) (Malik,2005) long-term planning for defence is essential for the following reasons:

1. The existence of a highly fluid strategic environment, which results in continuous shifts and changing profiles of threat and power equations;
2. To ensure judicious allocation of resources and cost effective utilization;

3. Revolution in Military Affairs (hereinafter: RMA) i.e. advances in technology, which result in weapons and equipment systems becoming obsolete at a fast rate;
4. Lead time required to raise and prepare defence units; to produce or acquire and introduce new weapons and equipment systems;
5. The changing nature of conflict and reduced reaction time;
6. Coordination problems between defence, economic, science and technology, infrastructure and industrial activities, as well as among the Defence Forces.

The defence planning process attempts to match the budgetary resources likely to be made available for the requirement to establish the defence capability necessary to face the threats and challenges. This exercise is undertaken in two phases:

1. What should be the proportion allocated to the defence effort as against other areas of national security concerns and economic growth? This exercise involves a 'visionary' analysis of external and internal security threats (often linked) and challenges. In order to minimize adverse affects of high military expenditure on socio-economic development, it is necessary to harmonize national development planning with defence planning
2. Optimization of allocated resources, i.e. distribution of resources within the ministry of defence based on Force planning (Force and weapons mix, command and control, logistics and human resources management) by the defence services to combat current and future threats, and development of required capabilities by the DRDO, defence production and other agencies concerned. The quantum of indigenous production and the requirements to be procured from outside are decided in this phase. The objective is to achieve maximum defence capability from the given resources.

Both allocation and distribution are closely linked. They need to be reviewed periodically but not so frequently that the planning process becomes ad hoc. In India's case, this is done at five-year intervals

Budgeting as a means for obtaining optimum defence capability would call for reform in the defence budgeting process in three important aspects. First, the budgetary process has to be changed so as to treat defence budgeting as a part of decision making process for optimum resource allocation for achieving specific defence capabilities. The process should be so designed that choice could be exercised in allocating limited means for achieving identified 'objectives' with a view to achieving maximum effectiveness in defence spending. To develop optimum defence capability, the objective should be clear. Second, the budgeting process should be closely linked with the defence planning process. Budgeting should be treated as the execution portion of defence planning cycle, so that there is close coordination between capability planning and budgeting. This will call for extended time horizon for defence budgeting as also change in the format of defence budget. Third, attention should be focused on the end products of defence budgeting through the concept of programmes for capability building, making it an output-oriented budget.

Military capabilities are capabilities to perform specified tasks. Therefore, the basis for resource allocation decisions in the capability based defence plans, should be military tasks that are required to be performed. It is the military tasks conceived in the framework of objective-based approach that would provide the basis for development of programmes for those tasks. Programmes by themselves have no sanctity, unless they are linked to the performance of military tasks that have been identified as necessary for carrying out national security policy. There require being explicit link between aims of policy and military forces required to achieve the aims. Programmes should be considered as providing that link. In the capability based approach, defence forces need be manned, equipped, and trained to carry out the identified military tasks, for which they are assigned. So the programmes should be developed on a composite basis, taking into account all the elements required to develop capabilities to carry out specific tasks.

A major lacuna in defence planning and implementation has been lack of financial commitment for the plan period. Financially, the defence plans are treated more as annual plans rather than composite five years plan. There is a rush to spend the annual capital budget by the end of the financial year since the amount not spent has to be surrendered.

3.7 Outcome budget and Appropriation Account

Appropriation Accounts on the existing pattern do not seem to be serving much purpose – much less providing a basis for the exercise of a parliamentary financial control, since they do not bring out what amount has actually been appropriated against the sanctioned provision under each scheme/activity; only the position of heads involving deviations are reflected and, that too, in a cryptic manner.

Inclusion of only those heads in the Appropriation Accounts under which there are large variations between the sanctioned provision and the actual expenditure, would have been alright before 1951 when the country was a mere law and order state. With the government embarking upon ambitious Five Year Plans, with massive investments in various sectors, Parliament must also be informed, through the Appropriation Accounts, of the position of the actual expenditure under each activity/scheme *vis-à-vis* the sanctioned provisions in a grant, irrespective of whether there is any variation in those heads or not. It is time some thought is given to this matter by the Accounting/Audit authorities in consultation with the Public Accounts Committee.

Explanations for variation under the selected heads as set out in the Appropriation Account are, often very cryptic and vague e.g. »saving/excess under this head is due to less/more expenditure«, which is too obvious and is hardly an explanation or, »more expenditure on account of rapid progress of work«.

Under the present system, getting an overall picture of budget in financial/physical terms and the actual performance is not easy and requires a lot of derivation, collation of

data/information and enormous effort on the part of the ministry/services/departments. A document reflecting outcomes of at least major items provided in the budget would make the whole task easier apart from serving the basic and very important task of effective management of schemes and achievement of objectives. Appropriation Accounts so that they serve the avowed purpose of better decision making as well as provide a basis of parliamentary financial control.

3.8 Deficiencies

Under the present system, getting an overall picture of budget in financial/physical terms and the actual performance is not easy and requires a lot of derivation, collation of data/information and enormous effort on the part of the ministry/services/departments. A document reflecting outcomes of at least major items provided in the budget would make the whole task easier apart from serving the basic and very important task of effective management of schemes and achievement of objectives.

By and large, the existing structure of the DSE with classification and sub-heads such as 'stores', 'works', etc., cannot facilitate the understanding of what is the outcome intended from the money spent on various items of expenditure related to defence. Even in an important area of maintenance of aircraft, it is difficult to derive from the budget that if Rupees »X« have been allocated for maintenance of an aircraft type »A«, whether the required level of maintenance has been achieved. This information becomes available much later when an audit para is raised and even becomes an item in the report of the Public Accounts Committee. The existing budgetary system has another deficiency. For instance, allocations made for a gun are spent and the expenditure reports also reflects this position but the guns may still not be inducted for the purpose for which they were procured. The existing system may show good financial progress with almost entire payments having been made in respect of an item, but the crucial phase of testing, which is vital towards achieving the final outcome, could drag on. Successful tests of many systems do not necessarily lead to a successful outcome or their timely induction into the armed forces.

The DSE reveals very little about allocations even of a non sensitive nature. There are only one line entries in the budget documents for amounts running up to a few thousand crore of rupees. There are a number of other weaknesses in the system. The time taken for transactions does not get reflected in the financial information reports pertaining to a budget, and a continuous update of information on liabilities incurred by various sanctioning/spending authorities is not available. An equally serious shortcoming is the inability to fully disseminate information to the concerned authorities and the absence of a synergised effort among various wings under the ministry of defence for creating a comprehensive integrated report that would reflect the financial-cum-physical programmes.

Steps have been taken from time to time to make the existing DSE and the annual compilation of accounts more meaningful. In 1987, a reform was initiated in segregating

pension from the DSE and ordnance factories from the army budget, with the objective of making this production organisation into a separate cost centre. Further reforms took place in 1992, based on the report of the task force (under A. K. Ghosh, ex Financial Adviser Defence Services) which added over 150 categories in the classification of accounts, revealing more on the content of the expenditure, so that certain specific activities could be made transparent.

Following the submission of the Kargil Review Committee Report, Government of India instituted a comprehensive review of the National Security System. This review was carried out by the Group of Ministers (hereinafter: GOM) constituted on 17th April 2000. The GOM further set up the following Task Forces:

1. Task Force on Intelligence Apparatus;
2. Task Force on Internal Security;
3. Task Force on Border Management;
4. Task Force on Management of Defence.

To overcome some of the shortcomings in the system of budget the Task Force on Management of Defence recommended certain steps to improve matters. A Study Group on Budgetary Reforms (set up under the Task Force on Management of Defence) was constituted in August 2001, with the following terms of reference:

1. To reveal the form and content of DSE;
2. Examine the expansion of budgetary classification to promote programme-based budgeting;
3. Reveal the classification of expenditure between revenue and capital in respect of defence services/departments.

The Study Group on Budgetary Reforms, in its Report submitted in January 2002, suggested that the existing DSE may include additional inputs under certain heads of accounts in the various detailed demands for grants. The estimates for the defence research and development organisation were also segregated from the army and a separate major head opened. Thus the demands for grants were expanded from five to six. Based on the Study Group's recommendations, an additional volume, called DSE Volume II, has been introduced for better budget management. With the additional details provided, internal management control by the services/departments/ministry of defence/ministry of defence (finance) has improved.

4 COMPARISON OF THE INDIAN DEFENCE BUDGETING WITH THE DEVELOPMENT OF PUBLIC POLICY AND PRACTICE IN THE UNITED KINGDOM

4.1 Key factors and considerations in public policy development

Al Gore (1999) has claimed that 'Industrial Age bureaucracies ... have grown far beyond the professional classes they were envisioned to be, and at times seem to specialize in immobility and apathy, lacking the leadership and also the freedom to change with the changing times'. He argues that public policy is about showing leadership and responding to changed circumstances. He also infers that public policy is about setting broad directions. According to »An Introduction to the Policy Process« by Birkland (2001):

»While the study of politics has a long history, the systematic study of public policy, on the other hand, can be said to be a twentieth century creation. It dates, according to Daniel McCool, to 1922, when political scientist Charles Merriam sought to connect the theory and practices of politics to understanding the actual activities of government that is public policy.«

Public policy making is first and foremost about determining objectives or societal goals (Encyclopedia Britannica, 2000). These societal goals refer to 'big ticket' issues such as the principles to underpin the conduct of foreign affairs, how to promote internal social cohesion, to how best to meet citizens' needs during major life cycle changes. It follows that public policy has to be effective (achieve its goals) and efficient (do so in a way that achieves the greatest possible benefit at the least possible cost). Goal setting in public policy needs to be long-term in perspective briefly stated; public policy is a choice or decision made by government that guides subsequent actions in similar circumstances. This means starting with a comprehensive understanding of the current environment and defining what society's needs are in a way that an appropriate policy response can address. It could, for example, involve developing likely 'futures' scenarios in which a proposed policy might need to operate. Good public policy also involves attention to process. This includes giving the end users ample opportunity to participate in a variety of ways. It also involves ensuring, for example, that the 'silo' effect of departments operating independently of each other is minimized. The opposite of good policy making is an *ad hoc* or short-term policy response to an immediate problem. Poor policy making often results from unintended consequences that a piecemeal approach has not taken into account. Public policy thus can be defined as the broad framework of ideas and values within which decisions are taken and action, or inaction, is pursued by governments in relation to some issue or problem (Brooks, 2008).

A number of factors and considerations must be kept in mind during policy development. These factors can be used to determine and judge whether the policy, and the process of developing the policy, is or has been sound and of relevance or not.

Evidence based: Providing the evidence of cost reduction while simultaneously improving the physical outputs and the qualitative outcomes. Evidence-based policy is a rigorous approach that draws on careful data collection, experimentation, and both quantitative and qualitative analysis to answer three questions: What exactly is the problem? What are the possible ways to address the problem? And what are the probable impacts of each? A fourth question that figures into all public policy decisions – what political and social values do the proposed options reflect? – is largely outside the scope of evidence-based policy. Nevertheless, hard evidence and analysis can bound the political battle field, help build consensus, and identify the social and economic costs of different policy choices.

Evidence-based policy has been defined as an approach which »helps people make well informed decisions about policies, programmes and projects by putting the best available evidence at the heart of policy development and implementation« (Davies, 1999a). This definition matches that of the UN in the Millennium Development Goals guide. The Millennium Development Goals are eight international development goals that all 192 United Nations member states and at least 23 international organizations have agreed to achieve by the year 2015. They include reducing extreme poverty, reducing child mortality rates, fighting disease epidemics such as AIDS, and developing a global partnership for development. Here it is stated that »Evidence-based policy-making refers to a policy process that helps planners make better-informed decisions by putting the best available evidence at the centre of the policy process«. This approach stands in contrast to opinion-based policy, which relies heavily on either the selective use of evidence (e.g. on single survey irrespective of quality) or on the untested views of individuals or groups, often inspired by ideological standpoints, prejudices, or speculative conjecture. Many governments and organizations are moving from »opinion-based policy« towards »evidence-based policy«, and are in the stage of »evidence-influenced policy«. This is mainly due to the fact that the policy-making process is inherently political and, that the processes through which evidence translates into policy options often fails to meet required quality standards.

Normative and positive economics: Normative economics include value judgments, beliefs and moral stances, and positive economics reflect what will happen if certain changes occur subsequent to meeting specified conditions. For instance, the outcome budgeting in defence can establish the 'should' factor of normative economics by determining or fixing the standards. The housing and troop ration supplies can be linked to a standard and attempt should be made to achieve the same through the budgeting process. It can facilitate establishment not only of norm of growth but will also be indicative of positive economics.

Effectiveness: In simple words effectiveness refers to as to how well a policy achieves its stated goals. Regarding the measurement means to measure efficiency and its relevance for economic policy makers, Farrell (1957) stated: »It is important to know how far a given industry can be expected to increase its output by simply increasing its efficiency, without absorbing further resources«. Since that time techniques to measure efficiency have improved and investigations of efficiency have become more frequent, particularly in

industry. Nevertheless, the measurement of efficiency and effectiveness of public spending remains a conceptual challenge. Problems arise because public spending has multiple objectives and because public sector outputs are often not sold on the market which implies that price data is not available and that the output cannot be quantified.

Efficiency: Refers to how well resources are utilized in achieving goals and implementing policy. That is, achieving an efficient allocation of resources or allocative efficiency, which could maximize economic welfare. It requires the ‘the greatest possible output and the greatest aggregate benefit to be derived from the finite level of resources available to an economy.’ The efficiency of public spending is becoming a more pressing policy challenge for several reasons. As reflected by Economic Policy Committee European Commission, Directorate General for Economic and Financial Affairs, Brussels:

»Public spending represents a large share of GDP and therefore has a major impact on the productivity of the whole economy. First, Member States have to deal with increased pressures on their budgets resulting partly from globalization and increasingly from ageing. These pressures are being felt both on the revenue and the expenditure side. Second, citizens expect to see benefits in return for their tax contributions. As taxes create distortions in the allocation of resources and thus constrain economic growth, it is essential that public expenditures are used to improve efficiency while ensuring the sustainability of public finances. Finally, improved efficiency and effectiveness of public spending not only helps sustain the fiscal discipline requested by the Stability and Growth Pact but is also instrumental in promoting the Lisbon structural reform agenda.«

Good public policy ensures achieving the same results at lower levels of spending or increases value for money by achieving better outcomes at the same level of spending. There are various ways for measuring public sector efficiency and effectiveness. Conceptually, efficiency is about the relation between input and output, with the objective of maximizing output for a given amount of inputs; or of minimizing inputs for a given output. Effectiveness relates the input to the final political objective (the outcome), such as welfare, growth or other priorities of the national governments.

Equity: Various political philosophies define equity differently but for the general understanding it refers to the relations and perceptions of fairness in distributions of resources within social and professional situations. Degree to which the policy increases equity of all members and sectors of society. This may link directly to consideration of public interest.

According to the National Academy of Public Administration (hereinafter: NAPA) Social Equity Panel (2000) equity in the public policy could be defined as follows:

The fair, just and equitable management of all institutions serving the public directly or by contract, and the fair, just and equitable distribution of public services, and implementation

of public policy, and the commitment to promote fairness, justice, and equity in the formation of public policy.

In operational terms, public administrators should demonstrate the following commitments:

1. **Procedural fairness.** Provide due process, equal protection, and equal rights to all persons regardless of their personal characteristics. Each individual should be treated fairly, and any instances of unfair treatment of individuals should be corrected. Furthermore, existing and new practices in implementation, service delivery, and management should be examined to insure that procedural fairness is not disproportionately denied to any groups of persons. Any deviations should be corrected and the factors that contribute to this behavior should be eliminated.
2. **Distribution and access.** Services and benefits should be distributed equally or in such a way that those who are less advantaged receive greater benefits. These general principles should guide the observance of requirements that are multiple and complex and that vary with the purpose of a program or the problem that is being addressed. For existing policies and programs, distribution and access should match the intended purpose. For example, if all are to receive a service or benefit, then it should be made available to all equally. If all are eligible, then it should be accessible to all equally. If special conditions are required to receive a service or benefit, efforts should be made to reach all who are eligible, and legal discretion should be used to include rather than exclude persons whose eligibility is borderline. In formulating new policy, promote equal distribution; take into account the obligation to be accountable to the rule of law and the importance of making best use of scarce resources.
3. **Quality (equity in the process of providing services and benefits).** Insure that there is consistency in the quality of services and benefits delivered to all groups of people. Although some persons have the means to secure enhanced quality, public administrators should strive to insure that prevailing standards of acceptable practice are met for all groups.
4. **Outcomes:** Seek to achieve an equal level of accomplishment or outcomes in the social and economic conditions for all individuals and seek to eliminate differences in outcomes for groups. While recognizing the importance of individual behavior on outcomes and the constraints that general conditions impose on outcomes in specific areas, e.g., the impact of poverty on educational performance, public administrators should examine why different outcomes occur and identify possible approaches to reducing disparities. Public administrators should ask how much inequality is acceptable and to what extent government can and should – on its own and in partnership with the business and nonprofit sectors – intervene to reduce the inequality in outcomes (Svara & Brunet, 2004).

Economical: Operational economy, securing cost containment. An efficient economy is one that produces what people want and does so at the lowest possible cost. It is marked by careful, efficient, and prudent use of resources operating with little waste or at a saving. Cost of economy or economical cost has become the basis of almost all government operations. Value for money is the key word to extract the best possible outcome of the monetary input. In other words elimination of wastages and extraction of the best and maximum possible outcome of inputs or investments refer to being economical. Cost economy not only refers to curtailment of wastages but also provide opportunity for additional allocation to the existing budgetary heads. It can also generate funding for those social sectors, which remains devoid of the budgetary support.

Public interest: What is in the best interest of society as a whole? How is the common good balanced against any private or special interests? Is the process fully inclusive, especially of those who are often overlooked or unable to participate? Public interest is a term used to denote political movements and organizations that are in the public interest – supporting general public and civic causes, in opposition of private and corporate ones (particularistic goals). The public interest can also mean more generally what is considered beneficial to the public. The public interest is central to policy debates, politics, democracy and the nature of government itself. While nearly everyone claims that aiding the common well-being or general welfare is positive, there is little, if any, consensus on what exactly constitutes the public interest. There are different views on how many members of the public must benefit from an action before it can be declared to be in the public interest: at one extreme, an action has to benefit every single member of society in order to be truly in the public interest; at the other extreme, any action can be in the public interest as long as it benefits some of the population and harms none (Wikipedia, 2010).

Consistency: Degree of alignment with broader goals and strategies of government, with constitutional, legislative and regulatory regime.

Reflective: Of other values of society and/or the community, such as freedom, security, diversity, communality, choice, and privacy. Therefore it can be argued that a good public policy must be socially acceptable (citizens and interest groups feel that the policy reflects their important values, e.g., fairness and equity, consistency, justice); politically viable (the policy has sufficient scope, depth, and consensus support that elected officials are comfortable with the decision) and technically correct (the policy meets any scientific or technical criteria that have been established to guide or support the decision).

4.2 Public policy and public management reforms

In order to understand the changing perception and concept of public policy it will be appropriate to examine the related changes and reforms in public management and study the shift from cost efficiency to quality outcome and examine the parameters of assessing the quality outcomes along with 4E's of economy, efficiency, equity and effectiveness.

Public management reform is usually thought of as a means to an end, not an end to itself. As mentioned by Pollitt (2004) it can be defined as a means to multiple ends. This includes making savings (economies) in public expenditure, improving the quality of public services, making the operations of government more efficient, and increasing the chances that the policies that are chosen and implemented will be effective. On the way to achieving these important objectives, public management reforms may also serve a number of intermediate ends, that include strengthening the control of politicians over the bureaucracy, freeing public officials from bureaucratic constraints, i.e., administrative decentralisation that inhibit their opportunities to manage, and enhancing the government accountability to legislature and the citizens for its policies and programmes. The control of politicians over the bureaucracy also relate to 'the principal-agent problem'. The principal-agent problem arises when a principal compensates an agent for performing certain acts that are useful to the principal and costly to the agent, and where there are elements of the performance that are costly to observe. Generally it is due to information asymmetry, uncertainty and risk. The solution to this information problem is to ensure the provision of appropriate incentives so agents act in the way principals wish.

There are also symbolic and legitimacy benefits of management reform. For politicians these benefits consist of partly being seen to be doing something. Announcing reforms, criticising bureaucracy, praising new management techniques, promising new and improved services for the future restructuring ministries and agencies – all these activities help to attract favorable attention to the politicians who espouse them. There are also legitimacy benefits to those senior government officials who, almost invariably, play an important part in shaping and implementing such initiatives. This could also enhance their reputation and they could even make a career out of 'modernising' and 'streamlining' activities. Thus, public management reform seeks to produce cheaper, more efficient and higher quality service and more effective programmes.

Public management is an academic area that contains several species of topic. It includes long-standing debates on foundational issues (for example accountability, bureaucracy, financial management and budgeting), technical issues registering innovations in techniques and methods (such as human resources management, quality management, contracting out) and also emerging new topics and theories (as in the debates on strategic thinking, the rigor – relevance gap, etc.). The borders of public management – governance, organization and management of public administrations and public services – as an academic area are frequently vague but it is nonetheless a fertile field of study especially after the public sector reforms of the 1980s that have attracted management as an academic discipline to the study of public administration and contributed to move its academic base from law to political science departments to business and professional schools. In the past decade, the academic literature has expanded to include public governance aspects as public decision-making and the production of public services has undergone fundamental changes. The public sector has become more fragmented and because citizens expect different types of information and are keener to engage in policy making and service delivery. Public governance pays a lot of

attention to networks and collaboration but it also involves competition and conflict management. It raises issues such as stakeholder engagement and co-production, equity, ethics and integrity, accountability and sustainability.

The public management track provide public-private partnerships, network management in the public sector, e-government, human resources management, system thinking, ethics and trust, performance management, quality improvement, budgeting and accounting, etc. Public management reform consists of deliberate changes to the structures and processes of public sector organizations with the objectives of getting them to run better. Structural changes may include merging or splitting public sector organizations, say, creating a smaller number of big departments to improve coordination or a large number of small departments to sharpen focus and encourage services specification. Process changes may include the redesign of the systems. Such as, setting of quality standards for healthcare services to citizens, or the introduction of new budgeting procedures that encourage public servants to be more cost conscious and/or monitor more closely the results their expenditure generates. Management reforms frequently also embrace changes to the system by which public servants themselves are recruited, trained appraise, promoted and disciplined.

4.3 Public policy and defence budgeting practice in India

The defence budgeting practice in India follows a line item budgeting system, where the conventional stress is more on the estimation of expenditure and detailing of expenditure. In other words, the importance is on the inputs than the output or outcomes. Efficient conversion of outlays into outcomes therefore, require making the delivery systems effective with appropriate structures and processes, strengthening financial management systems, increasing use of information technology, and meaningful involvement of all concerned in critical decision making and implementation processes. The paradigms of public policy being pursued in Europe, USA and Australian continent are not being fully followed in the budgeting practices in Indian defence. In budgeting terms the stress now is more on the outcome of inputs than the planning or provisioning of inputs. Therefore, it is considered that introduction of outcome budget in Indian defence budgetary practice will provide all the benefits of modern public policy system.

In the Indian context the ‘outcome budget’ has been suggested as be a pre-expenditure instrument to help realize the ministries (of the government) vision through clearly defined outputs/outcomes, as a supplement to the current system built around post-expenditure scrutiny. It intends to strengthen the citizens’ right to information, by putting crucial data and information on expected outcomes in the public domain, public scrutiny of which will help ensure value for money.

4.4 Evolution of public policy in UK and its practice in the social sectors of health care services and education

By the mid of 1980s, most of the western countries and their administrative structures felt the impact of reform agenda of New Public Management (hereinafter: NPM). The circumstances for new reforms were ripe, as they needed public sector cutbacks, limiting public expenditure, and improving productivity, efficiency and economy. The reforms were implemented in various western countries mainly, the U.S., the U.K., New Zealand and Australia.

In the U.K a fundamental transformation of administrative system was initiated since 1979 under the Thatcher government. Under the Financial Management Initiative (hereinafter: FMI), measures were taken for financial delegation through cost-analysis. In 1991, the scheme of 'Citizens' Charter' was introduced which insisted on public agencies to frame, publish and achieve clearly defined service standards. Contracting out of certain public services such as street cleaning, garbage collection was introduced in 1992. Through a mechanism called 'Prior option Review' the activities of various departments were assessed in terms of their efficiency, viability or utility. NPM was brought in as Labour's commitment to the reform of management of public-sector services. The NPM has linked public funding to 'targets for improving services' thus 'shifting the focus decisively from inputs to the outcomes that matter'.

4.4.1 Health care reforms

Prior to 1948, health services were mainly based on three sources, namely; charity and the voluntary sector; private health care (hospitals were fee paying or voluntary; primary care was mainly fee-paying or insurance-based); and the Poor Law and local government (Poor Law hospitals were transferred to local government by the 1930 Poor Law Act). These were unified when the National Health Service (NHS) was formed in 1948.

The NHS is perceived by many as the core of the 'welfare state'. People receive health care as a right. There is no right to health care on demand. The principal rights are a right to be registered with a general practitioner, and the right to be medically examined. This generally means that a GP must visit a patient on the list that makes a request, though it has been accepted that examination at a distance may be feasible. There is no formal right to receive any treatment. This is within the discretion, or 'clinical judgment', of the doctor. The NHS is also comprehensive. The NHS is held to protect all citizens. Access to health services depends on registration with a general practitioner. The service itself has never been comprehensive. The NHS does ration resources according to priorities. Not only are there not regular checkups for everyone, but there are long waiting lists, and people with quite serious needs – like those from the 1950s onwards needing renal dialysis – may die, because the cost of treatment is greater than the NHS is ready to bear. Another feature was the free service at the point of delivery. The initial idea was that no one should be deterred from

seeking health services by a lack of resources. Charges were first introduced by the Labour government in 1950. They were substantially increased by the Conservative government after 1979.

Initially, the NHS had a tripartite (three-part) structure, with three branches – hospitals, primary care and local authority health services. In 1974, a ‘unified’ structure was introduced, with three main levels of management, at Regional, Area and District level. The 1974 reorganization led to a great deal of disruption, and was heavily criticized. Following political disagreements, Area Health Authorities were abolished in 1982 – throwing out of the window ideas like local integration of services and co-ordination with social services authorities. In the 1980s, Enthoven, an American economist, made an influential criticism of the NHS, arguing that it was inefficient, riddled with perverse incentives and resistance to change. The reforms which followed were based in the belief that the NHS would be more efficient if it was organized on something more like market principles. Enthoven argued for a split between purchaser and provider, so that Health Authorities could exercise more effective control over costs and production. The NHS administration was broken up into quasi-autonomous trusts from which authorities bought services. The role of Regional Health Authorities was taken over by 8 regional offices of the NHS management executive. In principle, the Labour government removed the internal market. In practice, it has retained its main elements – the purchasing role of health authorities, the provider trusts and GP commissioning. The reform of services in 2002 replaced the English Regional Health Authorities and District Health Authorities with 28 new Strategic Health Authorities (hereinafter: SHA) and 310 Primary Care Trusts; the number of SHAs was reduced to 10 in 2006.

4.4.2 Reforms in education

There have been three main trends in recent reforms:

1. **Centralization:** The Conservative government in the 1980s and 1990s introduced national assessments, and for the first time a national curriculum, shifting the locus of control from the school to the government.
2. **Assessment by outcomes:** A series of measures have emphasized outcomes, measured in targets and performance criteria, rather than educational processes. This reflects a more general trend in government. The national assessments, and intermittent use of league tables, are examples.
3. **The use of »initiatives«:** »Initiatives« have the advantage, for government, that they allow for earmarked funding – the money cannot be used for other purposes – and those they allow governments to be selective in what they pay for and where. There has also been a plethora of further initiatives geared to greater inclusion, employability and »lifelong learning«. There has been some criticism of potential »initiative overload«.

4.5 Concept of input, processes, outputs and outcomes

4.5.1 The inputs

The inputs in a traditional budgeting system can be defined as the provision of allocation from the Parliament to the estimated expenditure. Input budgeting is common in Line Item budgeting. These budgets typically appear in the form of accounting documents that express minimal information regarding purpose or an explicit object within the system. In the traditional input budget management, since the input of budget resource is controlled strictly, the expenditure user lacks the independence and flexibility of management. They are only responsible to the input, not the output and outcome. What the expenditure controller needs to do is to make sure that the expenditure user obeys correlative rules in the course of the budget, but not to demand the user to accomplish the required performance, virtually the yardstick and criterion of measuring and examining the performance are not existent at all.

4.5.2 Processes

Processes refer to determination of allocation of resources for the funding on one program instead of another based on what that program offers. A program budget is a budget in which expenditures are based primarily on programs of work and secondarily on character and object. It is a transitional type of budget between the traditional character and object budget, on the one hand, and the performance budget on the other. The major contribution of program budget lies in the planning process, i.e., the process of making program policy decisions that lead to a specific budget and specific multi-year plans.

4.5.3 Output budgeting

Output budgeting is modern performance budgeting. It refers to the programs ability to convert inputs to outputs and/or use inputs to affect certain outcomes. Outputs are generally considered as quantifiable physical targets. This is characteristic in Performance budgeting, which has been approved by a lot of countries in the world because of its modern management ideas and advanced techniques.

4.5.4 Outcome budgeting

Outcome budgeting Outcome-driven budgeting provides a framework for prioritising expenditure. By definition, the top level outcomes are the top priorities. It also evaluates support services in terms of the contribution they make to strategic outcomes. It refers to the accountability of fund utilization by the various arms of the government. This budget attempts to give a detailed account of the performance of all major programmes outlined in the main budget. Outcome is often linked with the output. However, both are different. While output refers to the quantifiable physical targets outcomes pertain more to the intangible targets and has more bearing towards the qualitative aspect than the quantitative

aspects. For instance, while number of patients examined by the GPs under the NHS can be output of budget, the quality of treatment leading to the reduction in the health problems will reflect the qualitative aspect or the outcome.

By setting targets for the number of outcomes required, and estimating the duration of the activities needed to produce them, an organisation can calculate the full-time equivalent employees and facilities needed to carry out the activities. Thus, outcome-driven budgeting replaces departmental budgeting. Consistent with the evaluation objective, government budgeting is becoming increasingly outcome-focused. Fiscal austerity, coupled with intense competition for governmental resources, has precipitated an effort to ensure more effective use of resources at all levels of government. Outcome-focused budgeting is the practice of linking the allocation of resources to the production of outcomes. The objective is to allocate government's resources to those service providers or programs that use them most effectively.

The term 'results based budgeting' and 'performance based budgeting' are increasingly being used interchangeably with outputs and outcomes budgeting. Some commentators stress that a result based budget must include outcomes (Hatry, 1999). The view is that for genuine 'result based budgeting' it is not enough simply to engage in activities that produce outputs and measure their performance. These activities and outputs have to be constantly reconsidered and readjusted in the light of the outcomes that were used to justify the program in the first place (Perrin, 2002). For example, in order to measure how well used teacher hours are against a program's objective, for instance in measuring the literacy rate among disadvantaged students, decision makers would need to measure whether literacy increased for male and female students in the program (an outcome) and consider whether the cost (inputs) relative to the output (teaching/teacher hours) were worth the outcomes achieved. In this case the increase in literacy would be an indicator of the effectiveness of the program, which could be considered against the indicator of efficiency that is, input cost relative to output of teacher hours.

4.5.5 Public budgeting

Public budgeting is a field of public administration and a discipline in the academic study thereof. Budgeting is characterized by its approaches, functions, formation, and type. The authors Smith and Lynch describe public budgeting through four perspectives. The politician sees the budget process as »a political event conducted in the political arena for political advantage«. The economist views budgeting as a matter of allocating resources in terms of opportunity cost where allocating resources to one consumer takes resources away from another consumer. The role of the economist, therefore, is to provide decision makers with the best possible information. The accountant perspective focuses on the accountability value in budgeting which analyzes the amount budgeted to the actual expenditures thereby describing the »wisdom of the original policy«. Smith and Lynch's public manager's perspective on a

budget is a policy tool to describe the implementation of public policy. Further, they develop an operational definition: ‘Smarter Budgeting: Leading the Budgeting for Outcomes Process’.

Budgeting for outcomes allows public leaders to do significant big picture, creative thinking each time they prepare a budget. In fact, the process demands it. In many communities across the country, the usual way to handle a projected deficit is to take last year’s budget and cut it. It is tempting to make the budgeting process a math problem, but it’s not. Smarter budgeting is more than a mathematical solution. A major challenge for local leaders is to effect a significant change. It takes heavy lifting to eliminate government functions, change government strategies, and reform government spending patterns.

4.5.6 Citizen input and priorities: Decisions that matter most

Government, at all levels, can make the necessary changes to increase program effectiveness, reduce costs, and deliver quality services. Leaders don’t question that money needs to be well spent. The question that remains: what are citizens willing to pay for the services that they want as opposed to the services they need? Budgeting for outcomes starts with deciding what outcomes are of most value to the public. Leaders must take into consideration not only what is actually important to ensure positive growth in the community, but also what the citizens really care about. It is vital that local leaders examine effective strategies and new techniques that help articulate what is needed to set goals, how to get there, and how to incorporate the important matters which constituents care about.

4.5.7 Developing Policy and Governing for Results

The vital importance of legislative bodies in governing has often been neglected. This is true at the local, as well as the state and federal levels of government. A major role of the council is to make final decisions on the budget. Such decisions should not only consider expenditures relative to estimated available revenues but also consider what those expenditures are likely to produce in terms of benefits to the community and its citizens.

It is a reasonable assumption that the public want ‘better’ hospitals and schools, more effective police forces and so on. In this respect a set of techniques which claim to effectively ‘deliver’ improvements in the products of public services must be seen as an advance on a concern with simply ensuring that public funds are deployed for the purposes for which parliament voted them (the ‘inputs’). The emphasis has shifted to explicit standards of measuring performance; establishing clear relationship between inputs and outputs via better management process; increased accountability and transparency within the overall economy.

NPM operates at a number of levels. It is a set of broad principles, which define an approach to the organisation of public services. For example, the notion of a focus on ‘outcomes’ does not suggest how this putatively distinctive set of objectives is to be achieved. NPM is,

however, associated with a range of techniques, which are designed to facilitate the achievement of the broad objectives of the programme. Thus, a common feature of NPM is an emphasis on performance measurement. Initially NPM focused in inputs and processes, then on outputs and now, increasingly on outcomes. Such measurement plays a variety of roles. It can serve as a standard of performance for the service and hence as a target, where performance is 'below standard'. For instance, the Department for Education and Skills (DoES, now the Department for Children, Schools and Families in UK) stipulated that 60 per cent of pupils should achieve 5 GCSE passes between A*-C grades by 2008. Even though this reflects output rather than outcome aspect still such measures can also be used comparatively in benchmarking where a given provider (e.g. a school or National Health Service Trust) is seen as an exemplar of 'best practice'.

4.6 Evolution of budgetary practice over time in UK

The evolution of budgetary practice over time in UK can broadly be categorized into following phases:

1. During the post 1945 period it was an input oriented budgeting practice when Parliament approved the appropriation of funds for the spending/expenditure estimations of the UK government.
2. Shift of emphasis from input to (financial) accountability during the 1980s. During the 1980s, 1990s, and 2000s it became increasingly focused on limiting the share of public spending in national income (GDP) and seeking more value for money.
3. Planned public expenditure, especially for health, education and physical infrastructure after 1998/99.
4. Between 1997 and 2007, UK central government budgets had been based on the principle of 'prudence for a purpose'.
5. The development of Resource Accounting and Budgeting (RAB) introduced accruals accounting in UK public sector budgets.

The evolution of budgetary practice in UK reveal the gradual shift from input and expenditure to being exhaustive expenditures i.e., spent on inputs and processes. For instance control of education and health spending can, in principle, be achieved through genuine efficiency savings without reducing service levels (i.e., outputs) and quality (i.e., outcomes).

4.7 The rationale of outcome budget

On one hand there is such elaborate scrutiny and detailed examination towards preparation of defence budget estimates, on the other hand there is no such detailed examination of the output and outcome of the estimated expenditure. Though there is a statutory provision in the form of Appropriation Account, which is submitted to the Indian Parliament by the statutory auditor to the Government of India viz., Comptroller and Auditor General of India it does not quantify the physical outputs or details the outcome of the allocated expenditure. The

said Appropriation Account is routed through the ministry of defence at the expiry of a financial year giving details of amount expended against the allocation in the various defence demands. In an era of transparency and public accountability the outgoes of State exchequer it is important to know and assess the physical outcomes of the expenditure amount *vis-à-vis* the estimation. Outcome budget would analyze expenditure by the purpose for which it is to be spent and relate it as far as possible to the results which it is hoped to achieve. Notwithstanding the fact that outcome is more oriented towards quality the initial emphasis on the physical aspect or the measurable tangible quantity will serve the purpose towards the outcome budget in defence. Therefore, in the initial stages of outcome budget may refer to the physical quantification of the estimation of expenditure or budget. Through which one can easily assess the success of budget planning and estimation of expenditure. If physical outcomes match with the intended outcomes then the success of the budgetary exercise can easily be gauged. In case of any shortcoming the precise problem of linking estimation with actual expenditure can be further examined. If necessary, it could be curtailed also. Other than providing a measurable physical outcome it has the potential of making the defence budgeting exercise more transparent. Transparency and linkage with physical outcomes can further limit the burgeoning defence budget and in the long run take the modality of budgeting towards an »affordable« defence budget.

4.7.1 Scientific objectivity and theoretical rigor

Introducing the outcome budget in Indian defence budgetary formulation can shift the focus from input to the outcomes of allocation. It shall strive to link the advantages of accountability, transparency and measuring the actual physical outcomes with the estimation of expenditure within the Indian defence budget making system. Suggestions of linking the defence budget to outcome budget with distinct advantages of measurability of estimations, will give new insight to the policy makers towards introducing defence budget to the domain of outcome budget. Quantifiable outcomes will also make the defence budgetary process more transparent and make the defence expenditure estimation exercise more rigorous towards its outcome. This can lead to improved resource utilization in defence and curtailment of expenditure. This on the long run can foster to the concept of »affordable budget«.

4.7.2 To identify benefits of introducing outcome budget in India within the broad domain of public policy like 4 E's of efficiency, equity, economical and effectiveness

In an age of openness the various estimates of expenditure need to be assessed from the actual outcome of the estimation. In a developing country like India, where Defence budgeting is still treated as »holy cow« the assessment of outcomes (to estimated expenditure) will not make the system more transparent but also instill a sense of greater accountability amongst the budget holders. It will also provide the physical and measurable

outcomes of the intended expenditure. It will generate better insight of the defence issues and facilitate the legislature, viz., Indian Parliament a better pragmatic control of defence expenditure *vis-à-vis* its outcome. The budget formulators will know the areas where expenditure do not follow the estimation and try to modulate and modify the assessed estimates accordingly. It will also put the priorities in correct perspective. In the developing economy of India the defence expenditure should also commensurate with the other indicators of growth like, education, improvement in infrastructure, up gradation of elementary requirements of food, housing and clothing, etc. That is, the priorities require to be put in correct perspective. Insight of outcome budget in defence can also help conceptualizing »affordable defence budget«.

4.7.3 Linkage of the practiced public policy of UK, say, in education and health with the outcome budget in the defence sector of India

The public policy reforms brought in UK linked public funding to targets for improving services and shifting the focus decisively from inputs and outputs to outcomes. A remarkable change from spending to cost effectiveness and value for money (hereinafter: VFM). It reflected a change from process – oriented administration into an output oriented administration; a change from collective accumulation of public or social services into a flexible collection of the individual results. While it focused on the economy, efficiency and effectiveness it also divulged information about the bad management and inefficient spending (utilization) of money. Its benefits and advantages were quite noticeable in the social sectors of health and education in UK. Combination of qualitative outcome along-with cost effectiveness and VFM reflects a remarkable development in the public policy. It not only improves budgeting process (from input/expenditure oriented to outcome/result oriented) but also establishes improved citizen-state relationship. Outcome budget refers to measuring the quantifiable and physical targets of the estimation of expenditure. It shall strive to link the advantages of »accountability«, »transparency« and measuring the actual physical outcomes with the estimation of expenditure within the Indian defence budget making system.

To conclude with it can be said that the changes in public policy are responses to demands to cut back on public spending and the quest for improved value for money in the delivery of services including improvements in the quality of the services. The public policy reforms seek improving services and shifting the focus from inputs and outputs to outcomes. The cost effectiveness and VFM has given a new direction to the public policy. While it focused on the economy, efficiency and effectiveness it also divulged information about the bad management and inefficient spending (utilization) of money. Its benefits and advantages were quite noticeable in the social sectors of health and education in UK. It not only improves budgeting process (from input/expenditure oriented to outcome/result oriented) but also establishes improved citizen-state relationship. These advantages can be replicated in Indian defence sector also and envision a new growth and dimension in Indian defence budgeting. Outcome budget shall strive to link the advantages of »accountability«,

»transparency« and measuring the actual physical outcomes with the estimation of expenditure within the Indian defence budget making system. Since 'outcomes' also relate to quality of the outcome along-with the physical outputs, the outcome budgeting in defence has also the possibility of generating information of 'improved' defence condition and defence preparedness along-with improving the life quality and living conditions of the defence personnel.

Suggestion of linking the defence budget to outcome budget with distinct advantages of measurability of estimations, will give new insight to the policy makers towards introducing defence budget to the domain of outcome budget.

Quantifiable outcomes will also make the defence budgetary process more transparent and make the defence expenditure estimation exercise more rigorous towards its outcome. This can lead to improved resource utilization in defence and curtailment of expenditure. This on the long run can foster to the concept of »affordable budget« and be more equitable in sharing of resources with the social sectors. The insight of public policy reforms as in NPM in UK can lead to efficient and effective utilization of resources in Indian defence sector through the means of outcome budgeting without pinching on the sensitivity of (adequate) budgetary allocation in defence and simultaneously generating equitable resource allocation to other social sectors for development.

CONCLUSION

Recommendations. In recent years there have been many efforts to improve government performance. After a successful operation in the field of the legitimacy and management of government spending during the eighties and early nineties of the last century, the national budget was dragged into the international slipstream of management reform in the public sector. The triad of objectives, performance and resources has become the new gospel for a transparent policy and result-oriented budget. Based on the various observations, as brought out in the preceding chapters the following is being recommended for formulation and implementation of outcome budgeting in defence:

1. All decisions made about resource allocation should be illuminated by explicit statement about the outcomes that are expected to result from those allocations. This implies that defence budgeting process should be geared for better objectives and targets formulation, including expected outcomes. The momentum in this direction should be maintained. This should not be confined to new initiatives but should be done more broadly and systematically.
2. Outcome measures should form the main basis for the parliamentary scrutiny of the defence budget. Long-term outcomes should be checked against milestones. The outlays

should be linked with the physical outputs and the qualitative outcomes, either through primary or/and final outcomes

3. Defence outcome budgeting process should be linked with the defence plans and the planning process so the objectives get linked with the physical outputs and the desired outcomes.
4. Defence outcome budgeting process should be linked with the legislative discussion on resource allocation. And also co-ordinates with the other elements of the process, including spending reviews, five-year plans and cabinet decisions. At each crucial stage in the long term processes as well as the annual budget, the parliament and its committees should debate the big resource allocation issues. As part of this process, parliament should discuss policy, priorities, outcomes and targets before it discusses resource allocation.
5. The defence outcome should be well defined. This can be done pursuant to discussion between the three services, departments and defence organizations along with the ministry of defence officials. While physical outputs can be easily quantified and ascertained the achievement of outcomes, at primary as well as final level need treaded in more discrete manner. So that there does not remain any ambiguity towards its achievement.
6. A separate committee in the ministry of defence could be constituted towards the assessment of physical outputs as well as (defence) outcomes, where estimates of expenditure reflects large amount of monetary commitment and greater qualitative outcomes the said committee should have more contact with Ministers and senior officials and should also talk informally to heads of departments about their expected outcomes and targets and discuss their progress and obstacles.
7. There should be a structured approach to performance review, looking at a few areas each year. After a review of the performance against stated outcome and output targets the ministry of defence along-with ministry of finance could then take a view about the future level of funding for the activities reviewed.
8. The development of an outcome performance budget is a simultaneous top-down and bottom-up process. Senior planners and policy officials must articulate program goals and objectives. They also must outline the levels of resources that they anticipate allocating to support those goals and objectives. These same officials should identify outcome measures that tend to determine whether goals were met and resources spent effectively; however, the goals, objectives, resource levels, and outcome measures must be developed with and validated by lower level managers. These managers and their subordinate organizations are in a position to apply a level of realism to the planners and policy officials' annual performance plan. These managers understand the mechanics of

their programs and can assist policy officials proactively as they refine the agency's annual performance plan. In addition, by working closely across organizational lines, planners and policy officials may be assured that managers at all levels not only understand the integration between an annual performance plan and a performance budget but also are committed to its success.

9. Outcomes should be defined, measured and assessed in all areas of defence budget. Those bearing sensitive nature should be classified and defined separately. Those could be maintained in a separate volume (of outcome budget) and kept away from the public domain. However, even those issues need be reviewed by the ministry of defence in consultation with the three services and the departments/organizations to ensure linkage of inputs with the end outcome. This scrutiny will also safeguard the defence budgetary process from any malpractice or corruption.
10. For all areas there should be defined a set of high level outcomes which are: Measurable and supported by good data and information systems Small in number and readily understandable.
11. It should recognize that there will not necessarily be completely reliable links between all activities and all outcomes, but that activities that do not contribute to desired outcomes will be strongly questioned.
12. Parliament accepts that developing the approach will take time and that in many cases the definition and measurement of outcomes is at an early stage. A selective approach will be followed.
13. All spending proposals to include an evaluation of the proposal compared with options for achieving the same outcomes. There can be outcome oriented disclosures in the budget reflecting quantum of funds provided, in most unambiguous manner for the set objectives, and programmes; the cumulative total of such allocations in the budget over a period of time and the results achieved against the allocation.
14. All spending proposals to include an evaluation of the proposal compared with options for achieving the same outcomes.
15. Some extra resources will have to be allocated to support the processes.

Conclusion. The criticism of the present defence budgetary system is that it is largely input oriented. Specifically this means that it focuses on expenditure in generic terms, i.e., in terms of pay and allowances, stores, transportation, etc., and not in terms of targets and its actuals. At present, information on the budget is available to the executive/parliament through the following three main reports:

1. The Appropriation Account;
2. The audit report of Comptroller and Auditor General;
3. Reports of Parliamentary Committees – especially those of the Standing Committee on Defence and, in certain cases, the reports of the Public Accounts Committee, based on the audit reports.

The Appropriation Accounts gives the actual expenditure against allocations under various minor and sub heads. The reasons for variations of actuals against allocations are also indicated. The audit report of the C&AG examines more of the irregularity carried out in the defence procurement process, etc. Neither of the audit documents throw adequate light on physical achievements (outputs) in respect to a bulk of the items since the document is not intended to be an account on performance. Also, there is no reference to the qualitative aspect of expenditure, which is expected in a performance budget.

Under the present system, getting an overall picture of budget in financial/physical terms and the actual performance is not easy and requires a lot of derivation, collation of data/information and enormous effort on the part of the ministry/services/departments. A document reflecting outcomes of at least major items provided in the budget would make the whole task easier apart from serving the basic and very important task of effective management of schemes and achievement of objectives. Therefore, introduction of outcome budgeting in defence could improve the financial information system and provide better control mechanism.

Financial Information System. A crucial aspect for achieving success in evolving any improved budgetary systems for evaluation of results in the defence set-up, would be the development of a total and comprehensive financial information system with a wide area network covering all the three services and the concerned defence department/organizations. It is important that the existing scope and content of the budget documents are enhanced before taking up more complex tasks. The significance of opening budget centre heads and additional classification categories needs no emphasis. The first step in implementation towards the outcome budget would be an evolution of a comprehensive financial information system in respect of all the three services and the departments and the real time availability of budget centre data pertaining to budgetary allocations, progress of expenditure and committed liabilities. Secondly, budgetary classification in the DSE can be expanded to provide better budgetary control, which will facilitate the future formulation of a programme budget. For purposes of expenditure monitoring and feedback controls, a more detailed classification with a separate volume covering all categories of expenditure, right down to the services and departments with budget centre-wise allocations can also be formulated to show where the money is allocated, on what it is to be spent and by whom. This could be an important step towards better management. It would also be a step towards planned allocation down to the various cost centers, based on a plan of expenditure, linked to the performance of activities.

The need to build an information system on liabilities has been felt for more than a decade and half and some progress has been achieved, especially in regard to items under 'capital'. But building an institutionalized reporting system on commitments made in contracts, supply orders and liabilities incurred thereon is a necessary adjunct to any budgetary exercise. Once this reporting system is institutionalised and relevant information becomes part of supporting budget documents, the seriousness would be bestowed to the preparation of liabilities figuring in the report. The review of contracts, supply orders and updating of the figures would then become a continuing exercise from the point of view of ensuring outcomes as well as taking corrective action when required.

There is also a need to have convergence between various services/departments on aspects like unit code and contract code to facilitate the creation of a better information system. Uniformity in redesigned source documents needs to be enforced by the ministry of defence in all services/departments. This has implications for the right kind of information-control the ministry of defence would like to exercise. Network needs to be established between various services, departments, and especially between the CGDA and the service headquarters and other defence departments. Computerisation without a total communication network for exchange of data/information would produce less than optimum results. Adequate networking would facilitate better output in terms of content, details and availability of information on time. Quality of information would be crucial in any system and modern technology facilitates it. To evolve an improved budgetary control system, this would be a necessary prerequisite since, in the manually dominated or partially computerised system, and the manual process itself adds to the difficulties.

The content of the existing budget still falls short of a document oriented towards outcome. The recent reforms, additions and modifications would, no doubt, help all those who are deeply involved in the ministry of defence and service headquarters in managing expenditure and evaluating the results of the existing budget, with the additional facility of detailed accounts, papers and supporting documents. But to the rest of those involved/interested in not so intense a manner, some gaps in understanding the intended results of the outlay, outputs and outcomes remain. So it would appear the system of budget calls for a change. The question arises: for whom the budget is made? It is principally for the services/defence departments, ministry of defence and all the players who receive allocation of funds as per objectives and norms that get translated into policy and allocations when the budget is prepared. It is also for all those who have a stake in knowing whether the value for money has been realised. However, the problem is that the feedback mechanism is inappropriate for fully meeting the need for information and even the reports of various parliamentary committees are received too late for incorporation in the budget. Even though the appropriation accounts are available on time, the performance evaluation is confined to only two areas of activities: military engineering services and the military farms. The system does not provide for concurrent/annual review of all expenditure. So, the budget as a whole gets neglected in terms of evaluation of the outcome. This is the position, in respect to the budgeting system for the defence though certain improvements have been built into the

system over time; these are not adequate for a full scale evaluation of a large part of the budget.

Concept of budget centers. In order to expand the concept of accountability and responsibility, budget centers could be created. This concept involves planning, programming, accounting, reporting and evaluation systems. The report of the Committee on Delegation of Financial Powers for the army, navy and air force emphasised that the following facts need to be taken into account.

The budget centers, in concept and operation, facilitate generation of necessary inputs and outputs, which, in turn, enables evaluation of performance from field level and upwards. The concomitant advantages of budget centers can be listed as follows:

1. Responsibilities centre with clear objectives;
2. Decentralised authority-cum-responsibility centers;
3. Physical targets, linked to input and output in financial terms;
4. Set of financially feasible and clearly defined objectives;
5. A network of accounting and effective reporting systems.

Programme/scheme orientation. Preparation of an outcome budget would automatically imply preparation of performance budget *vis-à-vis* the outcomes planned. The outcome budget in defence can provide information towards the basis of allocation of programme-cum-scheme. Indian defence budget documents still follow largely a line item budgeting rather than programme-cum-scheme basis allocation. At present it is classical input-budgeting paradigm. Preparation of outcome budget will mark a shift from the traditional line item budget to programme/scheme orientation, enabling better and precise information towards the programme/scheme allocation and spending pattern. This will bring in programme based budgeting with emphasis on costs of programmes, developing the alternatives to achieve the policy objectives and exercising choice among them on the basis of analysis and judgment to bring closer link between planning and budgeting.

Linkage between input, output and outcome. The first step in developing an outcome budgeting system involves the process of defining the desired outcomes (outcomes are essentially more long term and typically are made up of more than one output) for the concerned ministry, department or function. This is followed by the process of identifying the interventions required for achieving target outcomes. Finally, the expenditure required for implementing the identified interventions is estimated, which forms a line item in the budget for that particular year.

Outlays or, inputs do not necessarily translate into outcomes. Programme based budgeting requires linkage between plan and programmes, and input and output. As A. K. Ghosh has stated in his book *India's Defence Budget and Expenditure Management in a Wider Context*, the terms »performance budgeting and programme budgeting has been used interchangeably

as both concepts are based on functions and activities and the emphasis is on results.« He further states, »The time dimension is of immense importance for expenditure management in defence, which is emphasised by programme budgeting. Programmes are inherently forward-looking. Performance, on the other hand, is based on past activity and evaluation of the past performance becomes a focal point of attention.«However, as Ghosh himself states that confusion has somewhat been removed in the UN manual, which has viewed performance budget as an all inclusive concept, embodying programme formulation as well as measurement of the performance of work in accomplishing programme objectives. The outcome budgeting in defence can realise the intended vision through clearly defined outcome/output as a supplement to the current system built around post expenditure scrutiny. The need for this has been felt as there is a lack of clear cut one-to-one relationship between the final budget and the performance budget as it was evolved earlier and inadequate setting of physical targets for the ensuing year. Development of outcome budget is not as complex as of a programme budget and can be built around the existing systems with some modification and expansion.

The outcome budget in defence will provides a framework of monitorable performance indicators for the plan programmes. It would serve as a policy tool to establish effective linkage with allocation and disbursement of public funds on the basis of measurable performance. This, together with independent and in-depth evaluation of the plan schemes and programmes on a yearly basis would provide transparency and accountability and enable the citizens to objectively judge the performance of the schemes, which remains a critical element in the working of a democratic polity.

Result orientation. Outcome budgeting can be the budgeting process for results. It shall be the means to garner results-oriented budgeting. Results are synonymous with outcomes. Their approach requires enhanced accountability through new performance measurement systems which, in recent years, have become technologically possible (Osborne & Plastrik, 1997, p. 348). Outcome budgeting is basically budgeting for results and it could be mission driven budgeting (Osborne & Gaebler, p. 165). Through the modern resource management system it shall be able to generate the following:

1. knowledge of full costs of the various provisioned items;
2. a unified (i.e., non-line-item) budget;
3. decentralized control of resources including personnel, both military and civilian;
4. freedom from unnecessary regulatory burden;
5. accountability for mission results.

The results based outcome budgeting will reinforce the three basic budget tasks – »to maintain aggregate financial discipline, to allocate resources in accord with government priorities, and to promote the efficient delivery of public services« (Schick, 2001, p. 13) – in that it moves beyond efficiency considerations to focus on effectiveness, outputs and outcomes.

Indicators of outcome. Defence outcome budget while defining intended budgetary programmes or functions not only defines outcomes but also typically defines indicators, which helps assess how well it does in achieving these outcomes. Therefore, knowledge and availability of indicators (of outcome) can throw regular and continuous light on the progress and growth of intended outcomes in the budget. It will improve programme efficiency and particularly effectiveness. Performance indicators are developed to allow scrutiny of effectiveness *i.e.* the impact of the outputs and administered items on outcomes and efficiency especially in terms of the price; quality and quantity of outputs and to enable the system to be further developed to improve performance and accountability for results.

Costed outputs with causal links to outcomes. Defence outcome budget will enable better links to be made between costs and outputs, with a longer-term focus enabled. In a developing country like India, allocation of resources constitutes major consideration while effecting budgetary plans. Defence budget constitutes a major chunk of central government allocation. Therefore, input of resources (cost) with the end result in the form of output and outcome will ensure utilization of resources in the most cost efficient and cost effective manner. Outcome budgeting in defence can provide 'value for money'. This will justify the amalgamation of management practices in public policy and make the managers of defence budget or budget holders careful and result oriented. It has generally been observed that those handling budget assignments at various levels of budgetary practices (from budget planning to procurement and expenditure) gets changed during the course of the financial year, resulting in certain amount of diversion in the ongoing practice. Outcome budgeting in defence will overcome this shortcoming through its transparent illustration of the planned objectives and provisioning of cost against various heads of expenditure. This will provide complete itemized budgetary costing information for effecting the output and outcome.

Physical measurement and monitoring. Outcome budgets need much clearer physical deliverables than is the case at present. If implemented correctly, exercises of the outcome budget, year after year, should lead to better measurement and monitoring. It will also provide larger information towards the orientation of defence budgeting, which could be easily perceptible and understandable to the common citizen of the country. In the long run, it can take away the tag of 'holy cow' in the defence budgeting process, thereby, bringing in openness and transparency in and of the defence budgeting process.

Linkage of plans with programmes. Programming can provide a bridge between defence planning and budgeting, which can make both output oriented. To say the obvious, unless the defence plan is output oriented, defence budget cannot be output oriented and unless costs of programmes are worked out in all its dimensions, the link between planning and budgeting would be very weak. Notwithstanding the fact that plans precede budgeting process, initiation of outcome budgeting first can serve as an impetus to make defence plan as output oriented.

Outcome budget intends to relate the amounts budgeted with the results intended to be achieved. Acquisition of individual defence system or creation of military units by themselves is not the objective of the use of public funds. It is supposed to strengthen certain defence capability, which should come out of a capability based defence planning process. This will enable information towards the outcome in its qualitative aspect.

Transparency and accountability. Budget transparency can be defined as »the full disclosure of all relevant fiscal information in a timely and systematic manner« (OECD, 2001). The public availability of frequent and useful quality information on fiscal and budget decisions and outcomes is a pre-requisite for accountability. Without such information it is not possible to hold public officials to account for the use of resources. Lack of accountability creates an incentive for corruption. Also, the lack of reliable information on the use of public resources can cripple any attempt to uphold sanctions against corruption. Fiscal and budget transparency is therefore a pre-requisite in any anti-corruption programme, as an underpinning to both preventative and curative measures.

In a modern democracy the right of citizens to know how their government spends money underpins fiscal transparency. Even without recourse to the principles of democracy, the availability of good information on budgets is important for better government. Such information enables public debate which may improve resource allocation; it is a prerequisite for accountability, leading to better decision-making and reduced corruption; and it may enhance social consensus on difficult trade-offs in the context of limited resources and multiple demands. The enhancement of information availability and usefulness through the defence outcome budget can establish actual expenditure data, directly comparable with estimated spending classifications. This will improve the usefulness of budget information through the addition of outcome information.

Financial outlays, physical outputs and outcomes (intermediate/partial and final). The defence outcome budget could link the financial outlays with the projected physical outputs and the intermediate/final outcome. The key terms ‘outlays’, ‘outputs’ and ‘outcome’ in the budget have been defined by the ministry of finance as follows:

While outlays imply total financial resources deployed for achieving certain outcomes, outputs are a measure of a physical quantity of the goods or services produced under a scheme or a programme. They are usually an intermediate stage between outlays and outcomes. Outcomes are the end products/results of various initiatives and interventions, including those in partnership with public sector undertakings, autonomous bodies, etc. They involve much more than mere output since they cover the quality of the goods or services. The Finance Minister in his foreword to the outcome budget document on 25th August 2005, aptly stated: »I must caution that outlays do not necessarily mean outcome. People of the country are concerned with the outcomes.« Notwithstanding the fact that the conversion of outlays into outcomes is a complex process the principles enunciated in regard to the outcome budget in the civil ministries such as benchmarking standards/quality of outcome in

services, standardising unit cost of delivery, capacity building for requisite efficiency at all levels in terms of equipment, technology, knowledge and skills, and to further ensure flow of appropriate funds at the right time to the right level, with neither delay nor »parking« of funds, effective monitoring, evaluation and feedback system are equally applicable to the defence setup. The introduction of outcome budget in defence is possible within the said parameters to a considerable extent.

The outcome budget, linked with performance, will not merely reflect results of a year but also indicate the progress in achieving certain long-term objectives, such as cumulative performance and final outcome. As an example, hypothetically if an outcome budget has been finalised reflecting the goal and vision of the self reliance plan, formulated in the year 2000, which aimed at 70 per cent self-reliance in certain areas of defence production over a 10-year period, it would have known by now, i.e., during the year 2010, as to what has been achieved and where the ministry of defence has fallen short. This would help the decision makers, right from administrative authorities to legislative authority in taking corrective measures for the next decade to reduce imports and achieve greater self-reliance. Further, the need to enhance indigenisation and reduce imports has remained a long objective of ministry of defence as well as government of India. Introduction of outcome budgeting in defence would help to the results with respect to the plan.

It is a common perception that disclosure of defence outlays in the prescribed outcome budgetary format would reveal the sensitive and secretive part of defence information. But many aspects of defence management like housing, transport, hardware maintenance and other logistics have lower sensitivities in disclosures and more amenable to monitoring through quantifiable physical targets that can be linked to budget. For example, X per cent housing satisfaction by year Y can be an outcome for the defence budget boosting force morale. Similar budget-linked quantitative targets can be set for welfare of ex-Service personnel as part of outcome budget. Similarly, there are a number of areas in the defence sector which are amenable for introduction of outcome budget. This can be the starting point for introduction of outcome budgeting in defence even without waiting for any fundamental changes in the ministry of defence functioning. Value addition can be done over the years. Areas where these could be considered with definite yardsticks for measurement are:

1. Maintenance and production workshops in the three services;
2. Ordnance factories;
3. Training;
4. Repairs and refit of certain ships under the navy;
5. Certain components of research and development establishments;
6. Capital works other than those connected with any weapon system;
7. Ordnance depots (at least other than arms and ammunition);
8. Married accommodation project;
9. Ex-servicemen's health scheme;
10. Troops ration including animal ration;

11. Ordnance supplies;
12. Clothing supplies;
13. Medical facilities;
14. Vehicles;
15. Troop's children education.

There could also be a number of other items other than those listed above. A rough conservative estimate of those that are non-sensitive in nature, show that at least Rs. 15,000 crore of the defence budget could be brought under the outcome budget and placed in the public domain (Sivasubramanian, 2003). This could form part I of volume I of the outcome budget. In these areas, the public has as much right to information as in the civil sector. Many more categories, especially of equipment, can also be brought under outcome budget for purposes of internal controls. This second segment could be volume II of the outcome budget and can be the internal document of the government, which has the right to keep information to itself in case it is of a sensitive nature.

Development of a programme based budgeting would require a huge amount of cost accounting. Work needs to be done for each type of transaction in various units, formations, workshops, headquarters, etc., within a service and across the services. A highly automated system, with networking cutting across the boundaries of services and departments, would facilitate the task. The methodology and structure for programme based budgeting in a time-bound manner would require systematic planning and implementation in a phased manner.

In the interim, the best approach would be to enhance the financial information system and networking, and operate an outcome budget as spelt out in the preceding paragraphs, which will enable better-decision making. A danger is that even a system once created or established tends to get into disuse with poor maintenance. For instance, the initial enthusiasm for creation of websites in various institutions, especially in the government sector, was not sustained thereafter due to poor maintenance in terms of updated information. The financial system without regular and online update and with thousands of inputs coming from different units would make any budget and reporting systems incomplete and may even be misleading.

Outcome budget and sound public policy practices. Outcome budget and evidence: The main reason for basing policy on evidence instead of belief or hunch is to provide taxpayers an acceptable return on the enormous investment the nation makes in its public programs. Unlike the private sector, there is no feedback from market tests in the public sector, Without objective measurements of reach, impact, cost effectiveness, and unplanned side effects, how can government know when it's time to pull the plug, regroup, or, in business lingo, »ramp up«? As program costs rise, so do the costs of not knowing. Another force also heightens this urgency: unusually fierce competition for funding. Increased requirements for funding put pressure on government programs. Decisions will have to be made about which programs to scale back, which to restructure so that they are more efficient, and which

priorities deserve the very limited resources that will be available. Outcomes based evidence cannot help solve every problem or fix every program, but it can illuminate the path to more effective public policy and can provide sound foundation to good public policy.

Efficiency and effectiveness in outcome budget: A good public policy has to be effective (achieve its goals) and efficient (do so in a way that achieves the greatest possible benefit at the least possible cost). The outcome budget in defence will improve efficiency and effectiveness of public spending and will also help maintain the fiscal discipline. It alleviates budget constraints as it allows achieving the same results at lower levels of spending or increases value for money by achieving better outcomes at the same level of spending. The outcome budget will cover all the long-term effects of defence programmes in terms of physical outputs and shall be able to capture the various dimensions qualitative outcomes. Output budget in defence can serve the necessary indicator/parameter to evaluate the efficiency and effectiveness of the defence budgetary inputs.

The defence budget is already of a very large magnitude. In a period of 20 years, it has grown almost six times – from an outlay of Rs. 16,347 crore in 1991–1992 to Rs. 105,700 crore in 2010–2011. As a component of the central government budget, it continues to be the largest among all departments. It has very large components of expenditure that are totally non-sensitive in nature and on which information is available through various documents. But what is lacking is information on results of the large outlays and sometimes even the output. The defence budget has not had the benefit of having a performance budget component. Though the performance budget in many of the civil ministries does not always help in assessing the value of money realised out of the outlays, these aspects can be rectified through the outcome budget. There is a growing trend towards defence budgetary especially in view of the huge costs involved in certain modern weapon platform and systems. Therefore, the financial information systems need to be improved and enhanced. The budget system should ensure transparency and accountability and responsibility at all levels and display that value for money has been realised. The information technology available today will facilitate tasks which were not possible earlier. A document such as an outcome budget will enable a single point reference for all concerned in place of a multiplicity of papers that need to be consulted. An outcome budget, along with a performance budget, would be a first step in this direction. These would be supplements to the existing volumes of DSE. There is also a need to make a beginning in preparing programme budget in select areas, given the manpower resources constraints and the gaps in total connectivity and network.

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APPENDICES

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Appendix 1: List of Abbreviations used

AFS	Annual Financial Statement
AA	Appropriation Account
C&AG	Comptroller and Auditor General
CIPFA	Chartered Institute for Public Finance and Accounting
CPC	Central Pay Commission
DGQA	Director General Quality Assurance
DGNCC	Director General National Cadet Corps
DGOF	Director General Ordnance Factories
OECD	Organization of Economic Co-operation and Development
PM	Prime Minister
PMB	Performance Management Budget
PPB	Program Performance Budget
MbO	Management by Objectives
MOD	Ministry of Defence
NAPA	National Academy of Public Administration
UN	United Nations
PPBS	Programme, Planning and Budgeting Systems
SMART	Specific, Measurable, Achievable, Reports-focused and Time-bound
NHS	National Health Service
SAO	State Audit Office
ROB	Result-Orientated Budgeting
ZBB	Zero Base Budget

Appendix 2: Ministry of Finance office memorandum on ‘Guidelines for preparation of outcome budget 2006–2007 and performance budget 2005–2006’

F. No.2 (1) Pers/E-Coord/OB/2005
Ministry of Finance
Department of Expenditure

New Delhi, the 30th December, 2005

OFFICE MEMORANDUM

SUBJECT: GUIDELINES FOR PREPARATION OF OUTCOME BUDGET 2006–2007 AND PERFORMANCE BUDGET 2005–2006

Introduction

1. As the Ministries of Agriculture etc. are aware, a system of performance budgeting by Ministries handling development programmes was introduced in 1969 on the basis of the recommendations of the Administrative Reforms Commission. A need has for some time been felt to address certain weaknesses that 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 the ensuing year. Besides, there is growing concern to track not just the intermediate physical »outputs« that are more readily measurable but the »outcomes«, which are the end objectives of State intervention, as articulated by the Finance Minister in Para 100 of his Budget Speech (Budget 2005–2006). Subsequently, the Prime Minister, in his letter dated March 17, 2005 addressed to all Union Ministers urged them to examine the programmes/schemes being implemented and convert their financial outlays into physical outcomes with quarterly targets in respect of each.
2. Outcome Budget 2005–2006 was accordingly presented to both the Houses of the Parliament on August 25, 2005. The Foreword to this document lays down not only a conceptual framework but also a broad roadmap of direction of future reforms in this area. It would also be useful to refer to the Background Note prepared by this Ministry for circulation to the Consultative Committee of Members of Parliament in its meeting held on August 17, 2005. It was circulated to all the Ministries/Departments (vide Addl. Secretary (Exp)’s D.O. letter No. 2(1) Pers/E-Coord/OB/2005 dt November 9, 2005).

Scope of coverage in Outcome Budget 2006–2007

3. The Outcome Budget documents will be prepared separately by each Ministry/Department in respect of all Demands/Appropriations controlled by them, except those exempted from this requirement and to the extent disclosures are not barred on considerations of security etc. A list of exempted Demands/Appropriations is enclosed at **Annexure I**. However, even the Ministries/Departments and other authorities »exempted« from preparation of Outcome Budget 2006–2007 and placing it in public domain are requested to carry out this exercise for internal use and voluntarily deciding to place it in public domain, fully or partially.
4. Another important feature on which the work has to commence is in terms of sub-targets for coverage of women and SC/ST beneficiaries of State intervention and schemes for the benefit of the North-Eastern Region. Without making it mandatory, the Ministries/Departments are encouraged to attempt this as far as feasible.

Identification of ‘outcomes’ and process of converting ‘outlays’ into ‘outcomes’

5. Three key terms used in these guidelines, viz., ‘Outlays’, ‘Outputs’ and ‘Outcomes’ are elaborated in **Annexure II**. 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 programme to programme. Preparation of the Outcome Budget is an evolving and dynamic process, which will require detailed scrutiny and examination on yearly basis, with value addition based on the preceding year’s experience. Some of the important steps in this conversion process are as follows:

- a) Defining intermediate and final outcomes specifically in measurable and monitorable terms;
- b) Standardizing unit cost of delivery;
- c) Benchmarking the standards/quality of outcomes and services;
- d) Capacity building for requisite efficiency at all levels, in terms of equipment, technology, knowledge and skills;
- e) Ensuring adequate flow of funds at the appropriate time to the appropriate level, avoiding both delay and ‘parking’ of funds;
- f) Setting up effective monitoring and evaluation systems, to indicate the directions for further calibration and honing the processes, to deliver the intended outcomes;
- g) Involving the community/target groups/recipients of the service, with easy access and feedback systems.

Broad Format of Outcome Budget 2006–2007

6. The Outcome Budget 2006–2007 will be prepared on the basis of Budget 2006–2007 in the form of a document, separate for each Ministry/Department, broadly consisting of the following three chapters:

Chapter I: This will detail the mandate, goals and objectives as well as policy framework and vision statement of the Ministry/Department.

Chapter II: This will contain a tabular format, which may be visualized as »vertical compression and horizontal expansion« of the Statement of Budget Estimate (SBE) included in the Expenditure Budget Vol. II (with suitably adapted format for Railways), with separate tables for separate Demands/Appropriations controlled by the Ministry/Department so as to establish a one-to-one correspondence between (Financial) Budget 2006–2007 and Outcome Budget 2006–2007. The details will comprise of the financial outlays, projected physical outputs and projected/budgeted outcomes (intermediate/partial and final, as the case may be). An indicative format for these Demand/Appropriation – wise tables is enclosed at **Annexure III**. Explanatory notes may be liberally added, wherever necessary. The following points may be noted in respect of the contents of Chapter II:

- i) The description of items should exactly match with the description shown for the different items in the Statement of Budget Estimate (SBE) as included in Expenditure Budget Vol. II of the Budget 2006–2007. Minor items may be clubbed to avoid cluttering up.
- ii) The term »complementary extra-budgetary resources« refers to the resources committed for the purpose by the entities other than the Central Government. Typically, it would include matching share from the State Governments for Centrally Sponsored Schemes or resource

contribution by Public Sector Undertakings or by private parties in the case of public private partnership projects.

- iii) There should be a separate table for each Central Public Sector Enterprise (CPSE) under the administrative control of the Ministry, with itemized listing of major projects in hand. The Outcome Budget will be prepared on the basis of the »Central Plan Outlay« comprising of both the Gross Budgetary Support component as well as the Internal & Extra Budgetary Resources (IEBR) component of the Central Plan Outlay. Thus, the Outcome Budget in respect of CPSEs may be prepared even if there is no budgetary support.
- iv) Wherever a Ministry/Department has large Autonomous Bodies substantially dependent upon Government for financial support, separate tables may also be considered for each such organization as per the assessment of the Ministry/Department.
- v) The tables concerning CPSEs or Autonomous Bodies should list out important projects in hand and give such details as sanctioned cost, scheduled date of completion, total cumulative expenditure till the beginning of the year, total expenditure planned during 2006–2007, likely date of completion, and the related »outputs« and »outcomes«.
- vi) The ‘final outcome’ need not necessarily be co-terminus with the annual outlays and ‘intermediate physical outputs’. ‘Final outcomes’ may span a longer time frame than the annual final outlays and corresponding intermediate outputs. Wherever the ‘final outcomes’ are estimated to take longer than one year, the estimated time frame should be clearly indicated. In case the gestation is four to five years or longer, the ‘partial outcomes’ need to be tracked on an annual basis to ensure that the ‘final outcomes’ once indicated as achievable after five years are not forgotten or mechanically repeated in the document from one year to the other, and that the progress made towards achieving the final goal is reflected. Information should be provided whether the project is in the ‘initial’ stage, ‘intermediate’ stage or ‘final’ stage.
- vii) Wherever ‘physical outputs’ are in a sense the ‘final outcomes’, assessment of ‘quality of output’ through ‘appropriate indicators of quality’ should be brought out.
- viii) Wherever ‘final outcomes’ are not the direct results of the annual outlays and are the cumulative effect of past several years’ outlays, this should be clearly explained.
- ix) The ‘final outcome’ component of the Outcome Budget need not necessarily have yearly targets, as final outcomes will vary by Ministry and Programme. ‘Final outcome’ wherever possible can be measured in a five year time frame in line with Five Year plans. ‘Partial outcome’ may be mentioned in these cases in the Outcome Budget of that year.
- x) Where the ‘final outcomes’ are not measurable and quantifiable, the likely benefits that will accrue may be incorporated.
- xi) The explanatory notes should attempt to bring out the role and financial commitment of other agencies that is required to fructify the intended outcomes of a particular scheme of the Ministry/Department, even though such agencies may or may not be directly involved in the implementation and may be providing complementary services.
- xii) The non-Plan expenditures are necessary to maintain the basic infrastructure without which the Plan interventions are bound to fail in meeting the intended objectives. Role of non-Plan expenditure is therefore supplementary and facilitative. Hence, outcomes cannot be categorized as Plan outcomes and non-Plan outcomes. The Outcome Budget 2006–2007 will also cover non-Plan expenditure as far as possible. The column on Budget Support in 2006–2007 would have two sub-columns »Plan« and »non-Plan« and the outcomes will be related to the total budget provision. Schemes/items in the Statement of Budget Estimates having

only non-Plan expenditures, which can be linked to certain deliverable outputs, should find mention in the Outcome Budget.

- xiii) The outcomes are the ultimate aims of Government policy and budgetary support. In due course, capacity should be built to include »tax expenditures« as well, i.e., the revenue foregone in promotion of certain objectives but this does not apply to Outcome Budget 2006–2007.

Chapter III: This will detail reform measures and policy initiatives, if any, taken by the Ministry/Department and how they relate to the intermediate outputs and final outcomes in areas such as public private partnerships, alternate delivery mechanisms, social and gender empowerment processes, greater decentralization, transparency, etc.

Broad Format of »Performance Budget 2005–2006«

7. Every Ministry/Department will prepare its Performance Budget highlighting the performance at least up to the third quarter of 2005–2006 (i.e. up to 31st December 2005). The document should broadly consist of the following chapters:

Chapter-I A brief introductory note on the functions of the Ministry/Department, organizational set up, programmes/schemes implemented by the Ministry/Department.

Chapter-II Financial review covering overall trends in expenditure *vis-à-vis* Budget Estimates/Revised Estimates in recent years, including the current year. Data should be segregated scheme-wise and object head-wise. Position of outstanding utilization certificates and unspent balances with States and implementation agencies should also be brought out.

Chapter-III Scheme-wise physical performance with the reasons for variations, explaining the scope and objectives of individual programmes/schemes, giving their physical targets and achievements,

Chapter-IV Review of performance of Statutory and Autonomous Bodies under the administrative control of the Ministry/Department.

Chapter-V (if applicable) Details of actual achievements *vis-à-vis* the intended outcomes indicated in the Outcome Budget 2005–2006, i.e., »Outcome« of the »Outcome Budget 2005–2006«, with appropriate additional columns and explanatory notes, as required.

Certain presentational features

8. It is desirable that the above documents brought out by different Ministries/Departments have a common level of detailing, at least for a minimum set of disclosure parameters; separately in Hindi and English; be reader-friendly and adopt certain common printing formats. Accordingly, the following may be kept in view:

- i) In the case of Departments having total budget provision of less than Rs. 100 crore (as per the netted figure shown in the Expenditure Budget Vol. II), all amounts may be shown in »Rs. in lakhs« with two decimal places. For others, the amount may be shown in »Rs. in crore« with two decimal places. The amounts may be shown with comma separators.
- ii) Each page may be given a running header giving the chapter number, title and page number running for the whole document from the 1st page of chapter I. The documents may be printed on the size of paper used for Detailed Demands for Grants.
- iii) Any other addition/alteration, inclusion of graphics/charts etc to improve readability of the document.

Planning for future refinements

9. The Ministries/Departments are advised to put in place, if not already there, systems of data collection, with the help of specialized agencies wherever necessary, for the purpose of (i) developing measurable »indices of performance« to measure and assess quality of implementation; (ii) developing norms of standard unit cost of delivery of a service; (iii) quantification/factoring in of environmental outcomes; (iv) quantification of community and empowerment outcomes through social capital formation; and (v) quantification of impact of funds earmarked for publicity/awareness generation. This will not only involve collecting data on past trends but also on present developments in markets and technology. The Ministries/Departments are encouraged to make use of the services of the Cost Accounts Branch of this Department in addressing the costing issues.

Independent Evaluation

10. The Ministries/Departments may engage independent evaluators and assessment agencies for scrutiny/evaluation of the achievements against physical outputs and final outcomes of major flagship schemes. Due care may be taken to avoid duplication of efforts with evaluation studies conducted by the Planning Commission or the Ministry of Programme Implementation.

Time schedule and responsibility

11. The Outcome Budget 2006–2007 and the Performance Budget 2005–2006 should be presented to both the Houses of Parliament, after final approval of the Minister in charge, latest by March 20, 2006 (before the Houses go into recess) so that these are available to the Departmental Standing Committees of Parliament for examination during the recess period. The Ministries/Departments should also place these documents in the public domain by putting it on their website after presentation in Parliament.
12. Responsibility for preparation of both these documents will rest essentially with the Ministries/Departments. The Financial Adviser of the Ministry/Department will be the nodal officer for coordinating the whole exercise and organizing »need-based consultations« with various officers whether within the administrative Ministry/Department or with the Ministry of Finance, the Planning Commission and outside experts, with due regards to the confidentiality of the budget process.

All Secretaries to the Government of India

All Financial Advisers to the Ministries/Departments

All Heads of accounting wings in the Ministries/Departments

Copy to: Member Secretary, Planning Commission 5

Annexure I
List of demand/appropriations in respect of which
Outcome budget is not mandatory

The Outcome Budget 2006–2007 is intended to cover the entire Central Plan Outlay (Gross Budget Support and Internal and Extra Budgetary Resources) and connected non-Plan provisions that are amenable to Outcome Budgeting. In general, a Ministry/ Department may exclude the »Assistance to State Plan« component of its Plan Budget from the scope of Outcome Budget. The following demand/appropriations (as per Budget 2005–2006) are specifically exempted from the purview of outcome budgeting.

Demand numbers are. Ministry of Defence
Defence Pensions
Defence Services – Army
Defence Services – Navy
Defence Services – Air Force
Defence Ordnance Factories
Defence Services – Research and Development
Capital Outlay on Defence Services
Interest Payments
Transfer to State and Union Territory Governments
Loans to Government Servants etc.
Repayment of Debt
Pensions
Indian Audit and Accounts Department
Cabinet
Transfers to Union Territory Governments
Election Commission
Supreme Court of India
Ministry of Parliamentary Affairs
Ministry of Personnel, Public Grievances and Pensions
Staff, Household and Allowances of the President
Lok Sabha
Rajya Sabha
Union Public Service Commission
Secretariat of the Vice-President
Andaman & Nicobar Islands
Chandigarh
Dadra & Nagar Haveli
Daman & Diu
Lakshadweep

Annexure II

Outlays, Outputs and Outcomes

1. It is recognized that in the long process of conversion of outlays into outcomes, there are several intermediate stages and complementary resources are also required in achieving intended outcomes. The cause and effect chain is not always direct and several environmental factors come into play that influence the actual outcomes, not just the outlays earmarked. Nevertheless, a broad understanding of these would be helpful in finalizing the content of the Outcome Budget.
 - **Outlays** imply total financial resources deployed for achieving certain outcomes. Part of this money may come directly from the Government budget and part may be contributed by other stakeholders such as the State Governments, Public Sector Undertakings or even private parties in the growing area of Public Private Partnerships. As far as possible, total resource commitment should be brought out in the Outcome Budget with clear segregation of Central Government's budgetary support. The outlays should be segregated scheme-wise, covering both Plan/Non Plan budget (as shown in the Expenditure Budget Vol. II) for the financial year in monetary terms. In case of projects (whether Government or parastatal) spanning multi-year time frames, total sanctioned cost of the project and the planned annual expenditure both should be brought out as both are relevant 'outlays' for effecting linkage with outcomes.
 - **Outputs** are a measure of the physical quantity of the goods or services produced through an activity under a scheme or programme. They are usually an intermediate stage between 'outlays' and 'outcomes'. For example, construction/completion of a school building is the 'output', whereas increase in the literacy rate will be the 'final outcome'. Enrollment would be an »intermediate outcome«. Similarly, for a social sector programme/scheme, the intermediate results before identifying, measuring and arriving at the 'final outcome' as per the objectives of the said programme/scheme, may be treated as 'output'. The purpose is to capture intermediate 'outputs' before identifying and measuring the 'final outcome'.
 - **Outcomes** are the end products/results of various Government initiatives and interventions, including those involving partnership with the State Governments, Public Sector Undertaking, Autonomous Bodies, private sector and the community. 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 programme. The 'outcomes' will be measured keeping in mind the objectives of the programme/scheme by following appropriate methodology
2. Ministries may find it useful to refer to Millennium Development Goals, Plan documents and Performance Budgets in formulation of outputs and outcomes. Both the Outputs and Outcomes should be in measurable terms. This would typically be in terms of movement of absolute numbers and/or percentages over a certain time frame. The percentages may be in terms of annual growth or share in certain broader aggregate.
3. Major programmes listed in the SBE must be shown separately, while smaller items of SBE may be clubbed. An exercise to weed out schemes with sub-critical financial outlays or merge them appropriately into major programmes is separately being undertaken.
4. Typical examples of outcomes/outlays are given below for illustration:

Outcomes

- Improvement in literacy level from -- % to ___ % by a target year or bringing ___ (no.) of educationally most backward districts (or other administrative unit) to minimum 50 % literacy by a target year.
- Similar targets for ‘Infant Mortality Rate’, ‘Minimum employment guaranteed under law: % of population/districts covered’, ‘% of children covered under immunization programme, % of villages provided with access to potable water, % of villages connected to block headquarters by all –weather road; % of villages/blocks/districts certified by Ministry of Labor as »Minimum Wage –compliant«; % share in total power generating capacity, volume of trade with developing countries; tourist arrivals; etc
- Sub-targets, to the extent feasible, for coverage of women, SC/ST population, Special Category States, North Eastern Region etc may be considered for further value-addition.

Outputs

- Quantity and value goods/services produced or supplied; number of new schools, primary health centers or Anganwadis opened; number of children enrolled, enrollment ratio and retention ratio; number of beneficiaries assisted; amount of (subsidy linked) credit disbursed; number of mandays employment generated and value of assets created or incremental value of work in progress

Appendix 3: Key Principles of Sound Budgeting and Financial Management

- **Comprehensiveness:** The budget must encompass all fiscal operations of government.
- **Discipline:** Decision making must be restrained by resource realities over the medium term; the budget should absorb only those resources necessary to implement government policies; and budget allocations should be adhered to.
- **Legitimacy:** Policy makers who can change policies during implementation must take part in and agree to the original policy.
- **Flexibility:** Decisions should be pushed to the point where all relevant information is available.
- **Predictability:** There must be stability in macro and strategic policy and in funding of existing policy.
- **Contestability:** All sectors must compete on an equal footing for funding during budget planning and formulation.
- **Honesty:** The budget must be derived from unbiased projections of revenue and expenditure.
- **Information:** A medium-term aggregate expenditure baseline against which the budgetary impact of policy changes can be measured and accurate information on costs, outputs and outcomes should be available.
- **Transparency:** Decision makers should have all relevant issues and information before them when they make decisions and these decisions and their basis should be communicated to the public.
- **Accountability:** Decision makers are responsible for the exercise of the authority provided to them.

Source: Poverty Reduction and Economic Management Network, Public Expenditure Management Handbook, 1998.

Appendix 4: How OECD countries ensure the quality of performance information country approach

Australia Performance audit of the 3Es including delivery of outputs and outcomes with emphasis on improved control and performance. Agencies performance information is audited by the Auditor General's Office.

Denmark Regular audits of performance information by the Auditor General.

Finland Has two audit bodies: State Audit Office and Office of Parliamentary State Auditors. SAO conducts audits of performance data and 'episodic' performance audits.

The Netherlands The Court of Audit conducts audits of efficiency and effectiveness including reviews of performance measurement systems and review of programme effectiveness.

New Zealand the Audit Officer audits performance information including assessments of the fairness of service performance reporting.

Sweden National Audit Office has a 'strong' system of performance auditing.

United States of America the GAO scores agencies' performance plans.

Source: Adapted from Talbot et al., 2001.

Appendix 5: Overview of the Australian government's outcomes framework

The purpose of the outcomes framework is outlined in the following extract from Finance's policy guidance, first published in November 2000 and updated in 2003: »The outcomes and outputs framework is intended to be dynamic and flexible. It works as a decision hierarchy:

- Government (through its ministers and with the assistance of relevant agencies) specifies the outcomes it is seeking to achieve in a given area.
- These outcomes are specified in terms of the impact government is aiming to have on some aspect of society (e.g. education), the economy (e.g. exports) or the national interest (e.g. defence).
- Parliament appropriates funds to allow the government to achieve these outcomes through administered items and departmental outputs.
- Items such as grants, transfers and benefit payments are administered on the government's behalf by agencies, with a view to maximising their contribution to the specified outcomes.
- Agencies specify and manage their outputs to maximise their contribution to the achievement of the government's desired outcomes.
- Performance indicators are developed to allow scrutiny of effectiveness (i.e. the impact of the outputs and administered items on outcomes) and efficiency (especially in terms of the application of administered items and the price, quality and quantity of outputs) and to enable the system to be further developed to improve performance and accountability for results.« The framework applies to all agencies and authorities in the general government sector, and the agency or authority is the basic unit of organisation* – that is, outcome statements are agency statements but must be agreed by the portfolio minister and the Minister for Finance and Administration. Performance measures and targets are set by each minister for their areas of responsibility, taking account of the conditions under which they operate, including the available budget. The framework is intended to serve a number of objectives:
 - a strategic objective: to guide overall resource allocation (budget measure) decisions by the government in the budget context;
 - as the basis for parliament to appropriate money in the annual appropriation acts. In practice, neither departmental outputs (18 % of total expenses) nor administered programmes appropriated by special or standing appropriations (73 % of total expenses) are appropriated against outcomes; only administered programmes included in the annual appropriation acts (9 % of total appropriations) are appropriated by outcome; an agency management objective: departmental outputs and administered programmes are directed to the achievement of the results or impacts specified in the relevant agency's outcome statement;
 - accountability and transparency to parliament and other stakeholders, achieved by reporting on the agency's performance in producing the government's intended outcomes through the departmental outputs it delivers and the programmes it administers on behalf of the government.

Source: Department of Finance and Administration, Specifying Outcomes and Outputs – Implementing the Commonwealth's Accrual-based Outcomes and Outputs Framework, Canberra, 1998,