Orissa Water Utility Budgeting Manual, India

Final Report

Indo-USAID Financial Institutions Reform and Expansion Project—
Debt & Infrastructure Component (FIRE-D Project)

USAID-TCGI Contract No. 386-C-00-04-00119-00

October 2010

This publication was produced for review by the United States Agency for International Development.
It was prepared by The Communities Group International (TCGI), in partnership with AECOM.

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ORISSA WATER UTILITY BUDGETING MANUAL

PUBLIC HEALTH ENGINEERING ORGANISATION

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

GOVERNMENT OF ORISSA

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ABBREVIATIONS

AOP	Annual Operating Plan
BCR	Benefits Cost Ratio
BMC	Bhubaneswar Municipal Corporation
CAA	Constitution Amendment Act
DP	Decision Package
DU	Decision Units
GoI	Government of India
GoO	Government of Orissa
IO	Investment Opportunity
JnNURM	Jawaharlal Nehru Urban Renewal Mission
MoA	Memorandum of Agreement
OP	Operating Plan
OWBM	Orissa Water Utility Budgeting Manual
PHEO	Public Health Engineering Organisation
ULB	Urban Local Bodies
WS and SS	Water Supply and Sanitation Services
ZBB	Zero Based Bugdeting

Inside out

CHAPTER 1

INTRODUCTION

PROJECT BACKGROUND

1.1 The State of Orissa is taking several steps to improve the quality of life of its urban population.There is a realization among the state officials about the need to implement the decentralization measures as envisaged in 74th Constitution Amendment Act (CAA). Further, the reform driven Jawaharlal Nehru Urban Renewal Mission (JnNURM) also mandated transfer of functions and implementation of key financial management reforms. To access the central funds under JnNURM, the states are required to sign a Memorandum of Agreement (MoA) with Government of India (GoI) committing themselves to time bound reform inititatives.

1.2 As per the MoA signed with GoI, Government of Orissa (GoO) agreed to transfer water and sanitation responsibilities to the State's Urban Local Bodies (ULB). To this effect, GoO issued gazette notification dated November 18, 2006. As per the said notification, the operation, maintenance of the water supply system and collection of water tariff would be transferred to the ULB. At present, Public Health Engineering Organisation (PHEO) is responsible for the delivery of water and sanitation services in the State.

CREATION OF RING FENCED ENTITY

1.3 In this direction, on a pilot basis, the GoO has decided to transfer the responsibility for water and sanitation services to the Bhubaneswar Municipal Corporation (BMC). It is envisaged that the existing WS and SS undertaking (including assets, liabilities, rights, claims, proceedings, etc.) will be transferred to BMC for a mutually agreed consideration between GoO and BMC, and that the PHEO services would be corporatized by setting up a state-owned entity to operate and manage the system to provide water and sanitation services in Bhubaneswar under a performance-based contract with BMC[1]. Further, this ring fenced entity:

- Will be fully owned by the State Government
- Will function as an autonomous body that provides improved water services

[1] As a first step in the above process, GoO requested the Indo-USAID Financial Institutions Reform and Expansion (FIRE-D) project, which has demonstrated expertise in the area of urban sector reforms, to support the implementation of ring fencing the budget of Water Supply (WS) and Sanitation Services (SS) of Bhubaneswar within the overall PHEO budget, coupled with financial management reforms in the PHEO.

- Is accountable to the municipal government of the city
- Is regulated through a performance-based contracting framework
- Operates as a financially viable entity with declining financial support (subsidy) from the State Government.

PROPOSED OPERATIONAL STRUCTURE

1.4 The proposed operational structure of the entity is based on the following premises:

- The proposed entity will be accountable to BMC
- The State Government shall depute the personnel working in the concerned circle and Divisions pertaining to Bhubaneswar from PHEO to the proposed entity
- The proposed entity shall enter into a performance-based management contract with BMC for providing water and sewerage services
- The proposed entity shall manage the WS and SS for Bhubaneswar city
- The State Government will continue to release the salaries and allowances of all PHEO staff deputed to the proposed entity
- The water tariff would continue to be set by the Government and collected by the proposed entity and continue to be deposited with the Government. Further, mechanism will be evolved to incentivise the ULB to achieve better collection of water tariff in future.

1.5 The institutional arrangement is given in the exhibit 1.1 below.

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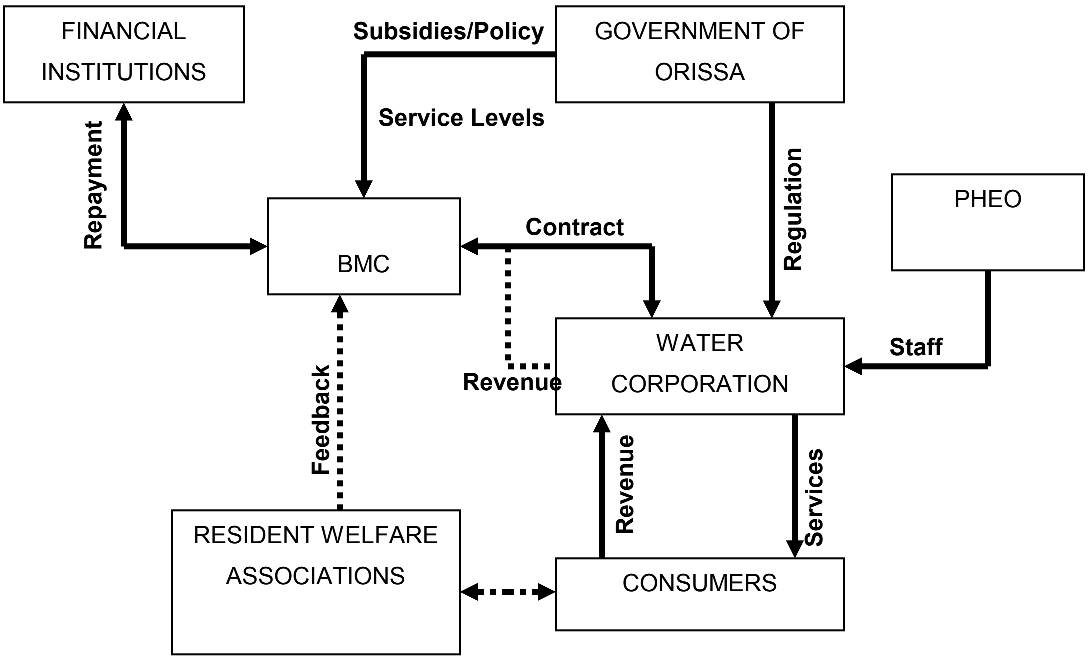
Exhibit 1.1

Institutional Arrangement of the entity



1.6 The ring fenced entity is in the process of being created. As part of the process, it was proposed to ring fence the accounts and budget of the Bhubaneswar within PHEO and transition them to accrual based double entry system of accounting and accrual budgeting. This budgeting manual attempts to assist the users of the ring fenced entity, both before the transfer to the proposed corporatized entity and later. However, as the budgeting manual is dependent on the organisation structure and the operational model of the proposed entity, the manual will require updation.

ORISSA WATER UTILITY BUDGETING MANUAL

1.7 The water supply function is proposed to be transferred to the ULB. In line with this objective, the Orissa Water Utility Budgeting Manual has been prepared to suit the requirements of water supply function.

OBJECTIVE OF THE MANUAL

1.8 The objective of the manual is to establish consistent and effective policies and procedures in order to ensure uniform practices throughout the entity. The policies and procedures specified in this manual shall be followed unless specific exemption is otherwise granted by the entity.

1.9 The aim of this manual is to provide guidance to all Budget Holders on their budget responsibilities and the parameters within which they must manage their budgets.

APPLICABILITY

1.10 The manual is applicable to the entity which is engaged in water supply and sewerage services in Orissa. Budgeting principles laid down in the manual are primarily based on accrual basis.

DEVIATION

1.11 Deviation from OWBM shall not normally be permitted unless backed by a justifiable request for deviation clearly outlining the following:

- Nature of deviation
- The reason for deviation
- The time span for which deviation is required
- The procedure that would be followed if deviation is approved.

1.12 Such request shall be submitted to the Head Office which shall then evaluate the necessity thereof and accordingly either approve or reject the same.

OWBM – THE STRUCTURE

1.13 The OWBM contains the required forms, formats, procedures, statements, etc.

1.14 This Manual has been structured as follows:

Part I - General

- Chapter 1 - Introduction (this Chapter)
- Chapter 2 - Definitions
- Chapter 3 – About Budgeting
- Chapter 4 – Budgeting Process
- Chapter 5 – Budgeting Control

Appendix : Forms and Registers

Inside out

Definitions

CHAPTER 2

BUDGETING DEFINITIONS

2.1 The various terms used in this Budgeting Manual are presented in this chapter.

DEFINITIONS

2.2 The definitions/descriptions/meanings of the various terms used in this manual are as follows.

1. Accruals - An estimate of expenditure which has been incurred but where no invoice has yet been received. These estimates are made at the end of each period (month, year) in order to give a fair reflection of the true activity in that period. Examples include electricity, contractor's fees, etc.
2. Accrual basis - Method of recognizing and accounting transactions when they occur without regard toward cash flow timing.
3. Activity - A portion of the work of an organizational unit relating to a specific function or class of functions, a project or program, a subproject or subprogram, or any convenient division of these.
4. Annual Operating Plan – The details the specific annual tasks which will be undertaken in a particular period and resources that will be needed, in order to achieve the objectives of entity.
5. Balance sheet - A summary of the assets and liabilities of an organisation at a particular date. Sometimes described as a 'snapshot' of an organisation.
6. Budget - This is largely the Annual Operating Plan expressed in financial terms. (Both capital and revenue.)
7. Budget Holder - The individual with day-to-day responsibility for preparing and monitoring a particular budget in accordance with the guidelines.
8. Budget Officer - Division Head who has overall responsibility for all budgets within their group and is responsible for ensuring that all budgets within his/her area are prepared and monitored in accordance with the guidelines.
9. Capital budget - A separate list of fixed asset purchases planned for the coming financial year(s).
10. Current assets - All the short-term assets, being amounts that are immediately

available or will be received by the organisation within twelve months of the balance sheet. Current asset includes stock, debtors, short-term deposits, bank and cash.

11. Current liabilities - Amounts that are due within one year.
12. Debtors - Amounts owed to the organisation.
13. Depreciation - An estimated revenue cost that is the recognition of the wear and tear on fixed assets. It also reduces the value of fixed assets in the balance sheet.
14. Evaluation - An assessment of the planning cycle needs to take place to ensure that entity is constantly learning and looking at ways to improve its processes.
15. Evidence-based - A method of budgeting, which draws on evidence gained in the current year and where evidence and justification is provided to support all figures in the budget.
16. Fixed assets - Assets held for long-term use, such as plant and machinery and equipments. It includes buildings, furniture, fittings, vehicles, water treatment plants and any items, which will last for more than twelve months.
17. Fixed costs - Costs that are unaffected by activity levels e.g. rent of building.
18. Forecast - An estimate based on out-turns year-end position, actuals to date and expected results for the remainder of the year.
19. Forecasting - During the year changes may need to be made to the number of events and how these were to be delivered.
20. Income and expenditure account - A summary of the income due and expenditure incurred for a financial year, showing the revenue transactions only.
21. Net assets - Total assets minus total liabilities.
22. Net book value- The value of fixed assets in the balance sheet, being the original cost minus the depreciation accumulated upto date. It will not be the same as the expected amount if the assets is sold, hence 'book' value. It is an estimate of the value to the organisation.
23. Objectives - The building blocks that will help the entity achieve its purposes.
24. Organisational appraisal - Assessment of entity's strengths and weaknesses in relation to the objectives it has set for itself.
25. Overheads - Costs not directly associated with an activity or the delivery of that activity e.g. office premises (rent, rates, etc.), depreciation. Sometimes called indirect costs.
26. Prepayments - Expenditure, which is paid in advance of being due, resulting in an adjustment to fairly reflect the correct activity for the period. Examples include rent and insurance, where the payments are made quarterly/yearly in advance.
27. Re-appropriation - The authorised transfer of under spending on one budget head to finance additional spending on another budget head, in accordance with the rules.

28. Revenue budget - A plan of all expected revenue expenditure and income over the coming financial year.
29. Strategic Plan – A plan that will enable an entity to achieve its mission and key purposes within the environment in which it exists. This is done after the mission of entity has been set, the key purposes of entity have been identified, and an analysis of entity internal and external environment has been undertaken.
30. Variable costs - Cost which vary according to the levels of activity.
31. Variance - This is the difference between actual performance and budget. It is often expressed as a percentage.
32. Adverse variance - This is where income is less than budgeted or expenditure is more.
33. Favourable variance - This is where income is more than budgeted or expenditure is less.
34. Variance analysis - The analysis of performance by means of variances. It is the process of computing the amount of and isolating the causes of variance.
35. Zero Based Budgeting - A method of analysing the budget by examining expenditure/income as well as the requirements for new expenditure/income.

Inside out

CHAPTER 3

ABOUT BUDGETING

INTRODUCTION

3.1 Budget is a financial plan describing proposed expenditure and means of financing the same. It embodies the estimated income and expenditure (both capital and revenue) for a financial year.

3.2 A budget is a specific sum of money allocated to carry out a specific plan for a specific period. It expresses plans and intentions in resource and financial terms having regard for the quantity and quality of services to be given. It is a proposal of how much money is to be spent on what and how much of it will be contributed by whom or how it would be raised during a financial year. It plays an important role in planning and controlling operations of the entity.

3.3 The process of such planning of sources and applications is called "budgeting" and the document that provides information on the planned source and application of funds is called a "Budget".

OBJECTIVES OF SETTING THE BUDGET

3.4 Budgeting is an important process in setting the direction of an organization and some of the key objectives of setting a budget are

- Set the overall direction of entity
- Set targets against which performance can be measured
- To provide financial expression to the entity's plans for service delivery in the coming year
- To meet the requirements of internal and external auditors that proper financial control is being exercised
- To provide documentation of plan and achievements
- To monitor operations

- To coordinate activities of different functions.

THE BUDGETING SYSTEM OF THE ENTITY

3.5 The budgeting system of the entity is evolved from best practices followed in other utilities and similar organizations. The system shall be guided by the following principles:

- The Income shall be estimated on accrual basis. The actual amount receivable shall be estimated in the budget rather than the collection.
- The expenditure shall be driven by what is "committed" and "incurred" rather than what is "paid". Budgetary control will be exercised keeping in mind the total commitments made.
- The budget in the new system is driven by the "function" or an activity. This will help the entity and other stakeholders in identifying the expenditure incurred on any specific function and the income received out of it.
- One of the key outputs of the budget is the balance sheet that indicates the asset and liability position as at the close of a budget period. This shall help the entity in planning for the future, fixing the priorities right and identifying the programmes and the means of financing the same.

KEY PLAYERS

BUDGET OFFICER

3.6 The budget officer shall be responsible for conducting the budget planning process, communicating timelines, preparing and assisting with budget forms. With the help of other officials, the budget officer shall gather estimated revenue data and proposed expenditures, prepare a preliminary budget, and present to the management for final review.

3.7 In the case of the proposed entity, the Head of the entity shall be the budget officer.

BUDGET HOLDERS

3.8 Budget holders are responsible for the total budget covering their relevant areas. The Management shall delegate adequate authority to the budget holders. Thus the budget holders shall ensure that:

- The bases and assumptions underlying the budget are clear and scrutinised annually
- Preparation of the budget clearly conforms to the approved budget principles, particularly with reference to committed growth and variations

- Any changes to the budget that are not inflationary are supported by working papers, and conform to the budget principles

- Budgetary control is exercised, and any budgetary matters including changes in provision, significant variations and the use of re-appropriation, are, in consultation with the Head of Finance

3.9 There shall be three types of budget holders:

Key Budget Holder	Head of the entity
Primary Budget Holders	Divisional/Department Head
Secondary Budget Holders	Operational Manager

3.10 The Head of the entity shall be the Key Budget Holder for all the entity's budgets. The Head of the entity shall delegate the management of a budget to Divisional/Departmental Heads according to the objectives of the budget.

3.11 Any delegation of budgets by the Head of the entity shall be accompanied by a clear definition of responsibility for the control of expenditure, exercise of re-appropriation and limits on the authorisation of expenditure as per the signatory list.

3.12 The Primary Budget Holders may further delegate budgets to operational managers as Secondary Budget Holders (functionaries); the Primary Delegated Budget Holder will however remain accountable to the Head of the entity for these budgets.

3.13 All staff employed in managing budgets are accountable for delivery of required standards of budget management at all times.

ACCOUNTS DEPARTMENT

3.14 The Accounts Department shall have a pivotal role to play in the budgeting exercise and shall work in close co-ordination with the Budget Officer. Their support shall be integral to the entity from the time of preparation of Budget Guideline Statement to obtaining Management's approval of the Annual Operating Plan. Accounts shall support various stages of the budgeting process by providing relevant comparison information and other current cost information to the Divisions/Departments for estimation and in compiling of Operating Plans to prepare the Annual Operating Plan.

3.15 In addition, the Accounts Department shall have the additional role of balancing the budget based on the available funds without compromising on achievement of objectives of the entity.

BUDGET COMMITTEE

3.16 The budget committee is a group of people who discusses and plans a budget. They discuss, plan, research, and present the budget plan to the management, who assigned them the job.

3.17 The budget committee shall be convened by the Head of the entity and the Divisional/ Departmental Heads shall be the members of the committee.

3.18 The Budget committee shall have the following responsibilities:

- To establish broad financial policies and reviews how those policies are implemented.
- Strive to optimize the limited financial resources available to meet the goals of the entity.
- To make the budget process easier to understand for members of the Committee and the larger entity, and to evaluate and implement opportunities for a more effective budget process.
- To review the revenue and capital budget of the entity and make decisions and recommendations about the allocation of available funds.
- To review requests for changes in the budget.
- To review financial reports prepared for management review, and to take action when the budget shows significant deviations.

BUDGET CENTRE

3.19 The focus of budgeting in the new system is to bring the responsibility and budget centre concept into the budgeting exercise by building a close linkage between

- the function, and
- the functionary as identifiable by personnel/positions responsible for any function

3.20 Thus, a combination of function and functionary is termed as a budget centre. For e.g. an engineer in works function shall be a budget centre.

BUDGET LIMIT

3.21 The budgetary limit for a Budget Holder is the total value of revenue and capital budgets for which they are responsible. This determines how much amount can be spent in particular head by each budget holder.

3.22 Each budget shall be split into a number of categories of spend (budget heads). A budget holder can exceed the budget limit (amount allocated) for an individual budget head, within the overall operating budget (cost centre) but only if they are able to correspondingly reduce expenditure on other budget heads. This will ensure a balanced position and is subject to the rules on re-appropriation.

3.23 Delegated Budget Holders can only authorise expenditure in line with the authorised signatory list.

METHOD OF BUDGETING

3.24 There are various methods of budgeting like line item budgeting, zero based budgeting, performance budgeting, etc. The entity shall use a combination of methods which is explained below.

<u>LINE ITEM BUDGETING</u>

3.25 A line-item budget is where by each of the revenue and expenditure items are forecasted based on past year trends and current year which is extrapolated to next year based on the planned level of activity.

3.26 The line-item budget, which is the most widely used of all budgeting systems, offers many advantages. It is comparatively easy to prepare and doesn't require sophisticated financial skills. Also, the line-item budget is straightforward, simple to administer and readily understood. The simplicity of the system shall make it easier for the entity to monitor revenues and expenditures.

<u>ZERO BASED BUDGETING</u>

3.27 Zero-based budgeting (ZBB) is whereby all activities are re-evaluated each time a budget is set. Each activity is justified and considered on a cost versus benefit basis. Zero-based budgeting takes away the implied right of existing activities to receive a continued allocation of resource, i.e., budgeting from scratch.

3.28 In implementing ZBB, the Budget Holder and Budget Officer must challenge existing practices and expenditure and develop a questioning attitude. Some example questions, to be applied to each activity/process, are as follows:

- Does the activity need to be carried out?
- Does the activity need to be carried out this way?
- What would be the consequence if the activity were not carried out?

- How far does the activity benefit the organisation?
- Is the current level of provision adequate?
- Are there alternative ways of providing the provision?
- How much should the activity cost?
- Is the expenditure worth the benefits achieved?

3.29 The steps involved in ZBB are:

- Identification of decision units – The Decision Units (DU) will be based on the level of responsibility. Normally DUs are identified as different Divisions/Departments. However the basic criteria should be that it is capable of carrying out different programmes or activities to achieve one objective. In case of the entity, it will be the Divisions which implement various programs.
- Preparation of Decision Packages (DP) - The decision package is the building block of the ZBB concept". A number of decision packages make up one Decision Unit. These are the activities or programme on which the Division in charge/Management can take decision to carry out or drop.

It is important that decision packages be developed in an effective manner. It involves examining alternative methods or activities of achieving the objectives and different levels of efforts of performing the operations. For example maintenance of a machine can be done by own staff or alternatively given to outside agency. One can do preventive maintenance (either by own staff or outside agency) in varying time periods indicating different levels of effort. Real alternatives available to the Division come from the activities covering different methods and varying levels of effort.

The DPs will contain the following information

- General and reference information
- Goals of DU
- Description of the programme and activity
- Specific measure of performance or targets
- Benefits expected from the performance
- Consequences of not approving the package
- Projected or expected costs

  - Activity – costs and benefits for all alternatives studies including the recommended activity.

- Evaluation of Decision Packages: Evaluation of packages is carried out on the basis of Benefits and Costs. The measure of importance is the Benefit Cost Ratio (BCR). The alternative in each programme or activity which provides the best BCR is chosen at the first instance. Further the BCR should be more than the minimum level. The value should be one or more.

  When costs are incurred and the benefits obtained in the same year, the calculation of the ratio is more straight forward. However if the benefits are obtained over a long period, the BCR should be based on the present values of benefits and costs discounted at appropriate rates.

- Ranking packages in the order of importance : The DPs of individual DUs are brought together and ranked in the order of importance on the basis of BCR. Thus a second list is prepared listing the DPs of various DUs in descending order of BCR. From this list, the DPs are chosen from the top one after another to make up the available quantum of funds. The ranking and consequent choice of DPs should cover all activities of all departments or theoretically of entire organization.

3.30 In case of shortage of funds, the management might decide to reduce the budget during a year. ZBB with the list of activities arranged in the order of importance of BCR, helps the top management in this regard. Instead of introducing ad hoc cuts in budget, the activities making up to the quantum of funds available shall be chosen.

3.31 Conventional budget concentrates on expenditure, performance budget transfers the attention to the physical performance relating to expenditure and ZBB focuses on the benefits resulting from each activity. The benefits are thus optimised in ZBB.

OUTCOME BASED BUDGETING

3.32 The recent few years have witnessed a shift in the focus of budgeting in developing countries to an outcome based form of budgeting. Rather than mere adherence to policies, procedures and regulations, departments of entities are now being judged by how their programs/ functions perform. This has been primarily a result of an increased need for accountability and better corporate governance both internally and externally (i.e. to the public).

3.33 Outcome Budget is a performance measurement tool that helps in better service delivery; decision-making; evaluating program performance and results; communicating program goals; and improving program effectiveness. The Outcome Budgeting facilitates progress card on what departments have done or achieved with the financial outlays announced in the annual budgets. Outcome budgets are prepared using outcomes (ultimate outputs) as articulated by its citizens and users of various services provided by the entities.

3.34 Outcome based budgeting is closely associated with the decision packages of Zero Based Budgeting where by the physical performance is fixed to a budget outlay.

SYSTEM TO BE IMPLEMENTED

3.35 It is recommended that the entity implement ZBB owing to its benefits mentioned above. However, in case the entity is not in a position to implement zero-based budgeting on a yearly basis, it shall make it a practice to use it at least every five year intervals to ensure that inefficiencies have not crept into budgets. Zero-based budgeting will also need to be used for new activities or where the evidence-based budget of the previous year has proved significantly inaccurate.

3.36 The entity shall also prepare an outcome budget once the staff are familiar with the concepts. The basics of outcome budgets are explained in Appendix 2 of the manual.

COMPONENTS OF BUDGET

3.37 Generally accepted budgeting standards require a budget to be integrated into the accounting system. For this to take place, the accounting system must be designed to provide ongoing and up-to-date information on budgeted revenues and expenditures, as well as balances of unrealized revenue and unspent appropriations.

3.38 It is crucial that the items, objects and classifications in the budget correspond exactly to the line items in the accounting system. Budgetary accounts report estimated amounts and differ from actual accounts, which report true revenue, expenditures, assets and liabilities amounts. Budgetary accounts are used to record the legally approved annual operating budget. These accounts are recorded in the general ledger to facilitate control over revenue and expenditures during the year.

3.39 Budget in the new system shall be built around five components – Fund, Function, Functionary, and Account Heads. These components are briefly described below.

FUND

3.40 A “Fund” can be defined as an activity for which separate books of accounts and financial statements are required to be maintained and prepared. Examples for a Fund can be Water Supply Fund and Sewerage Fund.

3.41 The entity shall prepare separate budget for each type of fund and the same shall be approved separately by the management.

FUNCTION

3.42 The next important component of a budget is the "Function". A Function represents the services offered or specific functions performed by the entity. Administration, Water Supply, Sewerage, etc. are examples of Functions of the entity. The list of function groups are given in Table 3.1 below. Please refer to the Orissa Water Supply Accounts Manual for the details of the functions.

Table 3.1
List of Function Groups

S No	Function Group Code	Function Group
1	10	General Administration
2	20	Works
3	30	Sanitation
4	35	Water Supply
5	40	Public Convenience

FUNCTIONARY

3.43 Functionary represents the department/position which performs the various Functions provided by the entity. Some of the Functions undertaken by these Functionaries would include Revenue by Executive Engineer I, Works by Executive Engineer 2, etc.

3.44 Every Functionary would prepare a budget for each of the function it undertakes.

ACCOUNT HEADS

3.45 The Account Heads are defined for the Assets, Liabilities, Income or Revenue and the Expenditure. The Budget shall be prepared using the Account Codes as recommended in the Orissa Water Utility Accounting Manual.

- Assets – Assets represent the tangible/intangible rights owned by the entity or transferred to it and carrying probable future benefits. Land, Receivables like Water Charges receivables, Cash and Bank Balances and Advances to Suppliers/Contractors are all examples of Assets. The entity shall budget the capital expenditure proposed to be incurred in the budgeting period and also the advances that may be given/received back.

- Liabilities – Liabilities represent any amount owed by the entity to another, payable in money or in goods or services: the consequence of an asset or service received or a loss incurred or accrued; particularly, any debt (a) due or past due (current liability), (b) due at a specified time in the future (e.g. funded debt, accrued liability), or (c) due only on failure to perform a future act (contingent liability). The entity shall budget the liability that may exist as on the closing date of the budgeting period.

- Income – Income includes the money or money equivalent earned or accrued during an accounting period, increasing the total of previously existing net assets and arising from provision of any type of services and rentals, including any grants/ contribution received from the State Government, etc.

  The entity shall estimate the income for the budgeting period based on the past trends and the current economic conditions.

- Expenditure – This represents the costs relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period.

CODING STRUCTURE

3.46 The above components of the budget have been codified and the same has been incorporated in the Orissa Water Utility Accounting Manual. The Coding Structure for these components is illustrated in Table 3.2. The entity shall follow the coding structure and the codes as defined in the Orissa Water Works Accounting Manual for the preparation of budgets.

Table 3.2

Coding Structure

Component	Recommendations	
Fund	1 level of 2 digits - Used to capture activities/ group of activities for which separate books of accounts are required to be maintained.	X X
Function	2 levels of 2 digits each – Used to capture the functions which are carried out at the entity.	X X X X
Functionary	1 level of 2 digits – First level, of 2 digits to represent the various functionaries who undertaken the function.	X X
Account Head Primary Account Code	4 levels – First level of 1 digit and second, third and fourth level of 2 digits each. 1st and 2nd levels constitute Major Head, 3rd level is Minor Head and 4th level is Detailed Head respectively.	X X X X X X X

3.47 The above only gives a summary of the coding structure. For a detailed discussion on the codes and the coding structure, please refer to the chapter on coding structure in the Orissa Water Works Accounting Manual.

BUDGET REPORTS

3.48 The following shall be the outputs of the budgeting process as per the new system.

- Budget Summary
- Budgeted Balance Sheet
- Budgeted Income and Expenditure Statement
- Budgeted Receipts and Payments Account
- Summary of Function – Group Wise Budget
- Detailed Function-wise Budget.

3.49 Further, the consolidated budget estimates shall be accompanied by the following subsidiary statements

- Estimate of revenue income
- Estimate of revenue expenditure
- Estimate of capital receipts
- Estimate of capital expenditure
- Estimate of repayment of loans
- Estimate of loans and advances
- Estimate of deposits and recoveries
- Estimate of investments.

3.50 A good budget process is far more than the preparation of a legal document that appropriates funds for a series of line items. It is a defined process that has managerial, planning and financial dimensions. Thus budget process consists of activities that encompass the development, implementation and evaluation of a plan for the provision of services and capital assets.

Inside out

CHAPTER 4

BUDGETING PROCESS

INTRODUCTION

4.1 Preparation of budget is one of the most important activities of an organisation. Budgets are not predictions for the future. The goal of budget is to tell what we need to know to take meaningful actions in the present. Preparation of budget is more of a team work involving many players and effective coordination between the departments responsible for preparation of budget, and other departments is essential for preparing a meaningful budget that achieves the objectives of the organisation.

4.2 This chapter gives an overview of the budget process, broad guidelines for estimation of income and expenditure, preparation of consolidated income and expenditure statement and budgeted balance sheet.

PLANNING PROCESS - OVERVIEW

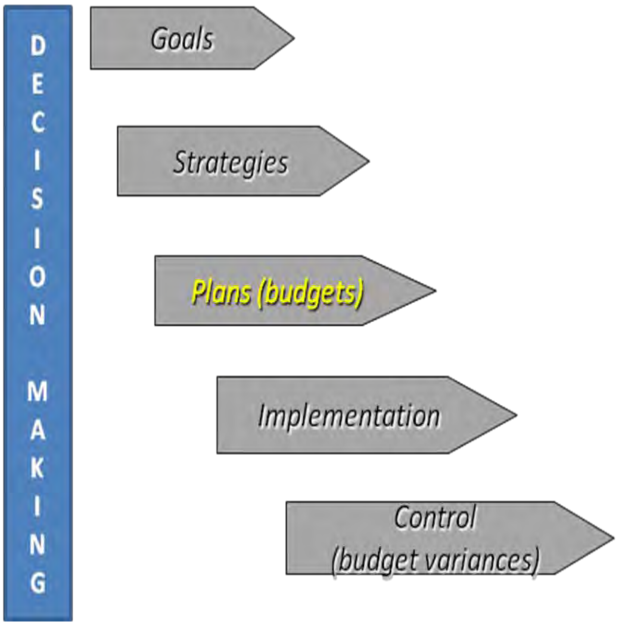
4.3 Strategic planning is a continuous cycle and includes the systematic analysis of the entity and the environment in which it exists. The Strategic Plan sets the overall medium to long term (three to five years) direction of the entity, by setting out the strategies, objectives and targets for this period.

4.4 The objectives and targets of the Strategic Plan shall be converted into Operating Plans (OPs), the aggregate of which will form Annual Operating Plan (AOP). The OPs shall detail annual tasks and desired outcomes for the current year in order to achieve those objectives and targets set out in the Strategic Plan. The costs that shall be incurred to implement these tasks/activities shall be given as estimates. Management approved AOP shall be called a budget.

4.5 Exhibit 4.1 shows an overview of „planning hierarchy' of an organization. The exhibit demonstrates the plans (budgets) to be derived from the goals of the organization and has to be implemented and monitored constantly for effective control to enable decision making process.

Exhibit 4.1

An overview of the planning



4.6 Exhibit 4.2 shows the relationship between Strategic Planning Cycle and Budgeting process of an organization.

Exhibit 4.2

Relationships in planning components

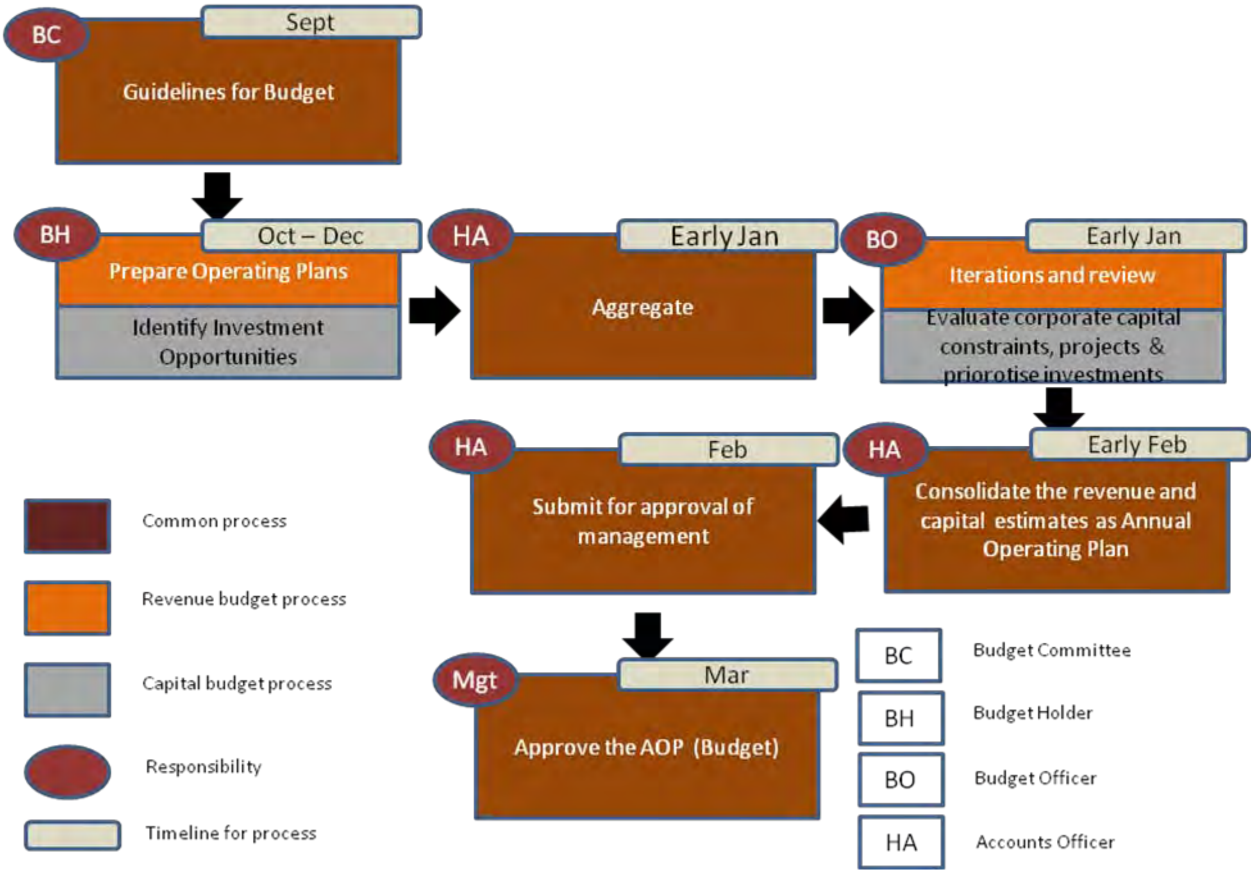
4.7 The entity shall have two types of budgets – revenue budget and capital budget. The revenue budget shall figure all revenue incomes and expenditures during a period while the capital budget shall show the capital incomes and expenditures. The budgeting process is given in detail below.

BUDGET PROCESS – TIMELINE - RESPONSIBILITY

4.8 A process overview with the responsibility and timeline for each of the activities is given in Exhibit 4.3.

Exhibit 4.3

Overview of Budgeting Process



4.9 The timelines given above are indicative. A more specific timeline shall be issued in September each year as part of the Budget Guideline Statement. It is the responsibility of the Budget Officer to organise the work in order to achieve these deadlines.

STEP I – GUIDELINES FOR BUDGET

4.10 The Budget Officer shall convene a Budget Committee meeting which shall discuss the current year's performance vis-a-vis the budget and frame the budget guidelines for the next year. The variances from the budget, financial position of the entity, objectives for the year, etc play a crucial role in this process. It is important to take the opinions of the staff, particularly the supervisors and the operators of machinery or equipment as they will be most familiar with needed equipment repairs or replacements and required upgrades.

4.11 Indicative contents of the Budget Guideline Statement is given below:

<u>GENERAL</u>

- Budget calendar
- Existing budgetary position for the current year
- Material changes within the entity in the previous year and the impact of these, if any, on budgets. E.g. staff grade changes, additional posts, contract changes, etc.
- Changes anticipated over the next 12 month period. This will include planned changes, funding changes and any other known factors which could affect the entity
- The financial outlook for the entity for the next financial year and a description of major factors that contribute to that outlook
- An itemization of known budget priorities for the next year
- Contractually committed growth arising from capital programmes, increments and approved changes to service levels to be included. These may include:
    - Increments
    - Career progression linked to training contracts
    - Full year effect of any part year provision in the current year including newly established posts
    - Full year effect of leasing charges, new insurance risks etc.
    - Revenue costs associated with capital investment e.g. lighting & heating of new premises, rates, rents etc.
    - Approved contractual arrangements for the supply of goods and services.
    - Unavoidable growth arising from legislation (often matched by specific grants),for e.g., rebates
    - Capital financing costs arising from capital investment
- Uncommitted growth approved by the entity
- New reductions generated by management initiatives and submitted as part of the budget reduction process which shall not included in the Operating Plans for a year
- Approved growth & reductions that may be incorporated in the Operating Plans
- Inflation factors as determined by the Head of Finance

REVENUE BUDGET

- Direction regarding corporate strategies and overall performance targets
- General instructions such as what must be included in the completed budgeting package
- Specific guidelines such as assumptions that should be used when creating the budgets

CAPITAL BUDGET

- Strategic objectives and targets for the company
- Specific criteria such as the required return on investments
- The types of analyses which must be completed
- Supporting information required
- Presentation format for information and analyses

4.12 The following are the examples of some questions that need to be addressed at this stage by the Budget Committee to prepare the Budget Guideline Statement. Please note that the questions below are only illustrative and not exhaustive.

- What is the Vision of the entity and what activities need be to taken during the year to progress to the same?
- What new assets are required?
- Would certain citizen service be improved like providing web based payment options?
- Would any additional recruitments be required to fill vacancies?
- Where will financial resources come from to meet commitments (Mix of revenues, grants, scheme funds and borrowings)?
- Are any specific steps required to enhance income like fixing of water meters?
- Should water tariffs be raised?
- Should certain charges like rent be increased?
- Will any of the assets require any major improvement?
- Is there any major capital expenditure planned as part of any programme?
- What requires immediate attention and what can wait?

4.13 The Budget Guideline Statement shall be reviewed and approved by the Management. The Head of the Entity shall distribute the Budget Guidelines to all Primary Budget Holders (Division/ Department heads) who will participate in the preparation of the budget for the next year. The Budget Guideline Statement shall contain the formats for the

Operating Plans to be submitted by the Divisions/Departments. This document shall be distributed by **September**.

STEP II – PREPARATION OF OPERATING PLANS AND INVESTMENT OPPORTUNITIES

4.14 The Primary Budget Holders shall co-ordinate with the Delegated Budget Holders in the Division to prepare the Operating Plan (**Form BUD-1 and Form BUD- 1A**) and identify investment opportunities (**Form BUD – 2**).

4.15 The following principles shall be followed in this stage:

- The budget shall be prepared function-wise and program-wise by each functionary
- Evidence and justification - In determining budgets, it is important that the Budget Holders are able to justify their budgets and provide evidence of the underlying cost/revenue assumptions. Justification of budget will be by reference to specific activities or in order to support activities detailed within the Operating Plans.
- Evidence of budgets will be by reference to current cost information or other relevant information in support of amounts included within the budgets.
- Contingency - If it is uncertain that an event will take place, the expenditure should be included in the draft budget as contingency. This contingency will be approved by Head of the entity and can be drawn upon during the year by notifying Finance; it will not however be included in your approved budget until Finance is notified.
- Phasing - It is the responsibility of the Budget Holders to profile their budgets into calendar months, as the management accounts are produced monthly, according to the date that the expenditure is most likely to be incurred. The phasing of budgets should be consistent with dates contained within OPs and the AOP.
- The OPs shall state the physical achievements proposed during the year and the budgeted outlay for the same.

OPERATING PLANS (Revenue budget)

4.16 The Operating Plans shall be prepared by the budget holders for each function and for each program under the function. A format for preparation of these OPs is given in Appendix. **(Form BUD-1 and Form BUD – 1A)**

Structure of the Operating Plan

4.17 The structure of OPs has been designed to be in conformity with the formats prescribed for Financial Statements. The accrual based budget would set out the budgeted incomes that are estimated to be earned during the financial year and expenditure that are expected to be incurred during the year irrespective of whether they are paid or not.

4.18 The functionaries shall also furnish a statement that shall indicate the revenue receipts (collections) and revenue expenditure (payments) estimated during the period. The revenue receipts (from income recognised on accrual basis) shall be bifurcated into receipts out of current year's demand and receipts from previous years' demand (from the opening balance). The estimate for payments shall depend on the receipts during the year. The Accounts Department shall ensure that the estimates of receipts and payments are in line with the income and expenditure budgeted.

Estimation of Revenue Expenditure

4.19 Revenue expenditure can be defined as the outlay benefiting only the current year. It is treated as expenditure to be matched against revenue. The following are the broad categories of revenue expenditure.

- Establishment Expenses
- Administrative Expenses
- Operations and Maintenance
- Interest and Finance Expenditure
- Programme Expenses
- Revenue Grants and Contribution.

4.20 Each of these heads is broken down into detailed heads. Please refer to the chart of accounts for more details.

4.21 The Budget Holders based on the past experience and also taking into account the future developments estimate the expenditure for each of these heads for each function and for each program. The basis for estimation shall be given under the justification column of the budget estimation sheet.

4.22 The Budget Holder in estimating the entity's minimum essential expenditures for the upcoming year should take the following factors into account.

- The amount needed to pay interest and principal on the entity's outstanding loans, leases and any other debts.
- The financial impact of newly completed treatment plants, machineries, etc. including additional operating costs and salaries of added personnel.
- The cost of extraordinary maintenance requirements to facilities, i.e. pump houses, water treatment plants, etc.
- The cost of the payroll for the next year, using salary levels for the current year and incorporating any known salary changes for the upcoming year.

- Reductions for the cost of any discontinued programs or services.
- Increases in expenditures due to increases in grant or contract revenue.
- The cost of any legal judgements pending against the entity.

4.23 The Budget Holders shall ensure that the budget estimates made are in line with the goals and objectives spelt out.

Estimation of Revenue and Revenue Sources

4.24 The revenues drive the entity's operations. It generates the cash flow for running the entity and for its development works. Some of the types of revenue that the entity is likely to generate are:

- Water Fees
- Sewerage Charges
- Rental Income
- Sale and Hire Charges

Water Supply and Sewerage Charges

4.25 To estimate revenue accurately, an inventory shall be made of the revenue sources available to the entity. In the case of this entity, setting of tariffs based on a scientific costing system, becomes a pre-requisite to this estimation exercise. The entity should make an effort to perform cost of service analysis over a long-range planning period.

4.26 While there are several methods of forecasting, analyzing the historical performance provides a logical starting point. The first step in making a revenue estimate for the next fiscal year is to compile a five-year historical record for each individual revenue source. This compilation should include the initial rate at which a tax or fee was imposed, the dates of each effective tax rate change, a month-by-month record of the amount of revenue generated by the tax or fee, and notations of significant events, such as a recession or changes in the consumer price index that may have caused fluctuations in the amounts collected.

4.27 The sewerage fees shall be estimated based on the population, the growth of residential properties, etc.

4.28 The past data and the current year trend can be used to estimate the revenue.

Rental Income

4.29 In case of rental income, the revenue officer can estimate the income by preparing a list of properties and make adjustments for the escalations, if any, during the year.

Sale and Hire Charges

4.30 The information used for estimating water fees shall be used for the purpose of meter hire charges also.

4.31 It may be noted that **Form BUD – 1B 1A, and Form BUD- 1B and Form BUD- 1C** shall also be filled in case the entity decides to adopt Zero Based Budgeting method in a particular year.

INVESTMENT OPPORTUNITIES

4.32 Capital expenditure can be defined as the expenditure intended to benefit future period in contrast to a revenue expenditure, which benefits a current period. The term is generally restricted to expenditure that adds fixed asset units or that has the effect of improving the capacity, efficiency, life span or economy of operations of an existing asset.

4.33 The objectives laid down for the entity drives the investment priorities. The capital expenditure incurred during the year can be either on account of the on going works, the expenditure for which is expected to be recognized during the year and the new development works that may start during the year. In addition to that, the Budget Holders shall also estimate the capital expenditure that may be incurred on other assets, movable or immovable.

4.34 The Budget Holders shall however note that the capital expenditure estimates shall not be based on what will be paid out during the year but will be estimated on what will be incurred during the year

4.35 The Budget Holders shall identify potential investment opportunities and present them in the format given in Appendix I.**(Form BUD-2)**

4.36 The OPs and Investment Opportunities shall be sent to the Division/Department Head for review by early **December**.

REVIEW OPs

4.37 The Division/Department Head) shall review the OPs and Investment Opportunities (IOs) sent by the Budget Holders to ensure:

- Proposed performance and service levels justify the budget request
- The estimates contain a clear schedule of assumption.
- Estimates are based at the previous year's price base stating clearly the rate of price uplift assumed or as per the Budget Guideline Statement

4.38 The estimation sheets shall be sent to the Accounts Department for aggregation by **January**.

STEP III – AGGREGATION OF OPs AND INVESTMENT OPPORTUNITIES (IO)

4.39 The Accounts Department shall aggregate the OPs and IOs separately in **Form BUD – 3**. The estimates of the Divisions/Departments are rolled up to Head Office level to create a consolidated plan for the entity.

OPERATING PLANS

4.40 The Accounts officer shall ensure that

- Income has been budgeted based on the demand estimated for that year in relation to accrual based incomes. In relation to income recognised on collection basis, revenue estimation would be governed by scientific parameters like trends, expected efforts toward recovery of arrears, potential outsourcing of revenue collection efforts etc
- Expenditure budgeting shall be based on the estimation of expenditure that will be incurred during the year to achieve the objectives set out.
- No amount is budgeted towards provision for doubtful debts.

INVESTMENT OPPORTUNITIES

4.41 The investment opportunities from the Divisions/Departments shall be aggregated.

4.42 The OPs and IOs shall be sent to the Head of the entity for review with all the supporting documents.

STEP IV – ITERATION OF OPs AND REVIEW OF INVESTMENT OPPORTUNITIES

4.43 The Head of the entity shall convene a Budget Committee meeting to review the OPs and IOs sent by the Divisions/Departments. This is the process whereby these statements will be subject reviewed by the Head of the entity to check that the evidence is reliable and robust, and to ensure that the overall plan of the entity remains realistic and achievable. During the meeting, the respective Division/Department Heads shall justify their budget and accordingly it will be rectified by the Head of the entity..

REVIEW OF OPs

4.44 Some of the questions that shall be answered by the Head of the entity at the time of review may be:

- Could the requested funds be put to better use in another department? Are certain budget requests totally without justification or merit?
- Are the spending requests credible? Are they padded or based on false assumptions?

- Is the proposed approach to a particular service the best way to achieve the stated objective? Based on the department's previous track record, is reaching each stated objective likely? Should a funding increase proposed by one department be approved, or rejected, so that an increase may be given to another department that has a better performance record?
- If choices must be made between competing budget requests, what is the relative importance of the spending programs proposed by the various departments? If cutbacks in existing services are necessary, which services should be eliminated first? Which services could be scaled back? Which services, if scaled back, would be unproductive?
- By spending more on a particular service during the next fiscal year, will the entity save money in the long run?
- What consideration has the Budget Holder given to reducing the cost of existing programs through better personnel management, improved work methods and automation?
- Is there duplication of work between departments? Can services be improved or costs be reduced by changing staffing patterns or other revisions?
- Is the level of financing adequate for each service? Have inflation and changes in the cost of various items been taken into account?
- Are the proposed capital outlays for equipment with a long, useful life consistent with the entity's long-term goals? Will the proposed capital outlays increase or decrease operational costs next year and beyond? Which outlays have the highest priority?
- Will the estimated revenue that will be available to the entity during the next fiscal year be sufficient to fund key services at an acceptable level? Should the entity consider increasing revenue?

4.45 After completing a review of estimations, the document should tie together as a comprehensive OP to be submitted to the Finance/Accounts Department for consolidation.

<u>CAPITAL BUDGET REVIEW</u>

4.46 This review shall be two fold in nature which shall involve the evaluation of corporate constraints and projects.

Corporate constraints

4.47 This is the stage at which the entity shall determine its ability to raise funds. The company shall assess its internal cash availability, its ability to raise debt financing, etc. Special attention must be paid to existing debt covenants which may restrict the amount or type of capital which is raised.

Project Evaluation

4.48 Further, each of the capital projects shall be analysed using the capital budgeting techniques. Investments and return are the key factors considered in capital budgeting. Some of the commonly used approaches are:

- Payback - The payback period, or payback criterion, computes the number of periods needed to recover a project's initial investment
- Accounting rate of return – approximates the return on investment
- Net present value - sum of the present values of all cash inflows and outflows associated with a project
- Internal rate of return - is the actual rate of return expected from an investment. IRR is the discount rate that makes the investment's net present value equal zero
- Profitability index - It is computed by dividing the present value of the cash inflows by the present value of the cash outflows.

4.49 The desired capital projects shall be prioritized based on the results of capital budgeting exercise.

4.50 The selected capital investments along with the OPs post iteration (if any), shall be sent to the Accounts Department for final consolidation.

STEP V – CONSOLIDATION OF OPs AND IOs AS AOP

4.51 This is the process whereby the Accounts Department shall consolidate the OPs and IOs and prepare the AOP. The AOP shall contain the following statements:

- Major Account Head wise Receipts and Payments Estimates for the period (Form BUD-4)
- Summary of receipts and payments for the period (Form BUD-5)
- Summary of Function – Group Wise Budget (Form BUD-6)
- Summary of Function-Wise Budget for the period (Form BUD-7)
- Budgeted Income and Expenditure Statement (Form BUD – 8)
- Budgeted Balance Sheet (Form BUD-9).

<u>GUIDELINES FOR ARRIVING AT THE YEAR END BUDGETED CLOSING BALANCE SHEET VALUES</u>

4.52 The guidelines for arriving at the closing balances for the major categories of Assets and the Liabilities are given below.

I. Assets

a. Fixed Assets

Gross Block

This shall be arrived at as opening balance plus the amounts earmarked towards capital expenditure during the year less gross value of assets proposed to be disposed. The capital expenditure estimated to be incurred during the year on works which will not be completed at the end of the year shall be shown under capital work in progress.

Accumulated Depreciation

The accumulated depreciation shall be arrived at by adding the estimated depreciation for the period to the opening balance of depreciation less depreciation on assets intended to be sold.

b. Investments

The investments shall be arrived at by adding the investment estimated to be made during the year and deducted by the cost of investments proposed to be sold or maturing.

c. Current Assets – Stock

In respect of items to be inventorised, items of stocks purchased during the year would be assumed to have been consumed in the same year. Therefore only the opening balance, if any, would be considered for determining the closing balance.

d. Current Assets – Receivables

In arriving at the closing value of the receivable the following formula would be adopted.

i. Current Receivable shall be arrived at by deducting the estimated collections from the demand estimated to be raised for that financial year.

ii. Demand Arrears shall be arrived at by deducting the estimated collections out of prior years' demand from the opening balance of receivables.

iii. No provision shall be made in the budget for doubtful debts.

e. Current Assets - Cash and Bank Balances

The current years balance plus the receipts and payments during the budgeted year shall be taken.

The equation for computing the ending balance for the current year and the budget year is as follows:

Cash balance at the end of the most recent month before budget preparations start

Add (+) estimated revenues for the remaining of the current year

Less (–) estimated expenditures for the remaining of the current year (including debt payments due for the current year and not yet made)

Closing balance for the current year

Add (+) estimated revenues for the budgeted year

Less (–) estimated expenditures for the budgeted year

Closing balance for the budget year

f. Current Assets – Loans and Advances

i. Advances other than advances to employees shall be arrived at after deducting the adjustments out of the opening balance and adding the estimated amount of capital advances.

ii. Advances to employees shall be arrived by deducting the estimated recoveries during the year from the opening balance and adding the proposed disbursement to employees less the recoveries estimated to be made during the year.

II. Liabilities

a. Reserves

For arriving at the closing balance of Reserves for the year, the following formula shall be used

i. The Surplus for the year transferred from the period shall be added to the opening balance.

ii. The reserves, if any, for the year allocated shall also be added to the opening balance.

b. Loans

The closing balance of loans shall be arrived at by adding the loans proposed to be raised during the year to the opening balance and deducting the repayments during the period. The loans proposed to be raised and repayments can be obtained from the budget estimation sheet prepared at the function level.

c. Current liabilities

The average creditor payment period shall be used in arriving at the closing value of creditors.

4.53 The consolidated budget documents are submitted to the Management for approval.

STEP VI - APPROVAL

4.54 The management shall discuss on the feasibility of the budget and shall then prioritise and rationalise the estimates. to ensure the availability of funds during the year and with the Division/Department Heads in case of items requiring clarifications.

4.55 Some of the questions that shall be discussed are:

- Are there any services that should be reduced or eliminated to provide funds for more important programs?
- Does the budget provide a proper balance between essential and less necessary services?
- Are administrative controls in place to ensure that adequate results will be produced and proper standards of service maintained?
- Is the proposed budget sound and honest?
  - Do revenue estimates appear to be realistic?
  - Have all expenditures and foreseeable contingencies been included?
- Is the budget economical in all respects and oriented to obtaining the greatest value per rupee spent?

4.56 The budget shall be reviewed in the light of the objectives decided at the start of the budgeting process. The Management shall modify the budget if the same is not in accordance with the set objectives.

4.57 Before the final approval, the Management shall have a discussion with the Divisional Heads to discuss the budget and finalise the same.

4.58 After discussions, the budget shall be approved and the same shall be sent to the Accounts department and the Budget Holders.

4.59 Once the budget is approved, the same shall be entered in the budgetary control register.

Inside out

CHAPTER 5

BUDGET MONITORING AND CONTROL

INTRODUCTION

5.1 This chapter discusses the budget management and control aspects which are crucial for an organisation.

BUDGET MANAGEMENT AND CONTROL

5.2 Budget management involves working within the plan of activities (budget). It involves investigating reasons for variances from budget, taking corrective action as appropriate and revising expectations in the light of latest information and covers the following areas:

- Control
- Monitoring
- Variance analysis
- Forecasting
- Planning
- Decision making
- Evaluation.

CONTROL

5.3 In keeping with the objectives, the following control requirements shall be built into the budgeting system:

- Budgetary control shall be on accrual method and not on payment basis
- No expenditure can be incurred unless backed by a budget
- Any expenditure prior to being incurred must be identified to its budget head for allocation of money

- Any expenditure prior to being incurred should be backed by appropriate sanctions (administrative / technical sanctions as the case may be) in accordance with the procedures laid down
- Additionally, before any fresh work order is issued or any financial commitment is made, the respective departments shall take into consideration all open/unsettled work orders and the total budget available.

5.4 Budget Holders are responsible for ensuring that:

- Day-to-day monitoring is undertaken effectively and variances investigated
- Budget allocation is used for the purposes for which it has been allocated
- Necessary corrective action is undertaken when it becomes known that budgetary targets will not be met

5.5 Budgetary Control shall be done at two stages, one at the time of commitment and another at the time of accrual/payment as given below

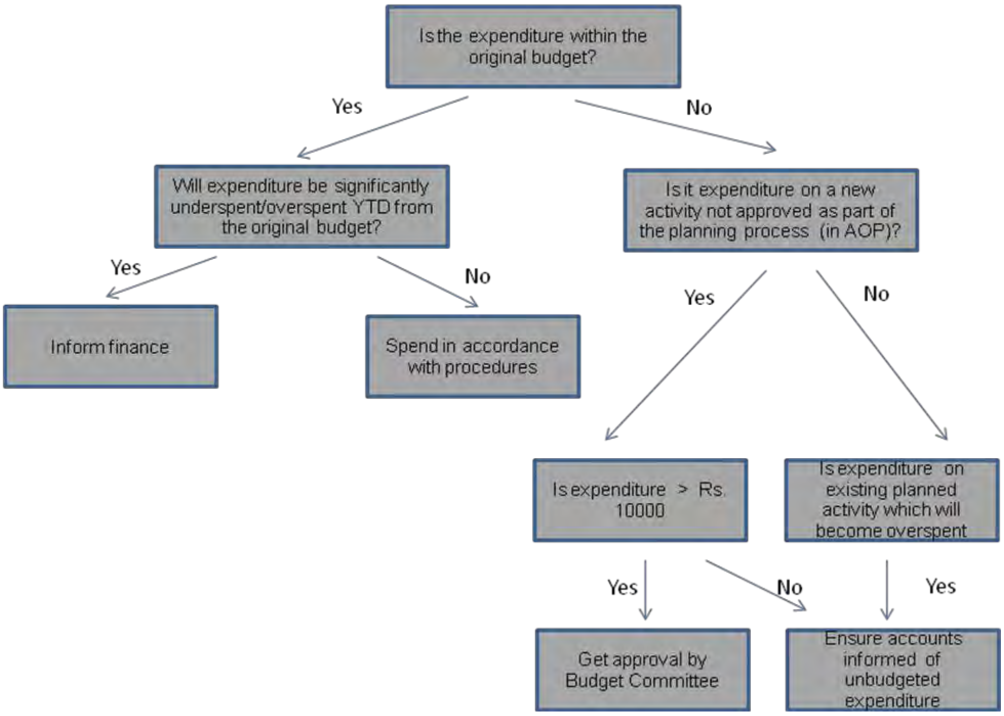
- At the stage of issue of work order/payment: No work order shall be issued/commitment be made unless Budget is available. For this purpose, the departments shall take into account all open work orders/financial commitments.
- At the time of accounting of Claims/Bills: The respective departments before forwarding the bills / claims to Accounts department for accounting and/or payment shall ensure that Budget is available. The Accounts department shall also ensure availability of budget before accounting the claims/bills.

5.6 The Commitment register is provided in Form BUD – 10. The open commitments/work order shall be entered in the register before any fresh commitment is made/ work order is released. Any fresh commitment/work order shall also be entered in the budget register. Budgetary Control register is provided in Form BUD – 11. The budgetary control register shall be maintained at the respective Budget Holders and also at the Accounts department.

5.7 The following chart details the questions that the Budget Holder must consider before committing any expenditure:

Exhibit 5.1

Expenditure commitment process flow



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MONITORING

5.8 Budget Holders need to undertake effective monitoring of their budgets. To facilitate this monitoring, at the end of each month management accounts shall be circulated to Budget Committee and Budget Holders that consist of:

- Summary statement (showing current month activity and year to date activity against budget);
- Detailed transaction report for the current month;
- The summary report will highlight budget lines that have a variance greater than + or – 15% YTD.

5.9 Form BUD – 13 and Form BUD – 14 shall be used for this purpose.

5.10 It is important that the Budget Holder reviews both the summary report and the detailed transaction report to ensure that transactions have been coded to the correct account code. The management accounts will identify variances (departures from the budget).

5.11 Quarterly meetings shall take place between Accounts Department and the relevant budget holder, which will facilitate a greater understanding of the budget/monitoring/re-forecasting processes. The monitoring process shall also bring to light the need for a budget revision.

5.12 A budget revision may be of four types:

Re-appropriation

5.14.1 With the approval of the Budget Committee, re-appropriation may be exercised so as to transfer sums between heads of approved estimates. Re-appropriation is when any unexpended saving of budgetary allocation under a budget head is transferred to another budget head. A re-appropriation would result in a fall in the budgetary allocation for the transferor budget head and an increase in the budgetary allocation to the transferee budget head. Re-appropriation would not result in any change in the closing fund balance. The form for re-appropriation is given in Form BUD – 12.

5.14.2 The following principles shall apply to re-appropriation:

- Re-appropriation shall only take place between heads of expenditure, which are directly under the control of a Primary Budget Holder
- Re-appropriation shall not be used to create a commitment beyond the end of the financial year in which it is exercised
- Re-appropriation shall not normally take place between pay and non-pay budgets
- Re-appropriation shall not be approved if there is an overspend in aggregate for the budgets under the Budget Holder's control
- Re-appropriation is generally accepted for „one-off' items of expenditure, such as furniture and equipment, where there is genuine need and no ongoing costs associated with the purchase
- Re-appropriation requests cannot be used to provide funding to vary approved establishments

Additional Budget

5.14.3 An additional budget is when any amount over and above the amount already allocated is sought to be added on the budget originally allocated. This is different from re-appropriation, as such additional budget would result in an enhancement in the budgetary allocation under one or more budget heads with there being no corresponding reduction in the amounts budgeted under one or more other budget heads. However it needs to be noted that such sanction of additional budget does not result in any decrease in the closing fund balance as originally arrived in the approved budget.

Reduction in Budget

5.14.4 A reduction in budget is when any amount is reduced from the amount of budget originally allocated under a budget head. This is different from a re-appropriation, as such budget reduction would result in a reduction in the budgetary allocation under one budget head with there being no corresponding increase in the amounts budgeted under one or more other budget heads.

Budget Cut

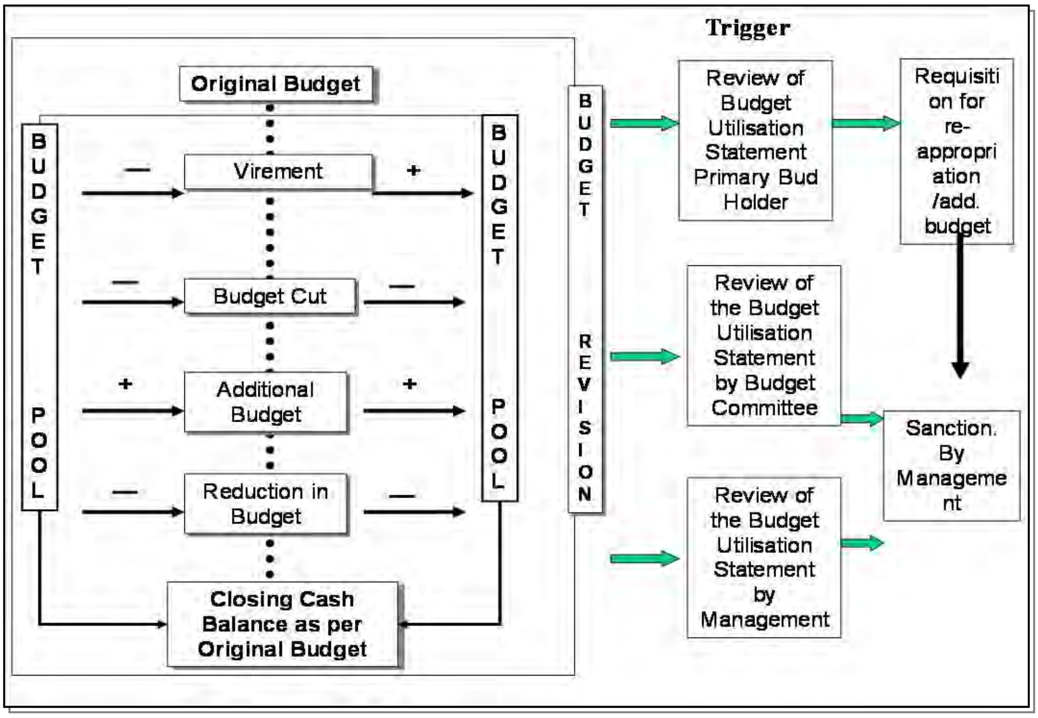
5.14.5 A budget cut is when any amount is reduced from the amount of budget originally allocated across all the budget heads. This is different from a re-appropriation, as such budget cut would result in a reduction in the budgetary allocation under the various budget heads with there being no corresponding increase in the amounts budgeted under one or more other budget heads.

5.13 Thus, if it is found necessary during the course of the year, that the estimates relating to receipts or the expenditure in respect of the various services undertaken by it as shown in the Budget require modifications, prepare a supplementary or revised Budget and place it before the Management for approval.

5.14 An overview of the budget revision process is shown in Exhibit 5.2.

Exhibit 5.2

Budget Revision Process Overview



VARIANCE ANALYSIS

5.15 Variances are the differences between budget and actual. It may be in relation to the physical achievements or the monetary amounts.

5.16 It is important that significant variances are investigated and causes are identified. Budget Holders should be able to analyse variances by comparing the details of actual expenditure to the original plan (budget). The notes on assumptions underlying the budget estimates will be useful to help Budget Holders analyse the financial information. It is important to recognise the cause so that appropriate action can be taken if necessary.

5.17 Possible reasons for variances include:

- Activity volume variances – an example would be where 3 training events were planned in the current month but only 2 took place;
- Price variances – an example would be where the standard unit cost for a chemical was more or less than the actual rate;
- Timing differences (planning variances) – an example would be where an event was expected to take place in one month but was deferred and took place in a later month;
- Different method of delivery for events/activities has been decided upon (operational variances) – an example would be where one large event was planned but it turned out to be more practical to a number of smaller events.

5.18 An important budgetary control tool used for monitoring and measurement is Budget Variance Report (BVR) and shall be prepared at the following levels:

- At an overall entity level
- At each of the Budgeting Centres

5.19 The BVR forms the basis of control as it can provide information on:

- Positive variance shall be analysed for reasons. For instance actual water fees collection is more than the projected. The reasons for the same can be analysed and replicated.
- Negative variance, shall be analysed for reasons and cost control measures identified. For instance the increase in maintenance expenses or finance charges could indicate lack of planning or implementation follow-up.

5.20 The BVR should be prepared at least on a quarterly basis. The format of BVR is given in **Form BUD – 13** and **Form BUD-14**.

5.21 In reviewing variances it is important to consider whether the assumptions made at the time of the budget preparation are still valid or if they have been superceded. This information will be used to help determine the likely year-end position (forecast position as at the end of year) and also could be used in the development of the following year's evidence-based budgets.

5.22 The flow charts below will help as a guide in identifying variances:

Exhibit 5.3

Overspent

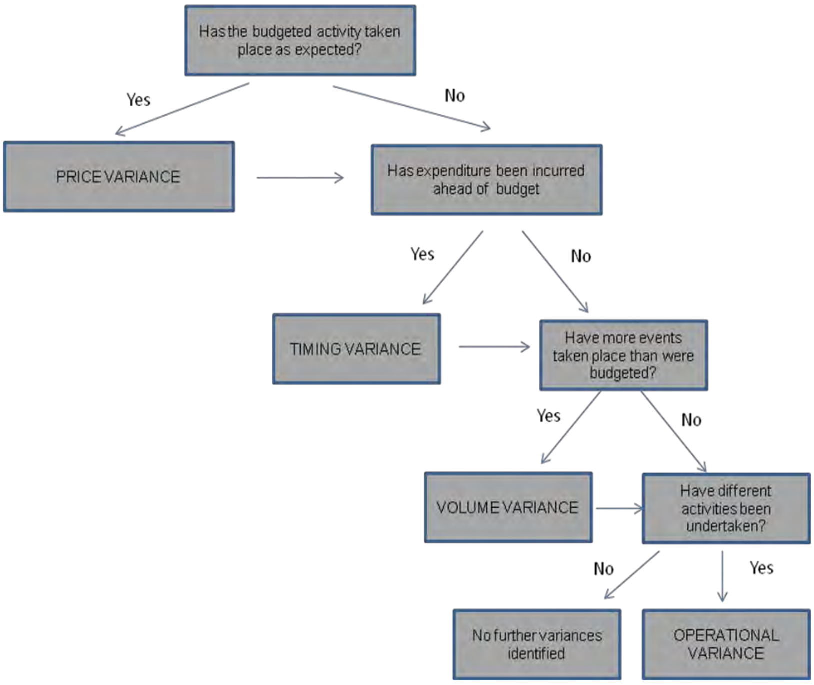
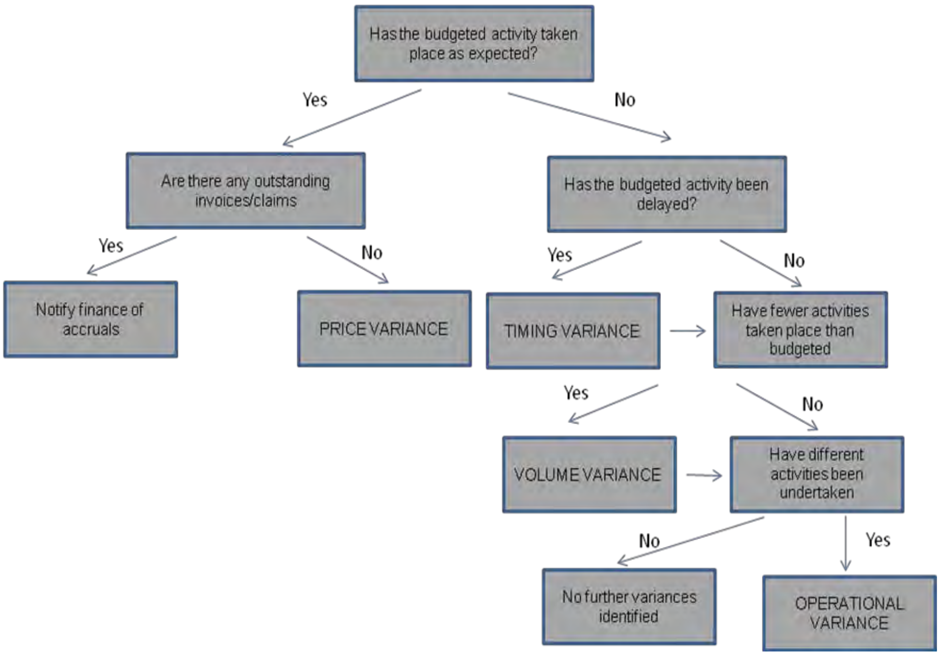


Exhibit 5.4

Underspent



FORECASTING

5.23 The Budget Holders shall forecast the position till the end of current year and show it in the estimation sheet submitted by them. The following pointers shall help in the forecasting exercise.

- An analysis of variances that have already arisen and their likely impact on the remaining months of the financial year (i.e. whether the variances are temporary and therefore the expenditure will be incurred before the year-end and/or whether the variances are permanent and will remain)
- Looking at the remaining budgeted activities/events/expenses and determining whether these will happen as planned
- Considering whether there are any additional unbudgeted activities/events/expenses that will now take place.

5.24 Budget Holders shall be asked to relook at their forecasts after the end of January each year to ensure the most up-to-date year-end information is reported.

PLANNING

5.25 Budget Holders will use information from the monitoring and variance analysis of their current year budgets to feed forward into the following year, in order that the most up-to-date and realistic information is used. Using this information shall help to ensure that the budgets prepared for the following year are robust and reliable.

DECISION MAKING

5.26 Certain decisions shall need to be taken throughout the year, e.g. whether there are sufficient funds available to extent the existing pipeline; should extra funds be applied through re-appropriation or drawn on the contingency? The Budget Holders shall be able to use information from their management accounts, their monitoring activities and their understanding of the variances in order to make informed decisions.

5.27 In case of limited resources, the Management will have to take a decision on the programmes to be implemented on priority basis. This shall be achieved through the zero based budgeting method wherein the programmes are ranked based on Benefits Cost Ratio (BCR). Further, the Management should analyse the effect of a budget cut on any program and peg the cut at appropriate levels, to ensure achievement of objectives to the maximum extent possible.

EVALUATION

5.28 Procedures for budget management are to be reviewed each year. This will be summarised in the planning framework incorporating the detailed timeline and issued each September as part of the Budget Guideline Statement.

5.29 Balancing of budget process is a fall out from the evaluation. It is a process whereby entities plan their profits and fix a target of achieving such a profit through planning of their revenue or income (sources) and work out the expenses required (application) to achieve the same. Hence the Budget Committee shall ensure that the balancing is done properly.

5.30 There are different ways to arrive at a balanced budget.

- Trim Expenditures: This action may be take the form of an across-the-entity reduction, such as “cut travel expense by 20 percent” or “reduce all Divisional budgets by 5 percent.” This approach may not be a good solution, because it will not result in a large amount of savings. It also ignores managerial responsibility to shift resources from the less needed programs to the more important ones.
- Reduce Programs: An example would be to reduce the public stand posts connections by 10%. The services are still available, but would require less personnel cost.
- Eliminate Programs: Such a strategy seeks to evaluate those areas that have diminished in importance, have accomplished their intended purpose, no longer serve the targeted population, or are duplicative. By eliminating programs or services, the entity may yield the most savings. A sewerage project may be taken up in a particular area, by a NGO or a funding agency and such a project may have been budgeted by the entity. Elimination of such programs could show significant reductions in costs.
- Defer Expenditures: This approach is a popular balancing method but should be used cautiously. Many financial crises are the result of deferring needed capital infrastructure replacements. This deferral can amass a large liability for future budgets.
- Improve Productivity: The popular concept of “doing more with less” should be part of management’s program to look for better ways to provide services through improved methods and increased use of automation. It may be worthwhile to look at improving the capacity of some plant and machinery or operating them at full capacity instead of investing in new machinery.
- Calculate accurate cost of service delivery: Using a scientific method to arrive at the cost of service delivery will help the entity in proper tariff fixation which could result in increased fee.

5.31 A well forecasted budget will go a long way in ensuring adequate funds are available for the entity to carry out its operations and achieve its objectives. Sufficient training need to be imparted to the budget holders on effective forecasting and other budgeting techniques. And any budgeting exercise will fail to achieve its objective, if it is not monitored and used as a tool for control. Timely actions need to be taken based on the variance analysis to ensure there are no shortage of funds for any crucial programmes or at least to take alternate course of action to reduce the effect of shortage.

Appendix 1 - Formats

Form BUD - 1

_____________Name of the Entity
_____________ Name of the Fund

<u>Budget Estimation Sheets format</u>

Name of the Functionary : ___________
Name of the Function : ___________

Name of the Program : ___________

Budgeting Year : ___________

Function	Head of Account – Description of Item*	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.	Revised Estimates of Receipts / Payments for the current year Rs.	Budget Estimates of Receipts / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6	7	8	9
	<u>INCOME</u> **<u>Rental Income</u>** Office Buildings Guest House ,, ,, ,, ,, ,, ,, ,, ,,							
	Sub-total (Rental Income)							
	<u>Fees & User Charges</u> Empanelment and registration charges							

Function	Head of Account – Description of Item*	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.	Revised Estimates of Receipts / Payments for the current year Rs.	Budget Estimates of Receipts / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6	7	8	9
	Income from domestic consumers – water supply Income from domestic consumers – sewerage ,, ,, ,, ,, ,, ,, ,, ,,							
	Sub-total (Fees & User Charges)							
	Sale and Hire Charges							
	Sale of water							
	Sale of forms and publications							
	,, ,, ,, ,,							
	,, ,, ,, ,,							
	,, ,, ,, ,,							
	Sub-total (Sale and Hire Charges)							
	Income from Investments							
	Interest							
	Dividend							
	,, ,, ,, ,,							

Function	Head of Account – Description of Item*	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.	Revised Estimates of Receipts / Payments for the current year Rs.	Budget Estimates of Receipts / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6	7	8	9
	Sub-total (Income from Investments)							
	Interest Income Interest from Bank Deposits Interest on loans and advances to employees ,, ,, ,, ,, ,, ,, ,, ,,							
	Sub-total (Interest Income)							
	TOTAL INCOME							
	EXPENDITURES Establishment Expenses							
	Salaries of employees Wages of NMR employees ,, ,, ,, ,, ,, ,, ,, ,,							
	Sub-total (Establishment Expenses)							
	Administrative Expenses							
	Rent, rates and taxes							
	Office maintenance							
	,, ,, ,, ,,							

Function	Head of Account – Description of Item*	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.	Revised Estimates of Receipts / Payments for the current year Rs.	Budget Estimates of Receipts / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6	7	8	9
	,, ,, ,, ,,							
	Sub-total (Administrative Expenses)							
	<u>Operations & Maintenance</u> Power Charges Repairs & Maintenance - Buildings ,, ,, ,, ,, ,, ,, ,, ,,							
	Sub-total (Operations & Maintenance)							
	<u>Interest and Finance Charges</u>							
	Interest on loans from Central Government							
	Bank Charges							
	,, ,, ,, ,,							
	,, ,, ,, ,,							
	,, ,, ,, ,,							
	Sub-total (Interest and Finance Charges)							
	TOTAL REVENUE EXPENDITURE							

Function	Head of Account – Description of Item*	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.	Revised Estimates of Receipts / Payments for the current year Rs.	Budget Estimates of Receipts / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6	7	8	9
	CAPITAL RECEIPTS							
	Loans Loans from State Govt ,, ,, ,, ,, ,, ,, ,, ,,							
	Sub-total (Loans)							
	Deposit works Deposit works received							
	Sub-total (Deposit Works)							
	Deposits and Advances Security Deposits ,, ,, ,, ,, ,, ,, ,, ,,							
	Sub-total (Deposits)							
	TOTAL CAPITAL RECEIPTS							

**** Similar to the above, for each of the relevant function and field, the functionary shall provide the budget estimates under the appropriate account head.***

Forms BUD 1A and BUD 1B to be used in case the entity adopts Zero Based Budgeting

Form BUD – 1A

_____________Name of the Entity
_____________ Name of the Fund

Decision Packages format

Name of the Functionary : ___________
Name of the Function : ___________

Budgeting Year : ___________

Name of the Program	Linkage to strategic plan	Brief Description of programme	Activities in the program	Physical achievement	Physical achievement at various levels of funding				Benefit	Cost Components	Units	UOM	Rate (rs.)	Amount
					No fund	25%	50%	75%						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Laying of pipe from the OH tank to Ward X	Provision of water to Ward X			2 km	0	.5	1.25	1.75		Pipe	2000m	Metres	100	200,000
										Joints/Clamps	20	Number	40	800
										Labour	20	Persons	150	30,000
										Road digging charges	1200	Metres	2	2,400
										Others				2,000
														235,200

Note: As the entity matures in implementation of zero based budgeting and the staff have a thorough understanding of the same, it can start to disclose more information on each program which will enable more informed decision making. Some of these could be: alternative courses of action, consequence of funding at various service levels, etc.

The budgeted cost (column 15) in this format and the total cost as per the budget estimation sheet shall be the same.

Form BUD – 1B

_____________Name of the Entity
_____________ Name of the Fund

Ranking of programmes format

Name of the Functionary : ___________
Name of the Function : ___________
Budgeting Year :___________

Name of the Program	Budget Outlay	Benefits	BCR*	Rank

***** Benefit Cost Ratio**

1. The program with the highest BCR shall figure first in the template.

Form BUD – 1C

_____________Name of the Entity
_____________ Name of the Fund

Budget Estimation Sheets format – Collections and Payments

Name of the Functionary : __________
Name of the Function : __________

Name of the Program : __________

Budgeting Year : __________

Function	Head of Account – Description of Item*	Actual Collections/ Payments for the previous year Rs.	Revised Estimates of Collections / Payments for the current year Rs.	Budget Estimates Collections / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6
	INCOME **Rental Income** Office Buildings Guest House ,, ,, ,, ,, ,, ,, ,, ,,				
	Sub-total (Rental Income)				
	Fees & User Charges Empanelment and registration charges Income from domestic consumers - sewerage ,, ,, ,, ,, ,, ,, ,, ,,				
	Sub-total (Fees & User Charges)				
	Sale and Hire Charges				

Function	Head of Account – Description of Item*	Actual Collections/ Payments for the previous year Rs.	Revised Estimates of Collections / Payments for the current year Rs.	Budget Estimates Collections / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6
	Sale of water				
	Sale of forms and publications ,, ,, ,, ,, ,, ,, ,, ,,				
	,, ,, ,, ,,				
	Sub-total (Sale and Hire Charges)				
	<u>Income from Investments</u> Interest Dividend ,, ,, ,, ,,				
	,, ,, ,, ,,				
	,, ,, ,, ,, Sub-total (Income from Invts) **<u>Interest Income</u>** Interest from Bank Deposits				
	Interest on loans and advances to employees				
	,, ,, ,, ,,				
	,, ,, ,, ,,				
	Sub-total (Interest Income) **TOTAL INCOME** <u>EXPENDITURES</u> <u>Establishment Expenses</u> Salaries of employees				

Function	Head of Account – Description of Item*	Actual Collections/ Payments for the previous year Rs.	Revised Estimates of Collections / Payments for the current year Rs.	Budget Estimates Collections / Payments for the next year Rs.	Remarks / Justification / basis
1	**2**	**3**	**4**	**5**	**6**
	Wages of NMR employees				
	,, ,, ,, ,, ,, ,, ,, ,, Sub-total (Establishment Expenses)				
	Administrative Expenses				
	Rent, rates and taxes Office maintenance ,, ,, ,, ,, ,, ,, ,, ,,				
	Sub-total (Administrative Expenses)				
	Operations & Maintenance				
	Power Charges				
	Repairs & Maintenance - Buildings				
	,, ,, ,, ,,				
	,, ,, ,, ,,				
	Sub-total (Operations & Maintenance)				
	Interest and Finance Charges				
	Interest on loans from Central Government				
	Bank Charges				
	,, ,, ,, ,,				
	,, ,, ,, ,,				
	Sub-total (Interest and Finance Charges)				

Function	Head of Account – Description of Item*	Actual Collections/ Payments for the previous year Rs.	Revised Estimates of Collections / Payments for the current year Rs.	Budget Estimates Collections / Payments for the next year Rs.	Remarks / Justification / basis
1	2	3	4	5	6
	TOTAL REVENUE EXPENDITURE				
	CAPITAL RECEIPTS				
	Loans				
	Loans from State Govt				
	,, ,, ,, ,,				
	,, ,, ,, ,,				
	Sub-total (Loans)				
	Deposit works				
	Deposit works received				
	Sub-total (Deposit Works)				
	Deposits and Advances				
	Security Deposits				
	,, ,, ,, ,,				
	,, ,, ,, ,,				
	Sub-total (Deposits)				
	TOTAL CAPITAL RECEIPTS				

**** Similar to the above, for each of the relevant function and field, the functionary shall provide the budget estimates under the appropriate account head.***

Form BUD - 2

______________**Name of the Entity**
______________ **Name of the Fund**

Budget Estimation Sheets format – Capital Expenditure

Name of the Functionary : ___________
Name of the Function : ___________

Budgeting Year : ___________

Function	Project Code	Project Name	Description of Capital Expenditure	Ongoing / New	Date of Commencement	Value of Project	Revised Estimates for the current year	Budget Estimates for next year	Remarks

Note : The above sheet shall be filled up each class of capital expenditure.

Form BUD - 3

_____________Name of the Entity
_____________ Name of the Fund

Operating Plans Consolidation Format

Budgeting Year: ________________

Function	Functionary	Program	Head of Account – Description of Item	Actual for the previous year	Budget Estimates for the current year	Revised Estimates for the current year	Budget Estimates for the next year
1	2	3	4	5	6	7	8

Consolidation shall be made for every item of detailed heads of account for each fund.

Investment Priorities Consolidation

Function	Project Code	Project Name	Description of Capital Expenditure	Ongoing / New	Date of Commencement	Value of Project	Revised Estimates for the current year	Budget Estimates for next year	Remarks

Form BUD –4

______________Name of the Entity
______________ Name of the Fund

MAJOR ACCOUNT HEAD WISE RECEIPTS AND PAYMENTS ESTIMATES FOR THE PERIOD ____________________

Item/ Head of Account	Head of Account	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
1	2	3	4	5	6
INCOME					
Operating Income on Water Supply	1100000				
Operating Income on Sewerage	1200000				
Other Operating Income	1300000				
Fees & User Charges	1400000				
Sale & Hire Charges	1500000				
Revenue Grants, Contributions & Subsidies	1600000				
Income from Investments	1700000				
Interest Earned	1710000				
Other Income	1800000				
Prior Period Income	1850000				
Total – INCOME	**A**				

Item/ Head of Account	Head of Account	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
EXPENDITURE					
Establishment Expenses	2100000				
Administrative Expenses	2200000				
Operations & Maintenance	2300000				
Interest & Finance Expenses	2400000				
Programme Expenses	2500000				
Revenue Grants, Contributions & subsidies	2600000				
Provisions & Write off	2700000				
Miscellaneous Expenses	2710000				
Depreciation	2720000				
Prior Period Expenses	2850000				
Total – EXPENDITURE	**B**				

Item/ Head of Account	Head of Account	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Estimated Collections/ Payments for the next year Rs.
1	**2**	**3**	**4**	**5**	**6**
Grants, Contributions for Specific purposes	3200000				
Secured Loans	3300000				
Unsecured Loans	3310000				
Deposits Received	3400000				
Deposit Works for WS	3410000				
Deposit Works for Sewerage	3420000				
Other Liabilities	3500000				
Total	**A**				

Item/ Head of Account	Head of Account	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Estimated Collections/ Payments for the next year Rs.
CAPITAL EXPENDITURE					
Fixed Assets	4100000				
Capital Work in Progress	4120000				
Investments – General Fund	4200000				
Investments – Other Funds	4210000				
Investments -Earmarked Funds	4220000				
Investments -Surplus Funds	4230000				
Loans, advances and deposits	4600000				
Total – EXPENDITURE	**B**				

Form BUD - 5

_____________Name of the Entity
_____________ Name of the Fund

SUMMARY OF RECEIPTS AND PAYMENTS FOR THE PERIOD ___________________

Particulars	Actual for the previous year Rs.	Estimates for the Current Year Rs.	Revised Estimates for the Current Year Rs.	Budget Estimates for the Next Year Rs.
1	**2**	**3**	**4**	**5**
Opening Balance*				
Add: Revenue Receipts Capital Receipts Less: Revenue expenditure Capital Expenditure				
Closing Balance *				

** Balance denote cash and bank balance to be shown in the Balance Sheet*

Form BUD - 6

______________Name of the Entity
______________ Name of the Fund

SUMMARY OF FUNCTION GROUP WISE BUDGET OF INCOME AND EXPENDITURE
FOR THE PERIOD ____________

S No	Function Group	Code	Income Rs.	Revenue Expenses Rs.	Capital Receipts Rs.	Capital Expenditure Rs.	Net Surplus/ (Deficit) Rs.
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
	General Administration	10					
	Public Works	20					
	Sanitation	30					
	Water Supply	35					
	Public Convenience	40					

Form BUD - 7

_____________Name of the Entity
_____________ Name of the Fund

SUMMARY OF FUNCTION WISE BUDGET FOR THE PERIOD ___________

S No	Function	Code	Income Rs.	Revenue Expenses Rs.	Capital Receipts Rs.	Capital Expenditure Rs.	Net Surplus/ (Deficit) Rs.
1	2	3	4	5	6	7	8 (4+6)-(5+7)
1	General Administration						
2	Revenue						
3	Finance, Accounts & Audit						
4	Personnel						
5	E-Governance						
6	Public Works						
7	Sanitation						
8	Water Supply						
9	Public Convenience						
10							
11	,, ,, ,, ,,						
12	,, ,, ,, ,,						
13	Others*						
	Total**						

**All the functions carried out by the entity shall be captured in the format given above.*

Form BUD -8

_____________Name of the Entity

BUDGETED INCOME AND EXPENDITURE FOR THE PERIOD ENDED ________

Item/ Head of Account	Head of Account	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
1	2	3	4	5	6
INCOME					
Operating Income on Water Supply	1100000				
Operating Income on Sewerage	1200000				
Other Operating Income	1300000				
Fees & User Charges	1400000				
Sale & Hire Charges	1500000				
Revenue Grants, Contributions & Subsidies	1600000				
Income from Investments	1700000				
Interest Earned	1710000				
Other Income	1800000				
Prior Period Income	1850000				
Total – INCOME	**A**				
EXPENDITURE					
Establishment Expenses	2100000				
Administrative Expenses	2200000				
Operations & Maintenance	2300000				
Interest & Finance Expenses	2400000				
Programme Expenses	2500000				
Revenue Grants, Contributions & subsidies	2600000				
Provisions & Write off	2700000				
Miscellaneous Expenses	2710000				

Item/ Head of Account	Head of Account	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
Depreciation Prior Period Expenses	2720000 2850000				
Total – EXPENDITURE	**B**				
Net balance being surplus/ deficit carried over to General Fund					

* No provision for doubtful debts / write off shall be made at the time of preparation of budget estimates.

Form BUD -9

______________Name of the Entity

Balance Sheet as on ____________

S.No.	Description of items	Code	Actuals (For the Year last concluded)	Budget Estimates (Current Year)	Revised Budget Estimate (Current Year)	Budget Estimate (Next year)
	LIABILITIES					
	Reserve & Surplus					
	General Fund	3100000				
	Earmarked Funds	3110000				
	Reserve Funds	3120000				
	Total Reserves & Surplus					
	Grants and Contributions	3200000				
	Loans					
	Secured Loans	3300000				
	Unsecured Loans	3310000				
	Total Loans					
	Current Liabilities and Provisions					
	Deposits Received	3400000				
	Deposit works for Water Supply	3410000				
	Deposit works for Sewerage	3420000				
	Other Liabilities (Sundry Creditors)	3500000				
	Provisions	3600000				
	Total Current Liabilities and Provisions					
	TOTAL LIABILITIES					
	ASSETS					
	Fixed Assets					
	Gross Block	4100000				
	Less: Accumulated Depreciation	4110000				
	Net Block					
	Capital Work-in-Progress	4120000				
	Total Fixed Assets					

S.No.	Description of items	Code	Actuals (For the Year last concluded)	Budget Estimates (Current Year)	Revised Budget Estimate (Current Year)	Budget Estimate (Next year)
	Investments					
	Investment – General Fund	4200000				
	Investments – Other Funds	4210000				
	Investments – Earmarked Funds	4220000				
	Investments – Surplus Funds	4230000				
	Total Investments					
	Current Assets, Loans and Advances					
	Stock in Hand (Inventories)	4300000				
	Sundry Debtors (Receivables)	4310000				
	Gross amount outstanding					
	Less: Accumulated provision against bad and doubtful Receivables	4320000				
	Net amount outstanding					
	Prepaid Expenses	4400000				
	Cash and Bank Balances	4500000				
	Loans, advances and deposits	4600000				
	Less: Accumulated provision against Loans	4610000				
	Net Amount outstanding					
	Total Current Assets, Loans & Advances					
	Other Assets	4700000				
	Miscellaneous Expenditure (to the extent not written off)	4800000				
	TOTAL ASSETS					

FORM BUD – 10

_____________Name of the Entity
_____________ Name of the Fund

Expenditure Commitment Register

Function:
Functionary:
Account Head:
Description:
Original Amount Sanctioned: **Date of Sanction:**
Revision to the Budget : **Date of Revision:**
Revised Budget :

Details of Commitment

S No.	Doc Ref*	Date	Particulars	Amount of Commitment (in Rs.)	Amount Actually Incurred (Rs.)	Balance Commitment (Rs.)

** The work order / Voucher No. shall be the document reference number*

<u>Notes:</u>

1. Separate sheet should be used for each combination of Budget Centre and Account Head.
2. Separate registers may be maintained for each Department.

FORM BUD – 11

_____________Name of the Entity
_____________ Name of the Fund

Budgetary Control Register

Function:
Functionary:
Account Head:
Description:
Original Amount Sanctioned: **Date of Sanction:**
Revision to the Budget : **Date of Revision:**
Revised Budget :

Details of Utilisation

S No.	Doc Ref*	Date	Particulars	Amount Utilised (in Rs.)	Balance Unutilised (in Rs.)

** Voucher No. shall be the document reference number*

Notes:

1. Separate sheet should be used for each combination of Budget Centre and Account Head.
2. Separate registers may be maintained for each Department. The Budgetary Control Register shall be maintained at the respective department and also at the Accounts Department.
3. The Accounts Department shall intimate the respective departments whenever any claims / bills are accounted or payment made.

Form BUD- 12

______________Name of the Entity
______________ Name of the Fund

Requisition for Re-appropriation

Transfer from						
Function	**Functionary**	**Account Head**	**Description**	**Budget Unutilised**	**Re-appropriation (in Rs)**	**Revised Budget (in Rs)**
Transfer To						
Function	**Functionary**	**Account Head**	**Description**	**Original Budget (in Rs)**	**Re-appropriation (in Rs)**	**Revised Budget (in Rs)**
Reasons for Re- Appropriation						
Divisional Head		**Accounts Officer**			**Head of Finance**	

Form BUD- 13

Name of the Entity: ________

Function – Functionary Wise – Program Wise Budget Variance Report

From Date : ____________ To Date :_______________

Fund : __________

Function :__________________ Functionary: ______________ Program: ______________

Item/ Head of Account	Head of Account	Budget Estimate	Amount (Rs.) Current Year		Budget Pending Utilisation	% of Utilisation	Amount (Rs.) Previous Year	
			For the period	Upto the period			For the period	Upto the period
1	2	3	4	5	6 (3-5)	7 (5/3)	8	9
INCOME								
Operating Income on Water Supply	1100000							
Operating Income on Sewerage	1200000							
Other Operating Income	1300000							
Fees & User Charges	1400000							
Sale & Hire Charges	1500000							
Revenue Grants, Contributions & Subsidies	1600000							
Income from Investments	1700000							
Interest Earned	1710000							
Other Income	1800000							
Prior Period Income	1850000							
Total – INCOME	**A**							

Item/ Head of Account	Head of Account	Budget Estimate	Amount (Rs.) Current Year		Budget Pending Utilisation	% of Utilisation	Amount (Rs.) Previous Year	
			For the period	Upto the period			For the period	Upto the period
EXPENDITURE								
Establishment Expenses	2100000							
Administrative Expenses	2200000							
Operations & Maintenance	2300000							
Interest & Finance Expenses	2400000							
Programme Expenses	2500000							
Revenue Grants, Contributions & subsidies	2600000							
Provisions & Write off	2700000							
Miscellaneous Expenses	2710000							
Depreciation	2720000							
Prior Period Expenses	2850000							
Total – EXPENDITURE								
Net balance being surplus/ deficit carried over to General Fund	**B**							

Similar statement shall be prepared for the capital receipts and expenditure

Form BUD- 14

Name of the Entity: ________

Function Group Wise Budget Variance Report

From Date : ____________ To Date :_______________

Fund : __________

Function Group: __________________

Item/ Head of Account	Head of Account	Budget Estimate	Amount (Rs.) Current Year		Budget Pending Utilisation	% of Utilisation	Amount (Rs.) Previous Year	
			For the period	Upto the period			For the period	Upto the period
1	2	3	4	5	6 (3-5)	7 (5/3)	8	9
INCOME								
Operating Income on Water Supply	1100000							
Operating Income on Sewerage	1200000							
Other Operating Income	1300000							
Fees & User Charges	1400000							
Sale & Hire Charges	1500000							
Revenue Grants, Contributions & Subsidies	1600000							
Income from Investments	1700000							
Interest Earned	1710000							
Other Income	1800000							
Prior Period Income	1850000							
Total – INCOME	**A**							

Item/ Head of Account	Head of Account	Budget Estimate	Amount (Rs.) Current Year		Budget Pending Utilisation	% of Utilisation	Amount (Rs.) Previous Year	
			For the period	Upto the period			For the period	Upto the period
EXPENDITURE								
Establishment Expenses	2100000							
Administrative Expenses	2200000							
Operations & Maintenance	2300000							
Interest & Finance Expenses	2400000							
Programme Expenses	2500000							
Revenue Grants, Contributions & subsidies	2600000							
Provisions & Write off	2700000							
Miscellaneous Expenses	2710000							
Depreciation	2720000							
Prior Period Expenses	2850000							
Total – EXPENDITURE	**B**							
Net balance being surplus/ deficit carried over to General Fund								

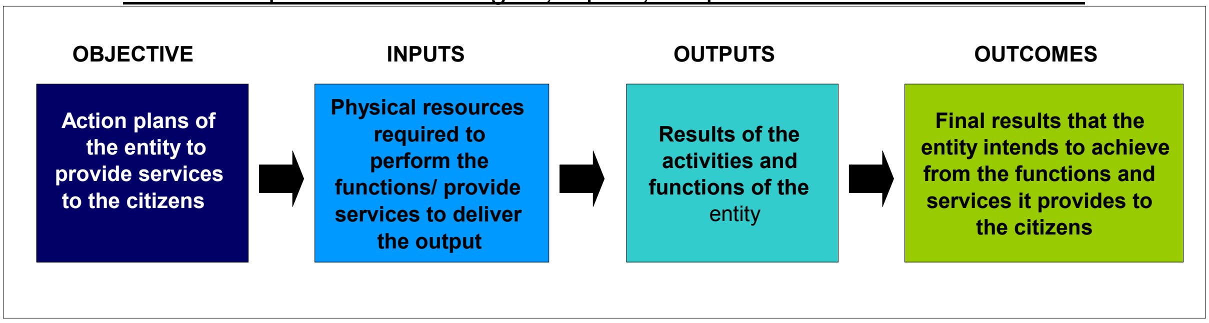
Similar statement shall be prepared for the capital receipts and expenditure

Appendix 2 – Outcome Budgeting

METHODOLOGY

Outcome focussed budgeting, involves a macro analysis of the results and their impact and has proved in most developed and developing countries to provide meaningful assessment parameters for both, the authorities and the general public, thereby increasing transparency and aiding performance appraisal. Outcome focussed budgeting helps the entities providing services to the citizens connect with the public at large by involving them in communicating goals, achievements, efficiency in expenditure in achieving the goals and targets set. The fundamental premise of Outcome based Budgeting is to widen the scope of budgeting and reporting by merging performance assessment measures alongwith the goals of the entity. The Exhibit below provides the relationship between entity's Objectives/ Strategies, inputs, outputs and intended outcomes:

Exhibit A. 1
Relationship between Strategies, Inputs, Outputs and Intended Outcomes



The procedure for outcome budgeting is as follows:

- The entity (through its departments) would specify the outcomes it is seeking to achieve for a given function group.
- The specified outcomes are in terms of the impact of the entity intends to have on the citizens of the city (e.g., water quality, water supply, etc.).
- Funds are appropriated to allow the various departments achieve these outcomes.
- Departments specify and manage their outputs to maximize their contribution to the achievement of the entity'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 and to enable the system to be further developed to improve performance and accountability for results.

BENEFITS

It is important that the stakeholders in the budgeting process appreciate the benefits of Outcome Budgeting, which are listed below:-

- The outcome budgeting is an excellent mechanism to focus initiatives to meet vision, goals and objectives of the entity to improve its service delivery;
- The use of outcome budgets for deployment of resources will enable the entity to deliver the quality and level of services matching the expectations from citizens' perspectives.
- The real value of Outcome Budget lies in its utility as a policy tool to establish effective linkage with allocation and disbursement of funds on the basis of measurable performance.
- The outcome budget can be used as a tool to enhance the productivity of individual staff, service centers/units and departments.
- The implementation of Outcome Budgeting facilitates effective monitoring of performance of individual staff, service centers/units and departments.

OUTCOME BUDGETING PROCESS

Outcome focused budgeting requires a clear definition of the following aspects:

- Various functions performed by the respective departments of the entity
- Budgeted revenue and capital outlays for the identified services/ functions
- Quantified outputs and deliverables from performing the respective functions or providing the services
- Expected outcomes from performing the respective functions or providing the services
- Expected timeline for the outputs and outcomes
- Risk factors impeding achievement of the expected outputs and outcomes
- Mitigants to the proposed risk factors

Each of the above aspects are discussed in detail. The following paragraphs discuss each of the above aspects in detail.

Definition of Functions

At the outset, for the process of outcome budgeting, it is imperative to list all the possible departments and the different functions being performed for which outcomes need to be measured or assessed.

The Orissa Water Utility Accounting Manual has prescribed „Function Groups' under which all the functions and services performed by the entity can be grouped. Similar Function Groups or selective groups which are significant for reporting and assessment purposes can be utilized while defining the functions/ services performed by the different departments of the entity.

Budgeted Outlays for the Identified Functions

The total expected capital and revenue outlays need to be determined from budgets and mapped to each of the listed function groups. The outlay required to be included is the total outlay and not an „input-wise' line by line outlay (i.e. salaries, wages, operating expenses, etc.).

Determination of Output Measures

Outputs are the services, which the entity provides to the citizens at large through the different functions. Quantifiable output measures should be determined by the respective Heads of Departments at the inception of outcome budgeting exercise to ensure effective measurement of expected outcomes. Each of the output measures determined would need to be re-assessed during each budgeting exercise.

Expected Outcomes

Outcomes define what the respective functions aim to achieve and efficiency with which the resulting outputs are achieved. Expected Outcomes need to be formulated at the beginning of the budgeting period by the Heads of each department providing the respective service. The expected outcomes would be based on the service provided and the output measures determined. The Expected Outcomes would measure the effectiveness of the performance of functions of the entity. Each of the outcome measures determined would need to be re-assessed during each budgeting exercise.

Timeline

The timelines to achieve and assess the expected outputs and outcomes need to be laid out specifically while preparing the budgets. This will provide a definite timeframe to the functionaries to carry out their respective activities and thus increase accountability. Timelines could be quarterly, semi-annually or annually based on the nature of service being provided.

Risk Factors

Risk factors are the inherent or identifiable hurdles, which could hinder the achievement of the outputs and/ or outcomes. These risk factors need to be listed at the outset by the Heads of each Department which provides the respective service in order to factor these in the budgeting framework and assess the need for alternative strategies

Mitigants

Mitigants are the alternative strategies which need to be formulated by the functionaries to counter the identified risk factors. The mitigants would assist in identifying strategies to provide uninterrupted service to the citizens and thus help the respective departments achieve the expected outcomes.

Exhibit A.2 below provides an indicative list of function groups, output measures, expected outcomes, timelines, risk factors and mitigants for the identified risk factors:

Exhibit A.2
Outcome budget format (Indicative)

Function Code	Function Group	Outlays (Rs. lakh)		Output Measures	Expected Outcomes	Timeline	Risk Factors	Mitigants
		Revenue	Capital					
20	Works	xx	xx	(a) number of pipes being repaired (b) length of water pipes laid	(a) Percentage of pipe repairs completed (b) Percentage of water pipes laid in a ward	Semi-Annual	(a) Contractors fail to perform and deliver (b) Natural Calamities (c) Strikes/ Operational problems	(a) Back-up contractors to complete work (b) Performance oriented payment
30	Sanitation	xx	xx	(a) tones of refuse collected (b) number of households serviced	(a) Percentage of area cleaned (b) Percentage of increase in garbage and refuse	Quarterly	(a) Inadequate capacity to handle increase in quantum (b) Inadequate area to dump waste	(a) Capacity increase analysis and creation of additional capacity (b) Identification and creation of dumping grounds (c) Improved methods of handling waste

Function Code	Function Group	Outlays (Rs. lakh)		Output Measures	Expected Outcomes	Timeline	Risk Factors	Mitigants
		Revenue	Capital					
35	Water Supply	xx	xx	(a) number of households serviced with water (b)total annual water abstracted in million gallons from specific number of Tube wells (c) the water stored and put in distribution system in million gallons (d) number and % of water quality Tests with satisfactory results (e) x% reduction in number of water borne diseases (f)x hours of water supply with x percent pressure each day (g) unaccounted for water %	(a) Number of households (b) Million gallons (c) Percentage of water quality (d) 24x7 water supply	Quarterly	(a) Decrease in water sources (b) Increase of households (c) Highly contaminated water from the source	(a) Improved methods of treatment of water (b) „Save water' propogations
40	Civic Amenities	xx	xx	(a) number of households serviced with water (b) number of public stand posts	(a) Percentage of increase in water consumption	Quarterly	(a) Decrease in water sources	(a) Water conservation measures

ISSUES IN ADOPTING OUTCOME BASED BUDGETING

Though the „Outcome' focused budgeting and management framework has its advantages, it requires many decisions and issues which need to be addressed for it provide the underlying benefits and which would affect the smooth/ timely data and information flow. A few indicative issues and decisions which would need to be taken in this regard have been detailed below:

- Whether all functions or only key functions need to be included in the Outcome Budgeting exercise.
- The functionaries or the body who would define the outputs, expected outcomes, risk factors and mitigants would need to be identified.
- The level of transparency, disclosure and participation of the targets set, expectations of outcomes, etc. that the entity intends to and from the citizens of the city.
- Methodology for collection and evaluation of the data on the achievement of outcomes.
- The extent to which the officials need to be held accountable for the actual outcomes.
- How the entity intends to use the outcomes to drive decisions on the budget levels (i.e. future realigning of future budgeting requirements, etc.).
- Same chart of account should be used for accounting and budgeting;
- Actual total costs and cost of outputs should be available from the accounting system for at least last six months of the current year for each cost center or unit/service and department

As such, „Outcome Budgets' enables the delivery of services based upon the citizens' ultimate priorities, preferences and needs. This budgeting approach will enable the head of departments to focus upon meeting the ultimate outcomes (effects) of their various programs and services rather than the financial outlays and outputs.

The Outcome Budgeting is simply not all about a specific and isolated methodology for preparation of budget for the next financial year. Usually the outcome expectations of citizens for any type of service , e.g potable water supply or drainage can not be met entirely through resource allocations in the next year's budget. Generally, the outcome expectations can be addressed through a careful and calibrated planning and execution of multiple activities over next several years, which includes allocation of budgetary resources over several years. Outcome budgeting, therefore, promotes and facilitates systematic and sustainable solutions to improve the quality and outreach of services.