

Budget Manual



Royal Government of Bhutan
Ministry of Finance



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Acronyms and Abbreviations

The acronyms and abbreviations used in this Manual are as follows:

AFD	Administration & Finance Division
AFS	Administration & Finance Section
BM	Budget Manual
CoM	Council of Ministers
CDB	Construction Development Board
CoA	Chart of Accounts
CSO	Central Statistical Organisation
DADM	Department of Aid and Debt Management
DBA	Department of Budget & Accounts
DRC	Department of Revenue & Customs
DYT	Dzongkhag Yargay Tshogchung
FMS	Financial Management System
FMM	Financial Management Manual
FAM	Finance and Accounting Manual
GYT	Geog Yargay Tshogchung
LC	Letter of Credit
MoF	Ministry of Finance
NA	National Assembly
PC	Planning Commission
PCS	Planning Commission Secretariat
PM	Procurement Manual
PPD	Policy and Planning Division
PPS	Planning & Programming Section



RAA	Royal Audit Authority
RCSC	Royal Civil Service Commission
RGoB	Royal Government of Bhutan
UDHD	Urban Development and Housing Department



Chapter I

Introduction

1.1 Purpose of the Budget Manual

- 1.1.1 The Budget Manual sets out the annual budget process of the Royal Government. This BM is the revised version of the 1987 “Manual for Preparation of Budget Estimates under the Programme Budget Model” and Chapter 5 of the 1988 “Financial Manual”.

1.2 Structure of the Budget Manual

- 1.2.1 Chapter I introduces the structure of the Manual. Chapter II explains the concepts, principles and structure of the budget system.
- 1.2.2 The main body of this Manual consists of a description of the four phases of the budget cycle – preparation, approval, execution and accountability. Chapter III provides an outline of the budget cycle. Chapter IV discusses budget preparation, including the Budget Call, as well as the drawing-up of budget proposals. The approval of the budget by the National Assembly (NA) is covered in Chapter V. In chapter VI, the execution and release of the budgets is described and Chapter VII is on the reporting, mid year review, monitoring and audit as the basis for accountability. Chapter VIII covers the interim revisions.
- 1.2.3 Chapter IX provides a guide to the preparation of Rolling Budgets. The last chapter of this Manual contains the forms and attachments used for budgeting and releases.





Chapter II

The Budget System

2.1 General

- 2.1.1 One of the main objectives in financial management is to determine how well an agency has discharged its financial and resource management responsibilities. This determination requires, amongst others, a comparison of what has been accomplished in relation to fiscal policies and proposed time bound programmes of the Government. These fiscal policies and programmes are contained in the “Budget” document through which amounts of revenue to be raised and the limitations on the sums that may be expected for the respective government purposes are set.
- 2.1.2 Budgeting, essentially is determining for a future period of time what is to be done, what is to be accomplished, the manner in which it is to be done, and the cost of doing it. It requires that the broad objectives of the agency be broken down into detailed work plans for each programme/sub-programme/activity/project and for each unit of the agency. Thus, the budget is a monetary definition of the future plans of the agency.
- 2.1.3 The term “Budget” shall mean the estimates of revenues and receipts, and expenditures. It shall be a comprehensive financial programme of the Government during a fixed period. As such, it shall present in detail :-
- a. estimated and actual revenues and receipts and expenditure of previous period(s);
 - b. proposed appropriations for expenditure for the succeeding period(s);
 - c. proposed sources of revenue and receipts for the period(s);



- 2.1.4 The term “Appropriation” refers to an authorisation made by law or other legislative approval, directing the payment of goods and services out of government funds under specified conditions or for specified purposes.
- 2.1.5 The principal objectives of the budget system shall, in summary, be as follows:
- a. to provide a framework for the assessment and allocation of resources, execution, monitoring and evaluation of all government programmes/projects/activities under a comprehensive fiscal plan developed, authorised and executed in accordance with laws, rules and regulations, and the principles of sound fiscal management;
 - b. to provide for the budgetary status of the Government in such detail that persons entrusted by laws, rules and regulations with the responsibility can determine the adequacy of budget actions taken, authorised or proposed, as well as the true financial position of the Government; and
 - c. to enforce effectively the various means of raising revenues and receipts, and the limitations on the expenditure of Government funds.

2.2 Budget Concepts and Principles

- 2.2.1 Government agencies shall not spend more than what has been authorised, and they shall use funds only for purposes specified in the approved budget. They are prohibited from spending or committing payments in advance of budget sanction. The budget concepts and principles of the Government shall be based on programmes/projects/activities in terms of expected results encompassing, inter-alia:
- a. The concept of balance, i.e. limiting money spent to resources available;
 - b. The concept of budgeting as per programme budget model based on functions/programmes/activities/projects. The focus shall be upon the general character and relative importance of



the work to be done or upon the service to be rendered, rather than upon the things to be acquired;

- c. Budget control and accountability, defining responsibilities and goals of the various levels of organisation in relation to the fiscal limits within which tasks are accomplished. Each organisational level shall be accountable to the next higher level for its work accomplishments and utilisation of funds; and,
- d. The concepts of frugality and prioritisation, indicating that the government shall live within its means and shall prioritise its activities accordingly. Agencies must, consciously and deliberately, define what it can achieve within its institutional resources and constraints.

2.3 Structure of the Budget

2.3.1 The structure of the budget shall, unless otherwise specified, be in accordance with the Programme Budget Model, and encompass the following aspects:

- a. That the programme classification of the budget be based on the functional and organisational classification of the Government. In general, a “function” is considered as an objective of identifiable service.
- b. That a programme is a collection of government activities that share a common set of objectives. It is described as the highest level of classification of work to be performed by an agency, in carrying out its assigned functions and tasks;
- c. That a programme is further sub-divided into identifiable work/function related sub-programmes required for fulfilling the assigned programme;
- d. That the sub-programmes are then divided into discrete activities or projects;

2.3.2 Since the programme budget is result oriented by nature, it includes the concept of performance budgeting according to which the allocation of resources and spending thereof shall be linked to the expected results and actual outcomes. Emphasis shall move from the categories of spending to achieving specific measurable outcomes.



Thus the resources shall be allocated primarily on the basis of considerations like “what is sought to be achieved by an activity and how does it contribute to the overall aims and objectives of a programme?”. The heads of line agencies shall establish performance indicators in their respective sectors in co-ordination with the MoF and PC.

2.4 Classification of Government Expenditure and Receipts

2.4.1 *Government expenditures* shall be classified into 4 categories, namely:

- a. Current Expenditure – These include appropriations for the purchase of goods and services for current consumption or for benefits expected to terminate within the fiscal year. Examples are personnel emoluments, medical benefits, special allowances, travel, utilities, rental of property, supplies and materials, maintenance of property, maintenance of vehicles, operating expenses, retirement benefits, interest on loans, etc.
- b. Capital Expenditure – these include appropriations for the acquisition of goods and services, the benefits of which extend beyond the fiscal year and which add to the assets of the Government. Examples are acquisition of land and buildings, land improvements, buildings and structures, plants, equipment and tools, vehicles, etc.
- c. Lending – These include loans to individuals and organisations.
- d. Repayment – Repayment of principal amounts. Payment of interest on loans are charged to current expenditures.

2.4.2 These categories shall be further classified for the purpose of assessing and monitoring the resource allocation and general macro-economic implications of the budget transactions as follows:

- a. Functional Classification – Whereby expenditures are classified according to the main purposes or functions of the outlays, such as agriculture, health, education, economic services, general public services, etc.
- b. Economic Classification – Whereby expenditures are classified according to the kinds of transactions and their impact on



markets (for goods and services and financial markets) and income distribution, e.g. current and capital, and

- c. Object classification – a display of expenditures that identifies the types of goods or services acquired or transfer payments made (e.g. salaries and wages, utilities, grants and contributions, etc.). It is also called line-item classification.

2.4.3 **Government Receipts** shall be classified broadly as:

- a. Taxes and Duties
- b. Fees and Income from property and enterprises
- c. Proceeds from sale of land and other capital assets
- d. Recovery of on-lending
- e. Grants from multilateral and bilateral sources
- f. Borrowings
- g. Receipts from other sources

2.5 Budget Balance

2.5.1 The overall budget balance shall be defined in the following two ways:

1. Fiscal Deficit/Surplus

(taxes + fees and income from property and enterprises + proceeds from sale of land and other capital assets + recovery of on-lendings + grants) – (current expenditures + capital expenditures + lending)

When the balance is negative, there is a fiscal deficit; when it is positive, there is a surplus. A fiscal deficit must be financed by borrowing (domestic and/or external) or creation of more money; a surplus results in debt repayments.

2. Budget Deficit/Surplus

(taxes + fees and income from property and enterprises + proceeds from sale of land and other capital assets + recovery of on-lendings + grants + project tied borrowing) – (current expenditures + capital expenditures + lending + repayments)



2.5.2 The term budget deficit differs from the fiscal deficit to the extent that net project-tied borrowing, i.e. borrowings net of repayments, is also added to receipts and deducted from expenditures. When the balance is negative, the budget deficit is normally financed by domestic borrowing.

2.6 Fiscal Year

2.6.1 The Fiscal Year, which is the Government's accounting period, runs from 1st July up to 30th June. The budgets are closed on 30th June. Unutilised/unexpended balances of appropriations at the end of a fiscal year shall automatically lapse.



Chapter III

The Budget Cycle

3.1 Outline of the Budget Cycle

3.1.1 The budget cycle shall consist of the following phases:

1. Budget Preparation

Activity	Prime Agencies Responsible	Period
Policy Guidelines	Council of Ministers	
Forecasts of Receipts and Expenditures	Ministry of Finance	November & March
Budget Call	Ministry of Finance	December /January
Preparation and Submission of Budget Proposals	All Agencies	February & March
Budget Discussions	All Agencies and Ministry of Finance	March & April
Budget Report Submission to Cabinet	Ministry of Finance	May

2. Budget Approval

Activity	Prime Agencies Responsible	Period
Discussion of the Budget Report	Cabinet	May/June
Discussion and Approval of the National Budget	National Assembly	June



3. Budget Execution – Release of Funds

Activity	Prime Agencies Responsible	Period
Budget Notification	Ministry of Finance	July
First Release of Funds	Department of Budget and Accounts	July
Implementation of Budgeted Activities	All Agencies	Year round
Subsequent Releases of Funds	Department of Budget and Accounts	Year round up to May

4. Budget Accountability

Activity	Prime Agencies Responsible	Period
Submission of Monthly Accounts to DBA	All Agencies	Monthly
Financial/Physical Progress Reports to DBA	All Agencies	Quarterly
Mid Year Review of the Budget	Ministry of Finance and all Agencies	February/March
Monitoring of Financial/Physical Progress	Department of Budget and Accounts and All Agencies	Year round
Auditing	Royal Audit Authority and Internal Audit Units	Year round

5. Interim Revisions

Activity	Prime Agencies Responsible
Re-appropriation of Funds	As per the Delegation of Powers
Supplementary Budgets	Council of Ministers and Ministry of Finance



Chapter IV

Budget Preparation

4.1 First Forecasts of Receipts and Expenditures

4.1.1 In order to provide a basis for the formulation of the budget for the next fiscal year, an estimate of the expected receipts and a forecast of expenditure shall be worked out as follows:

- a. The DRC shall prepare an estimate of the internal receipts from tax and non-tax sources;
- b. The DADM shall prepare estimates of receipts of external grants and loans, loan recoveries and supplement it with estimates of mandatory counterpart contributions as well as the debt servicing requirements;
- c. Taking the estimated amounts of counterpart contributions and debt servicing into consideration, the DBA shall prepare a forecast of the overall expenditures of the Government.

4.2 Budget Call

4.2.1 On the basis of the first forecasts of receipts and expenditures, the MoF shall issue the Budget Call, which shall include highlights of financial policies and specific economic information such as the inflation rate, etc. The purpose of the Budget Call shall be:

- a. To provide the Agencies with guidelines for the preparation of their budgets, including instructions for completing the requisite budget forms, as well as any new policy initiatives and changes;
- b. To set a timetable for the preparation and submission of budget proposals by the Agencies.



4.3 Budget Preparation and Submission by Agencies

- 4.3.1 Based on their sectoral plans, priorities and implementing capacity, the Agencies shall prepare budgets for different programs and projects.
- 4.3.2 The PPDs/PPS' shall be responsible for keeping the direction of the budgets in line with the 5-Year Plan. The AFDs/AFS' at the Agencies shall be responsible for arranging the preparation and endorsement of the proposed budget estimates of their respective Agencies and ensuring timely submission to the DBA.
- 4.3.3 Dzongkhags shall prepare and submit their sector budget proposals in consultation with the respective sectors at the centre. The sectors shall provide recommendations and suggestions for budget allocation, which will help the Dzongkhags ensure that the proposed budgets are in line with the sectors' plan objectives. Budgets for activities at geog level shall be based on geog plans.
- 4.3.4 Next to the budgets per program, the Agencies shall prioritise their different activities, as provided under Budget Form III.
- 4.3.5 In addition, the following specific guidelines shall be observed during the preparation of the budget proposals by all Agencies:
- a. Adequate justifications and explanations must be prepared for all major proposals. In the justification, the emphasis shall be on the activities to be taken up and targets to be met rather than on the objects of expenditure;
 - b. Flagship projects, (i.e. projects of national importance) as well as grant-assisted projects with or without counter-part support from the Government and projects financed by committed loans shall be given higher priority;
 - c. Activities or projects that address specific commitments of the Government under any international, bilateral or domestic forum must be identified prominently.
 - d. New externally assisted activities or projects shall be included in the proposals only if they are in an advanced stage of



- negotiation and are expected to start within a period of three months into the new fiscal year;
- e. Agencies shall evaluate their capacity for implementation within their institutional infrastructure, other constraints of administration and procurement lead-time while preparing the budget estimates;
 - f. Preliminary estimates shall be used as supporting documentation for the write-up on new constructions, special repairs or renovations of existing infrastructure. In the case of activities that are planned to be carried out over a period of more than one year, the write-up shall indicate the full scope, the total financial implication and the planned execution of the work in phases by year;
 - g. Agencies shall propose to include activities that are likely to run into the next year as spill-over items or as items for the purpose of adjustment of outstanding advances or amounts lying under suspense heads;
 - h. Proposals/estimates for any activity or project the execution of which extends beyond the budget (fiscal) year shall be limited to the amount to be expended within the fiscal year. The amount required in the succeeding fiscal year(s) shall be projected in the annual budget proposals of such years(s). The preparation of forward estimates under the rolling budget mechanism is expected to facilitate such multi-year budgetary estimations.
 - i. Agencies shall identify and apply the lowest possible cost and the most effective methods in estimating the costs of activities and projects proposed;
 - j. Provisions, in the form of counter-part financing for projects financed by external sources, shall be incorporated in the budget proposals.
 - k. The activities or projects shall be within the overall Government mandate of their functions and shall be within the scope of the relevant 5-Year Plan.
 - l. The budget proposals shall contain information on the previous year's expenditures and the current year's revised budget estimates.



4.3.6 Two sets of the completed budget proposals shall be submitted to the DBA. Forms III, IV, V and VII shall also to be submitted to the PCS and Forms III, IV and V to the DADM.

4.3.7 Budget Form I shall be duly signed by the Head of the Agency. With this signature, he/she declares to have completed the forms sincerely and accepts responsibility for the proposal.

4.3.8 The proposals shall include the following supporting documents;

1. Budget Forms

Budget Form No. I	Summary of Proposed Budget Estimates
Budget Form No. II	Budget Summary By Objects
Budget Form No. III	Budget Presentation Scheme in Details
Budget Form No. IV	Forward Estimates (Rolling Budget)
Budget Form No. V	Expected External Assistance
Budget Form No. VI	Deposit Works
Budget Form No. VII	Write-up for Activities Proposed

2. Budget Attachments

Attachment No. I	Summary of Personnel and Other Personnel Emoluments
Attachment No. II	Schedule of Personnel Emoluments
Attachment No. III	Schedule of Other Personnel Emoluments

3. Asset Inventory Forms

Inventory Form No. I	Inventory of Buildings
Inventory Form No. II	Inventory of Vehicles
Inventory Form No. III	Inventory of Furniture
Inventory Form No. IV	Inventory of Equipment
Inventory Form No. V	Inventory of Chadi/Mask Dance Items



4.4 Second Forecast of Receipts

- 4.4.1 About four months after the first forecast, a second forecast of expected receipts shall be prepared by the DRC and made available to the DBA.
- 4.4.2 The DADM shall examine the items placed under external financing in Budget form Nos III, IV and V to see that those are in line with the current portfolios of external grants and loans. The comments of the DADM on such items and a second estimate of expected receipts of external grants/loans in individual projects together with the requirements of counterpart contribution shall be made available to the DBA.
- 4.4.3 The estimates received from the DRC and the DADM shall form the basis for setting the final maximum limit for expenditures.

4.5 Budget Discussions

- 4.5.1 Once all the budget proposals have been received and forecasts of revenue and receipts are available, the DBA shall call meetings with all Agencies to discuss the budget. The concerned Head of the Agency shall be assisted by the PPD/PPS/AFD/AFS staff.
- 4.5.2 Budget discussions shall be at activity level. Generally, no detailed discussions shall take place on current expenditure estimates, except in the case of new activities. Based on the resources available, the budgets of individual programmes and activities may be changed and from the total number of activities, only the activities with the highest priorities shall be recommended by the MoF.
- 4.5.3 Concerned central agencies shall be consulted on the Dzongkhag/Geog proposals, in terms of prioritisation and scope. The DADM shall advise on donor assisted programmes and activities and the PCS shall participate in the budget discussions of all major sectors.



4.6 Finalisation of Budget Report

- 4.6.1 Based on the budget discussions and the forecast of resources, the DBA shall compile the Budget Estimates (BE) for the forthcoming year and prepare a Budget Report on these as well as the Revised Estimates for the current year¹.

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¹ The processing of Revised Estimate has been prescribed at Section 7.2 in Chapter VII.





Chapter V

Budget Approval – Legislative Authorisation

5.1 Discussion in the Cabinet

- 5.1.1 The Ministry of Finance shall submit the Budget Report mentioned at 4.6.1 to the Cabinet for discussion and review before submission to the National Assembly.

5.2 Approval by the National Assembly

- 5.2.1 The proposed Budget shall be presented to the National Assembly by the Minister of Finance on behalf of the Council of Ministers for legislative approval.





Chapter VI

Budget Execution: The Release of Funds

6.1 Budget Notification

- 6.1.1 Once the budget has been approved by the NA, the DBA shall issue a Budget Notification to provide the Agencies with their approved budget details and a timetable with the prescribed dates for submitting reports and for expected release dates.

6.2 Releases

- 6.2.1 The budget execution phase shall start with the release of funds through the LC system in the respective bank accounts maintained at the agent banks. Subject to fulfilment of the necessary formalities, the DBA shall ensure timeliness of release of funds to the concerned Agencies in order to facilitate execution of programmes and activities, which are included in the approved budget.
- 6.2.2 The line agencies shall plan their works in such a way as to avoid lapse of released funds at the close of a fiscal year and submit their fund requisitions accordingly. In order to minimise the chances of idle funds getting lapsed at the year-end, the DBA shall be empowered to fix time periods in the last quarter of the year, after which release of funds shall generally not be permitted.
- 6.2.3 The system of releases described in this chapter shall be subject to change depending upon the Government's cash flow situation and fund management policies.



6.2.4 The budgetary releases shall consist of the following three types:

- i. Current regular
- ii. Current ad hoc, and
- iii. Capital.

6.3 Current Regular Releases

6.3.1 Such releases are for meeting the current expenditures of regular nature, and shall be made quarterly with the requirement of monthly reporting, in terms of submission of complete monthly accounts with supporting schedules.

6.4 Current Ad Hoc Releases

6.4.1 Such releases shall refer to individual releases based on specific requests. Examples are bulk supplies.

6.5 Capital Releases

6.5.1 There shall be two categories of capital releases: construction and non-construction. For the release of funds under these categories, the minimum documents to be submitted and procedures to be followed, unless otherwise prescribed, shall be as follows:



1. Non-construction

Object Classification	Requirement
Acquisition of land	Proof of completion of formalities to be submitted. - Rural cases: clearance of the Department of Survey and Land Records. - Urban cases: clearance of City Corporation / UDHD.
Acquisition of buildings	Proof of completion of formalities and evaluation certificates to be submitted. - Rural cases: clearance of the Ministry of Home Affairs. - Urban cases: clearance of City Corporation / UDHD.
Plants & equipment	Requisition in the form of letter to be submitted with the details of equipment, along with copy of supply order.
Vehicles	- Indian made vehicles: copy of supply order to be submitted. - Vehicles imported from third countries: copy of import license to be attached along with cost invoice.
Furniture	Requisition in the form of letter to be submitted with the details of furniture.
Office equipment	- Indian made equipment: copy of supply order to be submitted. Equipment imported from third countries: copy of import license to be submitted in addition to supply order.
Computer & Peripherals	Computers and peripherals imported from third countries: copy of the import license to be submitted in addition to supply order.
Training	Cost estimate and details of actual fund required. RCSC's rules and entitlements on training have to be strictly observed.
Professional Services	Based on requisition. Copy of the contract and invoice to be submitted.
Others	Requisition in the form of letter to be submitted along with details and supporting documents.



2. Construction

Object Classification	Costs up to Nu. 0.500 million	Costs above Nu. 0.500 million
Expenditure On Structures	Requisition in the form of letter to be submitted with the details of works to be carried out.	<p>First Release of the Fiscal Year</p> <ul style="list-style-type: none"> - According to approved budget and fund requirement - Timing of release after submission of: <ol style="list-style-type: none"> 1. Physical and Financial Plan (Combined Release Report Form duly completed with plans) 2. Technical Sanction (if departmentally executed) 3. Contract Award Letter (if executed through contract) <p>Subsequent releases</p> <ul style="list-style-type: none"> - Amount according to approved budget and financial requirement for next quarter and updated work plan. - Timing of subsequent releases – after submission of complete: <ol style="list-style-type: none"> 1. Physical and Financial Progress Report (Combined Release Report duly completed with progress and revised plan, if relevant. Technical sanction or contract award letter to be attached if new works are included)



6.6 Budgetary Releases - First Releases

6.6.1 The first budgetary releases shall be made as follows:

i. Current regular

Soon after approval of the budget in July, if reports and accounts upto April of the previous year have been received.

ii. Current ad hoc

Within 10 days of receiving of request.

iii. Capital

Within 10 days after receipt of complete physical and financial plans and other supporting documents.

6.6.2 In the event legislative approval of the budget is delayed, MoF shall seek the clearance of the Cabinet to release the initial funds for (i) above.

6.7 Subsequent Releases

6.7.1 Subsequent budgetary releases shall be made as follows:

i. Current regular

By 15th of the first month of the next quarter, if the monthly accounts of earlier months have been received by the DBA within the prescribed time schedule,

ii. Capital

Within 10 days after receipt of complete progress reports and updated physical and financial plans by the DBA in the prescribed forms.

6.7.2 The Release Report shall be filled in and submitted for the first time after the budget notification is issued for obtaining the first release. The Release Report shall be updated and submitted every subsequent quarter for obtaining further releases.



6.7.3 The completion and submission of the fund requisition and progress report in the prescribed formats shall apply even for externally assisted projects and activities. Where work plans and fund requirement schedules for such activities already exist under standing agreements with the donor, the same shall be sufficient for DBA's purpose. These should, however, be included and submitted as part of the overall work plan and fund requirement of the agency concerned.

6.7.4 Release of funds for externally supported activities shall be subject to availability of funds with the DBA.

6.8 Non-Revenue Releases

6.8.1 Individual releases shall be made after submission of specific requests along-with proof of deposit. Examples of non-revenue releases are the transfer of funds from one government agency to another and lapsed fund releases in respect of deposit works.

6.9 Refundable Deposit Account Releases

6.9.1 Individual releases shall be made on submission of specific requests along-with proof of earlier deposit in Refundable Deposit Account. An example would be refund of security deposit/retention money.

6.10 Releases for Uncashed Cheques

6.10.1 Releases shall be made on submission of uncashed cheques of previous year along with explanations.

6.11 Unauthorised Diversion of Funds

6.11.1 Activities for which there is no provision in the budget shall not be carried out. Incurring of unbudgeted expenditures and diversion of funds towards unauthorised activities shall constitute a budget



offence, for which the Head of the office and the AFD shall be liable and accountable.

- 6.11.2 Prior approval of the DBA must be sought before taking up any work which involves cost escalations, deviations from the original plan or change in the scope of work, where the amount involved exceeds the delegated powers. This formality should precede any request for funds.

6.12 Release of Funds is not Sanction for Payment

- 6.12.1 The release of funds by the DBA does not in any way exempt the Agencies from the need to ensure that expenditures out of released funds are in accordance with the budget and prescribed financial rules and regulations.

- 6.12.2 The submission of supporting documents to the DBA shall be to confirm that Agencies are ready to undertake the budgeted activities, and funds released based on these documents should not be taken as sanction for payment.

6.13 Right to Withhold Release or Freeze Operation of Bank Accounts

- 6.13.1 Notwithstanding any of the provisions contained in this chapter, the DBA shall reserve the right to withhold releases of funds or freeze operation of any bank account under the following circumstances:
- a. Non-submission of completed monthly accounts and prescribed schedules over extended periods of time;
 - b. Non-submission of the combined Release Report giving the physical and financial plans as well as periodic progress;
 - c. Failure to attend to the defects/irregularities noticed in the reports/accounts or any general queries raised by the DBA.





Chapter VII

Budget Accountability and Reporting

7.1 Accountability and Reporting

7.1.1 The budget accountability phase shall involve the following activities:

1. Submission of Monthly Accounts

7.1.2 All Agencies shall be required to prepare and submit monthly accounts on receipt, utilisation and disposition of funds in respect of all bank accounts allotted to them. The minimum period within which the monthly accounts have to be submitted is prescribed in the FAM.

7.1.3 The receipt of completed monthly accounts and prescribed schedules in time is a pre-requisite for release of funds by the DBA. In cases of non-submission of monthly accounts over extended periods of time, the DBA may resort to freezing the operations of the concerned bank accounts.

2. Submission of Financial and Physical Progress Reports

7.1.4 An important basis for accountability is the reporting by Agencies about their performance in the reporting period vis-a-vis the work-plan/target.

7.1.5 The reports shall give an overview of the progress and a forecast of likely position in the next periods. From the reports it should be clear if the programs are on schedule and if they will be finished on time, within budgets and within set goals.

7.1.6 The Combined Release Report, which captures both physical and financial plans as well as periodic progress, shall be used for reporting.



7.1.7 The receiving of these reports is a condition for the release of capital funds. In cases of non-submission of progress reports over extended periods of time, the DBA may resort to freezing the operations of the concerned bank accounts.

7.2 Mid Year Review of the Budget

7.2.1 The MoF shall hold a Mid Year Review to check if the budget is still on track. The Review shall be based on the reports sent by the Agencies and monitoring reports by the DBA, DRC and the DADM.

7.2.2 The Mid Year Review shall result in:

- a. Revised budgets for current and capital expenditures;
- b. Revision of rolling budgets for subsequent years.

7.3 Monitoring

7.3.1 The DBA and the PCS shall be responsible for monitoring the performance of Agencies during the Fiscal Year.

7.3.2 The goal of the monitoring shall be to check if the physical progress of capital expenditures is in compliance with the reports received from the project managers and Heads of Agencies.

7.3.3 Monitoring shall be done as a combination of analysis of reports and actual site visits.

7.4 Audit

7.4.1 Periodic audit of accounts and operations by the RAA shall be an important part of the accountability process.



Chapter VIII

Interim Revisions

8.1 Interim Revisions of the Budget

- 8.1.1 Generally, Government agencies cannot spend more than what the National Assembly has appropriated, and they are expected to use funds only for purposes specified in the budget. However, during the fiscal year, need for revisions may occur due to changing circumstances.
- 8.1.2 Such revisions shall be submitted for approval to the Council of Ministers, the Ministry of Finance and the Heads of Agencies depending upon the delegation of financial powers at various levels in the Government.
- 8.1.3 The revisions undertaken shall be incorporated in the Revised Estimates, which shall be presented to the subsequent NA for ratification along-with the new budget.

8.2 Re-appropriations

- 8.2.1 Re-appropriation refers to the transfer of funds from one budget head to another.
- 8.2.2 All cases of re-appropriations shall be got approved from the authorities delegated with suitable financial powers before incurring any expenditure against the re-appropriated provisions. Cases of ex-post-facto sanctions shall not be accepted.
- 8.2.3 Agencies are authorised to internally re-appropriate budget under the restrictions of the financial powers laid down in the FMM. The most important rules for budget agencies are that no re-appropriations shall be made:



- a. From one program to another;
- b. From capital to current;
- c. From personal emoluments or provident funds;
- d. To hospitality, entertainment or maintenance of vehicles;
- e. To new object codes

8.2.4 Agencies may formulate their own internal procedures to process re-appropriations, provided that they do not conflict with the centrally defined rules and procedures.

8.2.5 Agencies shall use Budget Form IX for processing re-appropriation cases.

8.2.6 Copies of all re-appropriations shall be endorsed to the DBA.

8.3 Transfer of Funds - Deposit Works

8.3.1 The approved budgets of Agencies contain specific funds for work that will not be carried out by the Agency itself but by another Agency. Construction of roads and power lines are some of the most frequent cases.

8.3.2 With Budget Form VI, the Agencies should indicate how much work or time they need from other Agencies, with the corresponding budgets and funds. As soon as the project phase in which the work is needed is reached, the principal Agency transfers the funds according to the rules laid down in the Chapter on Suspense – Deposit Works in the FAM. As soon as the budget is transferred, the supplying Agency can start the work.

8.4 Transfer of Appropriations – Personnel

8.4.1 When personnel are transferred from one Agency to another, the transferring/ receiving Agency shall request the DBA along with copy of the LPC to reallocate the budget for the personnel emoluments and other related costs to that of the receiving Agency.



The receiving Agency shall have the post vacancy for the personnel being transferred.

8.5 Supplementary Budgets

8.5.1 During the budget execution phase, the Government Agencies often finds that they need to spend more money than the original appropriation for the year because of circumstances that were not anticipated when the budget was formulated for that fiscal year. This leads to supplementary appropriations, which can be classified into three categories: new, additional and complementary budgets.

1. New budgets:

Budget for activities, which are not part of the budget on the 1st of July, but which are proposed during the course of the fiscal year.

2. Additional budgets:

Budget additional to the budget approved on the 1st of July for cost of activities outside the original scope of the program or project (e.g. changes in scope of work/additional works).

3. Complementary budgets:

Budget complementary to the budget approved on the 1st July for cost of activities within the original scope of the program or project (e.g. due to cost escalations).

8.5.2 For supplementary budgets, the Agencies shall fill in Budget Form VIII and submit to the DBA. No commitments shall be made or expenditure incurred against supplementary budget proposals in anticipation of the approval of the proposal or until the provisions are approved and incorporated in the Agency's budget.

8.6 Incorporation of External Assistance

8.6.1 As the budget of the RGoB is formulated on a comprehensive basis, any expenditure that is incurred by and for the Government,



irrespective of the source of funding, shall be subject to the prescribed budget process.

- 8.6.2 At the time of preparing the budget estimates for a fiscal year, proposals for inclusion of new externally assisted activities or projects shall be made only if they are in advanced stage of negotiation and are expected to start within a period of three months into the new fiscal year.
- 8.6.3 Where such projects are formulated and approved during the course of the year, for which budget has not been incorporated, concerned Agencies shall submit a request for budget incorporation to the DBA, through the DADM. The intervention of the DADM at this stage is required to confirm the budget request in terms of the proposed activities and their costs vis-a vis the project agreement/work plan/budget. Any commitment of the RGoB, whether financial or procedural, should have been stipulated in the project document, and details conveyed to the DBA for information and reference.
- 8.6.4 In respect of ongoing programmes and activities, implementing agencies shall ensure that the funds required for the fiscal year is included in the budget proposals. The onus of budget incorporation for approved and ongoing activities is on the implementing agency and not on the DBA/DADM.

8.7 Budget Head for Booking of Prior Year Advances

- 8.7.1 It is often necessary to create budget lines to book prior year adjustments in cases where advances are released in one fiscal year and actual booking of expenditure is done in the next fiscal year. In such cases, the concerned Agencies shall request the DBA for creation of a budget line for booking of prior year advances.
- 8.7.2 Such budget lines shall be allowed only if the booking proposed is for the same purpose for which the budget was provided, and advances made, in the previous year(s).



Chapter IX

Rolling Budget

9.1 Guide to Preparation of the Rolling Budget

- 9.1.1 The preparation of the annual budget requires a perspective beyond the year in question. Very few decisions taken by Government have an impact that does not transcend the present year. An annual budget that is supplemented by projections for the coming years contains information that will forewarn the policy-makers of funding gaps, expenditure trends, etc.
- 9.1.2 The Royal Government shall therefore introduce a three-year rolling budget as the Medium Term Framework for development planning and aid co-ordination. This means that the government's spending plans shall be spread over three years. On an annual basis, the projected spending plans shall be reviewed, adjusted and rolled over to include an additional year. For instance, the rolling budget starting in 2001 shall include allocations for 2001-2002 and projections for 2002-2003 and 2003-2004. However, only the current year's budget shall be authorised by the National Assembly and the remaining two years shall be indication of allocations.
- 9.1.3 A medium-term financial planning framework provides the linkage between a perspective planning system and the annual budget. A medium-term framework is essential both for aggregate fiscal discipline and for strategic prioritisation.
- 9.1.4 The total budget of multi-year programs, activities or projects shall be estimated in the first year. Budget Form IV is intended for such multi-year budgets. Approval shall be obtained for both the overall budget and the annual budgets. It is expected that the rolling budget will improve transparency, medium-term planning, accountability and wider participation in the budget process.



9.1.5 The rolling budgets shall provide :

- a. an update of RGoB's development priorities over the medium term;
- b. an indication of likely resource gaps;
- c. a link between annual budgeting, resource mobilisation and five year planning;
- d. a framework for resource mobilisation by the DADM, and development planning by sector agencies and Dzongkhags/Geogs; and
- e. a tool for government agencies to plan and reprioritise with greater certainty about future resource allocations than in the past. It also provides the legislative body and the society at large with clear signals of Government's spending intentions.

9.1.6 The procedure for preparation of the rolling budget shall, generally, be as follows:

- a. The DBA shall issue guidelines for preparation of the rolling budget at the time of the annual Budget Call. The annual budget, retained in its current form, shall be supplemented by expenditure projections for the next two years, which would include pipeline projects, indication of possible donor financing, spill-over projects, etc.
- b. The relevant government Agencies shall prepare their budgets and submit to DBA following the normal channel of communication for the budget. However, in addition to the prescribed procedures and formats for preparing the annual budget proposals, Agencies shall also complete Budget Form IV.
- c. The rolling budget estimates shall be prepared at activity level.
- d. The DADM shall prepare forecasts of expected donor commitments for ongoing and new projects in respect of the budget year and two years after that, and forward to the DBA in March/April every year. These forecasts shall be subject to revisions to take into account new developments and circumstances.



- e. The DRC shall prepare estimates of domestic revenue for the budget year and two years after that, and forward to DBA in March/April every year.
- f. The finalisation of the rolling budget shall take place only after the budget process for the new fiscal year is completed so that the annual budget exercise receives due attention and participation. In July/August, the DBA shall compile the information on rolling budget and supplement it with information on known donor commitments from DADM and internal revenue projections.
- g. During the months of September and October, the DBA/DADM/DRC and PCS shall assess the rolling budget in its entirety, review the resource gaps and prioritise resource mobilisation efforts by the DADM.
- h. The rolling budget shall act as the basis for future budgeting by the DBA.
- i. The rolling budget shall be circulated to all concerned Agencies.





Chapter X

Forms and Attachments

10.1 Appendix: Forms

10.1.1 The appendix to the BM contains the forms used for budgeting, releases and inventory. The financial reporting forms such as the monthly accounts are part of the FAM.

1. Object Classification of Expenditure

Detailed Object Codes with Explanations

Budget Forms

Budget Form No. I	Summary of Proposed Budget Estimates
Budget Form No. II	Budget Summary by Object Classification
Budget Form No. III	Budget Presentation Scheme in Details
Budget Form No. IV	Forward Estimates – (Rolling Budgets)
Budget Form No. V	Expected External Assistance
Budget Form No. VI	Deposit Works
Budget Form No. VII	Write-up for Activities Proposed
Budget Form No. VIII	Request for Supplementary Budget
Budget Form No. IX	Request for Re-appropriations

Budget Attachments

Attachment No. I	Summary of Personnel and Other Personnel Emoluments
Attachment No. II	Schedule of Personnel Emoluments
Attachment No. III	Schedule of Other Personnel Emoluments



Combined Release Report

Combined Release Report Physical/Financial Plan and
Progress Report

Asset Inventory Forms

Inventory Form No. I Inventory of Buildings
Inventory Form No. II Inventory of Vehicles
Inventory Form No. III Inventory of Furniture
Inventory Form No. IV Inventory of Equipment
Inventory Form No. V Inventory of Chadi/Mask Dance items
