This Manual contains rules framed by the Finance Department for the guidance of estimating officers and departments of the Secretariat in regard to the budget procedure in general and in particular to the preparation and examination of the annual budget estimates and the subsequent control over expenditure to ensure that it is kept within the authorised grants or appropriations. These rules are statutory rules in so far as they derive their authority from the rules framed by the Governor of Uttar Pradesh in exercise of the powers conferred on him by Article 166 (2) and (3) of the Constitution of India. These rules inter alia regulate the functions of the Finance Department.

2. Annual Financial Statement - Under Article 202 of the Constitution, in respect of every financial year, a statement of the estimated receipts and expenditure of the State for that year, called the "annual financial statement" (or the "budget"), is to be laid before both the Houses of the State Legislature. The estimates of expenditure show 'charged' and 'voted' items of expenditure separately and distinguish expenditure on revenue account from other expenditure.

3. Structure of Government Accounts - All receipts and disbursements of the State Government are shown in three separate parts, namely,

   Part I - Consolidated Fund,
   Part II - Contingency Fund and
   Part III - Public Account.

Consolidated Fund - Under Article 266 ibid, all revenues received by a State Government, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans form one consolidated fund, called "the Consolidated Fund of the State." No moneys out of this Fund shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution.

Contingency Fund - Under Article 267 (2) ibid, the State Legislature has established a Contingency Fund which is in the nature of an imprest and enables the Executive Government to meet unforeseen expenditure pending its authorisation by the Legislature by law.

   (See the Uttar Pradesh Contingency Fund Act, 1950 and the rules framed thereunder in Appendix IV).

Public Account - Besides the normal receipts and expenditure of the Government which relate to the Consolidated Fund, certain other transactions enter Government accounts, in respect of which, the Government acts more as a banker, for example, transactions relating to provident funds, other deposits such as security deposits made by contractors or court deposits or deposits by a local body for execution of projects through a government agency, etc. The moneys thus received are kept in the public account of the State, the connected disbursements are also made therefrom. Generally speaking, public account funds do not belong to the Government and have to be paid back some time or the other to the persons and authorities who deposited them. Legislative authorisation for payments from the public account is, therefore, not required. In a few cases, a part of the revenue of the Government is set apart in separate funds for expenditure on specific objects like sugar development, maintenance of roads, industrial development, replacement of depreciated assets of Irrigation Department, Public Works Department. These amounts are withdrawn from the Consolidated Fund with the approval of the State Legislature and are kept in the public account for expenditure on the specific objects. The actual expenditure on the specific objects is, however, again submitted for vote of the State Legislature even though the moneys have already been earmarked by the State Legislature for transfer to the funds.

4. Division of the Consolidated Fund - The main divisions of the Consolidated Fund are:

   (i) Revenue Account;
   (ii) Capital Account;
   (iii) Debt (comprising Public Debt and Loans and Advances).

Revenue Account – Revenue account is the account of (i) the current income of the Government derived mainly from taxes and duties, fees for services rendered, fines and penalties, etc., and (ii) the
expenditure met from that income. The difference between such income and expenditure represents the revenue surplus, or deficit, as the case may be, for the year.

**Capital Account** - Capital account consists of capital receipts and payments. It includes receipts arising generally from sale of concrete assets intended to be applied as a set-off to capital expenditure. Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, investments in shares, etc. Expenditure on Capital account is usually met from borrowed funds or accumulated cash balances.

**Note 1** - The decision whether expenditure shall be met from current revenues or from borrowed funds rests with the Executive-cum-the Legislature.

**Note 2** - Capital expenditure may be broadly defined as expenditure incurred with the object of increasing concrete assets of material and permanent character. It is, however, not essential that the concrete assets should be productive in character or that they should even be revenue producing.

**Note 3** - After it has been decided to incur expenditure for the creation of a new or additional asset, the classification of expenditure between "Capital" and "Revenue" is made as follows:

(a) Capital bears all charges for the first construction of a project as well as charges for intermediate maintenance of the work while not opened for service and also bears charges for such further additions and improvements as may be sanctioned under the rules made by competent authority.

(b) Revenue bears all subsequent charges for maintenance and all working expenses. These embrace all expenditure on the working and upkeep of the project and also on such renewals, replacements and such additions, improvements or extensions as under rules made by competent authority are debitable to the Revenue Account. In the case, however, of works of renewals and improvements which partake both of a Capital and Revenue nature, it is sometimes impracticable to draw a hard and fast line between what is properly debitable to Capital or to Revenue, but an equitable distribution of burdens between present and future generations is aimed at.

(c) Expenditure on procurement of machinery and equipment for office use is to be treated as revenue expenditure while expenditure on procurement of machinery, equipment, vehicle etc to be used by functional units of the Government is to be treated as capital expenditure.

**Public Debt** : This division comprises loans raised by Government such as market loans, loans from the Life Insurance Corporation of India, etc., and the borrowings from the Central Government. The Sector "E. Public Debt" will have two major heads, i.e., "6003. Internal Debt of the State Government" and "6004. Loans and Advances from the Central Government". Transactions connected with these are recorded both on the receipt and the disbursement sides.

**Loans and Advances** - This division comprises loans and advances made by Government and also recoveries thereof. The Sector "F. Loans and Advances" will have pattern of classification as for capital expenditure. Transactions connected with these are recorded both on the receipt and the disbursement sides.

5. **Divisions of Public Account** - The major items in the public account are grouped under the following sectors, namely:

(I) Small Savings, Provident Funds, etc.

(J) Reserve Funds

(K) Deposits and Advances

(L) Suspense and Miscellaneous

(M) Remittances

(N) Cash Balance

The first three sectors comprise receipts and payments in respect of which the Government act as a banker receiving amount which they afterwards repay and paying out amounts which they subsequently recover. The fourth and the fifth sectors comprise merely adjusting heads under which appear remittances of cash between Treasuries and transfers between different Accounting Circles. The initial debits or credits to the heads in these sectors are cleared eventually by either transfer to the final heads of account or by corresponding receipts or payments.
6. Accounting Classification – The estimates of receipts and expenditure in the Annual Financial Statement and of expenditure in the demands for grants are shown according to the accounting classification prescribed under Article 150 of the Constitution.

7(A). Sectors and Heads of Accounts -

Classification of transactions in Government Accounts on a function-cum-programme basis was introduced from April 1, 1974. This functional classification had been evolved with the twin objectives of reflecting Government transaction in terms of functions, programmes and schemes and securing correspondence between accounting classification and Plan Heads of development. To bring about closer correspondence between Plan Schemes and Account Heads, the accounting classification was modified further with effect from April 1, 1987, under which a six tier classification structure incorporating the following was adopted:

(I) Sectors, comprising sub-sectors, wherever necessary, to indicate the grouping of the series of governmental functions broadly:

A. General services (Administration of Justice, Land Revenue, Interest Payments, Police, Public Works, Pensions and Other Retirement benefit, Defence Services, etc.);

B. Social Services (General Education, Medical and Public-Health, Housing, Information and Publicity, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, Labour and Employment, Social Security and Welfare, etc.);

C. Economic Services (Crop Husbandry, Forestry and Wild Life, Agricultural Research and Education, Special Programmes for Rural Development, Rural Employment, Other Special Areas Programmes, Major and Medium Irrigation, Flood Control and Drainage, Power, Industries, Roads and Bridges, Telecommunication Services, Ecology and Environment, Tourism, Civil Supplies, etc.).

(II) Major Heads (comprising Sub-Major Heads wherever necessary) - The Major Heads of Account, falling within the sectors for expenditure heads, generally correspond to functions of Government, such as Agriculture, Education, Medical and Public Health, Social Security and Welfare, etc.

(III) Minor Heads - Minor Heads identify the programmes undertaken to achieve the objectives of the functions represented by the Major Head, where possible, so that expenditure on programmes can be extracted from the accounts direct.

(IV) Sub-Heads of Classification denote and identify the schemes undertaken in pursuance of programmes represented by Minor Heads or components of a particular programme. If a programme does not have any scheme, sub-heads may represent non-developmental expenditure or expenditure of administrative nature. The Sub Heads should not be multiplied unnecessarily and new ones opened only when really necessary.

(V) Detailed Heads denote sub-schemes under various sub-heads.

(VI) Standard Objects represent the primary units of appropriation showing the economic nature of expenditure such as pay and wages, office expenses, travel expenses, professional services, grants-in-aid, etc.

The following is an example of six-tier classification in the budget and accounts with reference to a plan scheme:

<table>
<thead>
<tr>
<th>First Tier</th>
<th>Sector Sub-Sector</th>
<th>B- Social Services (a) Education, Sports, Art &amp; Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Tier</td>
<td>Major Head Sub-Major Head</td>
<td>2202-General Education 01- Elementary Education</td>
</tr>
<tr>
<td>Third Tier</td>
<td>Minor Head</td>
<td>111- Sarva Shiksha Abhiyan</td>
</tr>
<tr>
<td>Fourth Tier</td>
<td>Sub-Head</td>
<td>01- Central Plan / Centrally Sponsored Schemes</td>
</tr>
<tr>
<td>Fifth Tier</td>
<td>Detailed Head</td>
<td>02- Appointment of Teachers /</td>
</tr>
</tbody>
</table>
(B). Coding Pattern -

(a) Major Head-Major heads are the main units of accounts classification under various Sectors. They give an idea of the distribution of expenditure among functions which represent the major divisions of the Governmental efforts.

A four-digit code has been allotted to the Major Head whether the Major Head is a Receipt Head or Revenue Expenditure Head or Capital Expenditure Head or Loan Head. If the first digit is ‘0’ or ‘1’ the Head of Account will represent Revenue Receipt, ‘2’ or ‘3’ will represent Revenue Expenditure, ‘4’ or ‘5’ Capital Expenditure, ‘6’ or ‘7’ Loan Head, and ‘8’ will represent Contingency Fund and public account.

Adding 2 to the first digit of the Revenue Receipt will give the number allotted to corresponding Revenue Expenditure Head, adding another 2 – the Capital Expenditure Head and another 2 – the Loan Head of Account, for example:

- 0401 represents the Receipt Head of Crop Husbandry
- 2401 the Revenue Expenditure Head for Crop Husbandry
- 4401 Capital Outlay on Crop Husbandry
- 6401 Loans for Crop Husbandry

In a few cases where corresponding heads have not been provided taking into account factors like the magnitude of the receipts or expenditure, for example, the major head ‘2029-Land Revenue’ will not have corresponding heads in capital and loan sections. However, the transaction for the above will be recorded under major head ‘Other Administrative Services’.

(b) Sub-Major Head - Sub-Major Head represents sub function of the function, such as ‘01-Elementary Education’, ‘02-Secondary Education’ under the Major Head ‘2202-General Education’

A two-digit code has been allotted, the codes starting from ‘01’ under each Major Head. Where no sub-Major Head exists, it is allotted a code ‘00’. Nomenclature ‘General’ has been allotted code ‘80’

(c) Minor Head – Minor Head means a head subordinate to a Major or Sub-Major Head and denotes various programmes under each function.

These have been allotted a three-digit code, the codes starting from ‘001’ under each sub-Major/Major Head (where there is no Sub-Major Head). Codes from ‘001’ to ‘100’ and few codes ‘750’ to ‘900’ have been reserved for certain standard Minor Heads. For example, Code ‘001’ always represents Direction and Administration. Non Standard Minor Heads have been allotted codes from ‘101’ in the Revenue Expenditure series and ‘201’ in the Capital and Loan series, where the description under Capital/Loan is the same as in the Revenue Expenditure Section, the code number for the Minor Head is the same as the one allotted in the Revenue Expenditure Section. Code numbers from ‘900’ are always reserved for Deduct Receipt or Deduct Expenditure Heads.

The code for ‘Other Expenditure’ is ‘800’ while the codes for other grants / other schemes, etc. where minor head ‘Other Expenditure’ also exists is kept as ‘600’. This has been done to ensure that the order in which the Minor Heads are codified is not disturbed when new Minor Heads are introduced.

The coding pattern for Minor Heads has been designed in such a way that in respect of certain Minor Heads having a common nomenclature under various Major/sub-Major Heads, as far as possible, the same three digit code is adopted, a few illustrative cases are given below.

<table>
<thead>
<tr>
<th>Standard 3-digit Code</th>
<th>Common Nomenclature</th>
</tr>
</thead>
<tbody>
<tr>
<td>001</td>
<td>Direction &amp; Administration</td>
</tr>
<tr>
<td>003</td>
<td>Training</td>
</tr>
<tr>
<td>004</td>
<td>Research / Research Development</td>
</tr>
</tbody>
</table>
### Table

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>005</td>
<td>Investigation</td>
</tr>
<tr>
<td>050</td>
<td>Land</td>
</tr>
<tr>
<td>051</td>
<td>Construction</td>
</tr>
<tr>
<td>052</td>
<td>Machinery &amp; Equipment</td>
</tr>
<tr>
<td>190</td>
<td>Assistance to public sector and other undertakings</td>
</tr>
<tr>
<td>501</td>
<td>Services and Service Fees</td>
</tr>
<tr>
<td>792</td>
<td>Irrecoverable Loans written off</td>
</tr>
<tr>
<td>794</td>
<td>Special central assistance for Tribal sub plan</td>
</tr>
<tr>
<td>796</td>
<td>Tribal area sub plan</td>
</tr>
<tr>
<td>797</td>
<td>Transfer to / from reserve funds and Deposit Accounts</td>
</tr>
<tr>
<td>799</td>
<td>Suspense</td>
</tr>
<tr>
<td>800</td>
<td>Other Receipts / Other Deposits / Other Loans / Other Expenditure</td>
</tr>
</tbody>
</table>

#### (d) Sub-Head

Sub-Head represents schemes under a programme subordinate to a Minor Head. These are denoted by a two-digit code.

#### (e) Detailed Head

Detailed head represents sub-schemes under schemes and is subordinate to the sub-head. It is denoted by a two-digit code. Where no detailed head exists it is allotted a code ‘00’.

#### (f) Standard Object

Standard object represents nature and form of expenditure. These are the primary units of appropriation. These are denoted by two-digit code.

### 8. Preparation of the budget estimates and their transmission to the Finance Department

Under the rules made by the Governor for the convenient transaction of the business of the State Government and the instructions issued thereunder, the Finance Department is responsible for the preparation of the annual budget. The budget is prepared on the basis of the material furnished by the departmental officers and the administrative departments of the Secretariat. The Heads of Departments and other estimating officers prepare the estimates for each head of account with which they are concerned and forward these to the Finance Department through the Accountant General in the case of estimates under revenue heads and also to the concerned departments of the Secretariat by the prescribed date. The estimates in respect of capital heads and loans and advances by the state government are furnished direct to the departments of the Secretariat concerned. The administrative departments scrutinise the estimates and send them along with comments thereon to the Finance Department which then examines the estimates after taking into account the comments of the Accountant General also, who renders such assistance as may be reasonably asked for by the Finance Department. Estimates under certain heads are furnished direct by the administrative departments of the Secretariat and the Accountant General. The budget estimates must be submitted to the Finance Department by the prescribed date. (See Appendix - VI)

### 9. Proposal relating to 'new expenditure'

The estimates referred to above take cognisance only of what are called 'standing sanctions,' i.e., all revenues based on existing laws, rules and orders and all expenditure incurred by virtue of existing rules and orders. Proposals which involve a reduction or an increase in revenue otherwise than in pursuance of authorised Codes, Manuals and Rules and proposals for 'new expenditure' (See Chapter VIII) are submitted to the Government separately in proper time. The provision of funds for 'new expenditure' depends on the position of the resources available and the necessity and urgency of each proposal.

### 10. After the finalisation of the Budget

After the finalisation of the Budget with the inclusion of provision therein for new expenditure, it is presented, under Article 202 of the Constitution, to both the Houses of the State Legislature on the recommendation of the Governor. After the grants have been voted by the Legislative Assembly, a Bill to provide for the appropriation out of the Consolidated Fund of the State of all moneys required to meet the voted as well as the charged expenditure is introduced in the Legislative Assembly. When the Appropriation Bill is passed by both the Houses of the Legislature and it has also received the assent of the Governor, the amounts shown therein can be expended during the financial year concerned.

### 11. Other Estimates

Occasions may arise for approaching the Legislature with proposals for Votes on Account, Votes of Credit and excess grants, besides supplementary estimates. These are dealt with in Chapters II and XIV.

### 12. Authorisation of expenditure

Except where the expenditure is covered by standing sanctions or necessary powers have been delegated to the administrative departments and subordinate authorities in this behalf with the concurrence of Finance Department, provision of funds in the budget by itself
conveys no sanction to the subordinate authorities to incur expenditure. The following conditions must be satisfied before the public money is spent:

(i) The expenditure should be sanctioned by the authority competent to sanction such expenditure (in the case of works expenditure to be incurred by the Engineering Departments this sanction means both administrative approval as well as technical sanction).

(ii) Sufficient funds should have been provided for the expenditure in the Appropriation Act or by re-appropriation by the authority competent to sanction re-appropriation (See Chapter XIV); and

(iii) No breach of the standards of financial propriety, which are mentioned below, is involved:

I - The expenditure should not be prima facie more than the occasion demands. Every government servant should exercise the same vigilance and care in respect of expenditure from public moneys under his control as a person of ordinary prudence would exercise in respect of expenditure of his own money.

II - Public money should not be utilised for the benefit of a particular person or section of the community unless -

(a) the amount of expenditure involved is insignificant, or
(b) a claim for the amount can be enforced in a court of law, or
(c) the expenditure is in pursuance of a recognised policy or custom.

III - No authority should exercise its power of sanctioning expenditure to pass an order directly or indirectly to its own advantage.

IV - The amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type, should be so regulated that the allowances are not on the whole sources of profit to the recipients.

13. Committee on Estimates - There is a Committee on Estimates constituted by the Legislative Assembly to examine such of the estimates as the Committee deems fit or are specifically referred to it by the House. (For rules relating to the constitution and the functions of the Committee, see Appendix – II)

14. Committee on Public Accounts - The Appropriation Act has the effect of determining the objects on which money may be spent from the Consolidated Fund of the State and the amount which can be spent on each object. The amount of expenditure which can be incurred is thus strictly controlled by the Legislature. The extent to which the wishes of the Legislature, as expressed by the demands voted by the Legislative Assembly, are actually complied with is investigated and brought to the notice of the Legislative Assembly by the Committee on Public Accounts. (For the constitution and functions of this Committee, see Appendix - II).