

**ESTIMATES COMMITTEE
(1967-68)**

FORTY-FIFTH REPORT

(FOURTH LOK SABHA)

MINISTRY OF FINANCE

**Review of Defence Budget—Consolidation of
Revenue Demands**



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1968/Phalguna, 1889 (Saka)

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C_O_R_R_I_G_E_N_D_A

To
Forty-Fifth Report (Fourth Lok Sabha)
of Estimates Committee on the
Ministry of Finance - Review of
Defence Budget - Consolidation of
Revenue Demands.

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- Page (v), line 6, for 'sitting'
read 'sittings'
line 7, for '21st February,
1968' read '21st and 22nd
February, 1968'
- Page 1, line 7 from bottom,
for 'these' read 'this'
- Page 3, line 18, for '1960-70'
read '1969-70'

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
Report	I
Appendix I	4
Appendix II	5
Appendix III (Summary of Recommendations)	8

ESTIMATES COMMITTEE

(1967-68)

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(iv)

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Shri K. D. Chatterjee—*Under Secretary.*

INTRODUCTION

I, the Chairman, Estimates Committee having been authorised by the Committee to submit the Report on their behalf; present this Forty Fifth Report on the Ministry of Finance—Review of Defence Budget—Consolidation of Revenue Demands.

The Committee considered the matter at their sitting held on the 21st February, 1968.

The Report was considered and adopted by the Committee on the 23rd February, 1968.

NEW DELHI-1;

23rd February, 1968.

Phalguna 4, 1889 (Saka).

P. VENKATASUBBAIAH,

Chairman,

Estimates Committee.

REPORT

1.1. The Ministry of Finance (Defence) *vide* their O.M. No. F.11. (63) 67-B.I./P.C./95-BS of the 14th February, 1968, forwarding a self-contained note (Appendices I and II) has stated that: "With effect from the Budget for 1968-69 which will be presented to parliament towards the end of this month, the Defence Services Estimates would be presented in the form of three Demands as against Five Demands which were presented in the past." It has further been stated that the note has also been shown to the Comptroller and Auditor-General and that the matter be placed before the Chairman of the Estimates Committee as early as possible.

1.2. The following facts have been brought out in the note sent by the Ministry of Finance (Defence):

(a) The existence of three separate heads for Revenue Expenditure (Army, Navy and Air Force) has resulted in an inflation in the Demands as voted by Parliament for the three Services as certain items were included in the voted grant twice—once under the Army Demand and again under Navy or Air Force, as the case may be. Owing to adjustments while the net expenditure was not affected, the Demands as voted by Parliament were larger than the real expenditure.

(b) With a view to eliminating the inflation in the gross Demand as voted by Parliament, it has been decided to present with effect from the Budget for the year 1968-69, only three Demands as against the existing five Demands. The revised Demands will be:

(i) A composite Demand for Revenue expenditure on Defence Services—Effective; the three existing Demands for Army, Navy and Air Force will be combined into one Demand and these would include as sub-major heads, expenditure on Army, Navy, Air Force and Defence Production;

(ii) One Demand for non-effective (Pensionary Charges) and

(iii) One Demand for Defence Capital Outlay.

1.3. In the self-contained note furnished by the Ministry it has been stated that: "As a major change in the presentation of the

Defence Budget is being made, this note is submitted for being placed before the Chairman of the Public Accounts Committee. A copy is also being submitted for being placed before the Chairman, Estimates Committee."

1.4. The Committee considered the matter at a meeting held on 21st February, 1968, and it was noted that one of the functions of the Committee on Estimates, as laid down in Rule 310(d) of the Rules of Procedure and Conduct of Business in Lok Sabha, is: "The functions of the Committee shall be—to suggest the form in which the estimates shall be presented to Parliament." Further, in the year 1962 when the Ministry of Finance had proposed revision of the form and contents of the Demands for Grants, they had sought the prior approval of the Estimates Committee. The Committee (1962-63) presented their 11th Report (Third Lok Sabha) on the Ministry of Finance—Revision of the form and contents of the Demands for Grants. The present Committee, therefore, decided to examine the Ministry of Finance regarding compliance with this rule. The Finance Secretary, however, in a written communication dated the 22nd February, 1968, explained:

"The decision to combine the Demands into one without the prior approval of the Estimates Committee was taken under a misunderstanding because on four occasions in the past combination of Demands had taken place without the Estimates Committee's prior approval. In view of the reactions which the proposal has evoked, Government do not wish to pursue the proposal.

2. Unfortunately, the Defence Services Estimates for 1968-69 have been prepared and printed on the basis of one Demand for Army, Navy and Air Force. I have looked into the possibility of separating the three Demands even at this stage, but the position is that if we are to do so, the Defence Services Estimates may not be ready by the 29th February when these will have to be placed before the Parliament along with the Budget. However, even though the Demand is shown as one, the Finance Ministry undertake that in the operation on the Demand, the same procedure as was followed when the Demands were separate will be followed before effecting reappropriation among the Army, Navy and Air Force estimates. For the Budget 1969-70, as I have stated earlier, we will go back to the arrangement of three separate Demands for the three Services. I wish to assure the two Committees, particularly the Estimates

Committee, that there was not the remotest intention of by-passing the Estimates Committee's jurisdiction in the matter. The correct position has been noted and will be followed in future."

1.5. The Committee accept the explanation and assurances of the Ministry.

1.6. In view of the position now explained by the Ministry of Finance and the assurance given by them that in the operation on the Demand the same procedure as was followed when the Demands were separate, will be followed before effecting the reappropriation among the Army, Navy and Air Force estimates, the Committee do not propose to pursue the matter further. They would, however, suggest that a suitable indication may be given to that effect while presenting the Budget for 1968-69.

1.7. The Committee note that in the Budget for 1969-70 the Finance Ministry will go back to the arrangement of three separate Demands for the three Services.

NEW DELHI-1;
23rd February, 1968.
Phalguna 4, 1889 (Saka).

P. VENKATASUBBAIAH,
Chairman,
Estimates Committee.

APPENDIX I

No. F.11(63)/67-B.I./P.C./95-BS

GOVERNMENT OF INDIA

MINISTRY OF FINANCE (DEFENCE/BUDGET)

New Delhi, the 14th February, 1968.

OFFICE MEMORANDUM

SUBJECT: Review of Defence Budget—Consolidation of Revenue Demands.

With effect from the Budget for 1968-69 which will be presented to Parliament towards the end of this month, the Defence Services Estimates would be presented in the form of three Demands as against five Demands which were presented in the past.

Forty copies of a self-contained note explaining the position and which has also been shown to the Comptroller and Auditor General are forwarded herewith. Kindly place the matter before the Chairman of the Estimates Committee as early as possible.

Sd/- N. RAJAN,
Deputy Financial Adviser (Budget).

The Lok Sabha Secretariat,
Estimates Committee Branch,
Shri B. K. Mukherjee, Dy. Secretary.

APPENDIX II

NOTE FURNISHED BY THE MINISTRY OF FINANCE (DEFENCE).

SUBJECT: Review of Defence Budget—Consolidation of Revenue Demands.

The Defence Services Estimates have so far been presented in the form of five Demands for Grants—one each for Army, Navy, Air Force, Non-Effective Charges (i.e. Pensions) and Defence Capital Outlay. The Demand for Army also included the requirements on account of organisations like Ordnance Factories, Military Engineering Services, Inspection, Research and Development, etc., which serve all the three Services. Defence Capital Outlay, however, has been a composite head for the Capital requirements of all the Services and connected Inter-Service Organisations. The existence of three separate heads for Revenue expenditure has resulted in an inflation in the Demands as voted by Parliament for the three Services as certain items detailed below were included in the voted grant twice—once under the Army Demand and again under Navy or Air Force as the case may be.

(i) The entire expenditure on Ordnance Factories was provided for under the Army Demand, and costs of stores manufactured and issued to the Navy and the Air Force were again provided for in the Demands for Navy and Air Force. The issues were shown as recoveries in the Army Budget but the vote was for the gross amount. Issues to the Army were not, however, charged separately as the Factories' budget was part of the Army's Grant.

(ii) Similarly all the expenditure on the personnel of the Military Engineering Services Organisation was met out of the Army Grant, and Departmental Charges, constituting 16½ per cent of the cost of the works including maintenance services executed for the Navy and the Air Force, were shown as expenditure in the Navy and the Air Force Demands.

The extent of adjustments under the above categories which were included under the Army Grant and again under the Navy/Air Force during 1967-68 were of the order of Rs. 13 crores. As these amounts were shown as recoveries, the net expenditure was not affected but the Demands as voted by Parliament were larger than the real expenditure.

2. With a view to eliminating the inflation in the gross Demand as voted by Parliament, it has been decided to present with effect from the Budget for the year 1968-69, only three Demands as against the existing five Demands. The revised Demands will be—

- (i) a composite Demand for Revenue expenditure on Defence Services—Effective; the three existing Demands for Army, Navy and Air Force will be combined into one Demand and this would include as Sub-Major Heads, expenditure on Army, Navy, Air Force and Defence Production;
- (ii) One Demand for Non-Effective (Pensionary charges); and
- (iii) One Demand for Defence Capital Outlay.

The composite Demand will be so arranged that full information on the three Services will be available to Parliament as in the past and in addition, expenditure on organisations under the control of the Department of Defence production like Ordnance Factories, Inspection, Research and Development will also be shown separately under a Sub-Major Head. Under Defence Capital Outlay also a slight re-arrangement is proposed and a new unit of appropriation will be opened for showing separately the capital expenditure on works, and plant and machinery for departmentally run units under Defence Production.

3. The main advantages of the revised system will be:

- (i) Elimination of inflation in the total gross Demand thus showing the total expenditure in the proper perspective,
- (ii) opening of separate units of appropriation for Defence Production, and
- (iii) more flexibility in regard to reappropriation so that savings under one Service may be reappropriated for additional requirements under other Services, thus reducing the need to approach Parliament for Supplementary Demands. Such reappropriations would however be only at the Government level, and after consultation with Finance Ministry and as such no relaxation of control would take place. Further, as the vote for each Service would be under distinct units of appropriation, the reappropriations during the year between the provisions for the different Services would be reflected in the Annual Appropriation Accounts which would be placed before the Parliament and the Public Accounts Committee.

4. As a major change in the presentation of the Defence Budget is being made, this note is submitted for being placed before the Chairman of the Public Accounts Committee. A copy is also being submitted for being placed before the Chairman, Estimates Committee.

5. The Comptroller and Auditor General has seen this note.

Sd/- G. K. ABHYANKAR,
*Addl. FA (I) and Jt. Secy. Ministry of
Finance.*

APPENDIX III

Summary of Recommendations/Conclusions contained in the Report.

S. No.	Reference to Para No. of the Report	Summary of Recommendations/Conclusions
1	1.5	The Committee accept the explanation and assurances of the Ministry.
2	1.6	In view of the position now explained by the Ministry of Finance and the assurance given by them that in the operation on the Demand the same procedure as was followed when the Demands were separate, will be followed before effecting the reappropriation among the Army, Navy and Air Force estimates, the Committee do not propose to pursue the matter further. They would, however, suggest that a suitable indication may be given to that effect while presenting the Budget for 1968-69.
3	1.7	The Committee note that in the Budget for 1960-70 the Finance Ministry will go back to the arrangement of three separate Demands for the three Services.