

**SEVENTEENTH REPORT**  
**ESTIMATES COMMITTEE**  
**(1985-86)**

(EIGHTH LOK SABHA)

**MINISTRY OF FINANCE, DEPARTMENT OF  
ECONOMIC AFFAIRS—RECLASSIFICATION OF  
TRANSACTIONS RELATING TO DEFENCE  
PENSIONS**



*Presented to Lok Sabha on*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*October, 1985/Kartika, 1907 (Saka)*

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(1985-86)**

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3. Shri J. C. Malhotra—*Senior Financial Committee Officer.*

## INTRODUCTION

1. The Chairman of Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Seventeenth Report on the Ministry of Finance, Department of Economic Affairs—Reclassification of Transactions relating to Defence pensions.

2. The Committee took evidence of the representatives of the Ministry of Finance, Department of Economic Affairs, on the 16th September, 1985. The Committee wish to express their thanks to the officers of the Ministry of Finance, Department of Economic Affairs and the Ministry of Defence for placing before them the information desired in connection with the examination of the subject and giving evidence before the Committee.

3. The Report was considered and adopted by the Committee at their sitting held on 16 October, 1985.

4. For facility of reference the recommendations/observations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;

October 28, 1985.

Kartika 6. 1907 (S)

CHINTAMANI PANIGRAHI,  
Estimates Committee.  
Chairman  
Estimates Committee

## REPORT

1. The Ministry of Finance (Department of Economic Affairs) sent two Notes for Estimates Committee, *vide* their Office Memoranda No. F. 2(53)-B(AC)85 dated the 9th May and 2nd July, 1985, regarding Reclassification of Transactions relating to Defence Pensions.

2. The Notes furnished by the Ministry of Finance *inter-alia* stated that the Pensionary charges of the Defence personnel, which were earlier being classified under Major Head "272—Defence Services—Pensions", have, with effect from the accounts for 1985-86, been included under the composite Major Head "266—Pension and other Retirement Benefits" which provides for pensionary charges in respect of all the employees of the Central Government on the civil side, barring a few departmentally run commercial undertakings like Railways, Posts and Telecommunications. Correspondingly, the related receipts which were earlier classified under Major Head "072—Defence Services—Pensions" are being reclassified under Major Head "066—Contributions and Recoveries towards pension and other retirement benefits."

3. The reasons for reclassification, as indicated by the Ministry in the Notes, were as follows:—

"As the expenditure on the Defence Pensions is not directly related to the current Defence efforts of the Government, its continued classification as part of expenditure on Defence Services was not in consonance with the principles followed for classification of expenditure on pensionary charges relating to other employees of Government. With the progressive increase in the expenditure on pensions of retired Defence personnel, this classification tended to distort the presentation of resource allocations for effective Defence Services."

The Ministry further stated that:

"To make the estimates and budget presentation more meaningful, it was decided, with the concurrence of the Comptroller and Auditor General of India, to segregate the pensionary charges from the Defence Services Estimates and account for them under the composite Major Head "266" with effect from the accounts for 1985-86."

4. Till 1984-85 the sequence of demands of Ministry of Defence was as under:—

1. Ministry of Defence
2. Defence Services—Army
3. Defence Services—Navy
4. Defence Services—Air Force
5. Defence Services—Pensions
6. Capital outlay on Defence Services

5. Consequent upon the change in accounting classification of Defence Pensions, the sequence of Demands of Ministry of Defence for 1985-86 were re-arranged as under:—

1. Ministry of Defence
2. Defence Pensions
3. Defence Services—Army
4. Defence Services—Navy
5. Defence Services—Air Force
6. Capital outlay on Defence Services

The Ministry, however added that the demand for Defence Pensions would retain its earlier form and contents.

6. Representatives of the Ministry of Finance, Department of Economic Affairs, appeared before the Committee to explain the background and circumstances which led to the reclassification of transactions relating to the Defence Pensions as also reasons for not sending the proposal to the Estimates Committee for their consideration before the changes were actually effected in the budget for the year 1985-86.

7. During evidence of the representatives of the Ministry of Finance etc., the Finance Secretary stated at the outset that:—

“I must convey my apologies to the Committee, if there has been any feeling that we have tried to bypass the Committee. What has happened is, on the 11th February, a decision was taken to transfer the pension exhibition within the same demand as separate to the civil side so that the total exhibition of Defence expenditure does not appreciate high. I appreciate that we should have consulted the Estimates Committee and obtained its approval before

we did it. I take my personal responsibility for the error which was due to oversight because we were advised wrongly that perhaps that was within the same Demand and therefore its needed only a reference. I do agree that we should not commit this error, because it is the question of respect for Parliament and also taking the advice of Parliament in important matters like this."

8. Explaining the background of the matter, the Finance Secretary stated:—

"There has been recommendation of the Team on Reforms on the Structure of Budgeted Accounts. In its second report, it recommended that the Defence pension should be classified under civil. It recommended this suggestion as early as 1972. When these recommendations were accepted in 1974-75, the then Finance Minister said that the change under Defence pension should be considered at a later date. At that time, in 1974-75, the provision for effective Defence expenditure was Rs. 3,000 crores and the pension was Rs. 72 crores. The Defence Pension has gone upto Rs. 514 crores now. When the whole exhibition question was considered at the formulation of the Budget, you would appreciate that we were under the pressure and the overlooking was due to the pressure. At that time, the Defence allocations were being compared from country to country and we wanted to see whether we could show the Defence expenditure as the legitimate figure which is really on the Defence service. So, this reclassification was agreed to."

9. Asked, whether the change in classification would, in any way, affect the existing arrangements for drawal and disbursement of pensions of ex-servicemen, the Finance Secretary stated:—

"First of all, let me clarify that there is no change in the procedure of disbursement of pension. It will still continue to be under the C.D.A., even after reclassification. Therefore, the apprehension of the hon. Member that there will be worsening situation as a result of the change may perhaps not be right... So far as disbursement is concerned, we looked into that. It is not going to change or affect the administration of pension even slightly."

10. Secretary (Expenditure) added:—

"There is absolutely on change in the procedure of sanction and disbursal of pensions. As a matter of fact, over the



years, we have tried to make the process of payment of **pensions easier and easier**. This is only a classification change. I may clarify that in whichever organisation in the Government of India an employee might have served, when he retires, his pension is charged under one Head 266.

Now what happens in the case of Defence Department is that the totality of defence pensions, will be exhibited under civil head. This change is effected for various reasons.

There is absolutely no change in the procedure for sanction and disbursement of pensions and it has been the endeavour of the Ministry of Defence all along to make the process of disbursement of pension as expeditious as possible.

11. When asked, whether the accounting and audit of the Defence Pensions would continue to be with the Controller of Defence Accounts and **Director of Audit (Defence Services)** respectively, Secretary (Expenditure) stated:—

“There is a certain drill laid down for sanctioning pensions by various competent authorities. That will remain unchanged. There are organisations in the field for disbursement of pensions. That will also remain unchanged. All that will happen now is that, when disbursement takes place at numerous points and they are compiled by the Controller of Defence Accounts (Pensions) which is a part and parcel of the Defence Ministry and finally compiled in the office of the Controller General of Defence, it will be classified under the Civilian Head and exhibited under the Civilian Head. That is all.”

12. Representative of the Ministry of Defence, who was also present, added:—

“...this accounting change is not going to make even a wee bit of difference to the administration of defence pension. But before I elaborate on this point I would make one submission for the information of the hon. Members. The defence pensions are administered by the Defence Accounts Service under Defence Finance Department. I might mention for the information of the hon. Members that the Defence Finance Department has been integrated with the

Ministry of Defence; it is now not a part of the Finance Ministry. The expenditure of the Defence Accounts Department is not shown in the "defence budget" but is shown in the "civil budget".

13. Referring to the disbursement procedures of defence pensions, the representative of the Ministry of Defence added:

"The second area is the disbursement procedure. In certain States Defence pension is disbursed through the Treasuries of the State Government; in certain places it is disbursed through commercial banks, and in certain other cases it is disbursed through Pension Pay Officers who are directly under the Defence Department. Our endeavour has been, as far as possible, either to disburse the pension through the Pension Pay Officers under the Ministry of Defence or reach the pensioners through the commercial banks which are more responsive to the customers' needs than what the sub-treasury office is. All of us are aware how the treasury offices in the districts and talukas are functioning.... We are at the moment trying to find out how we can simplify and decentralise this process so that the difficulties that are being faced by the defence pensioners, are to the extent possible reduced, if not completely eliminated."

14. The Committee take note of the apology tendered by the Finance Secretary during his evidence for not taking them into confidence and getting their approval on the reclassification of transactions relating to Defence Pensions, before these changes were actually effected in the budget documents for the year 1985-86.

15. The Committee, while conveying their approval of the proposal of the Ministry of Finance, desire that in future all such proposals should first be placed before them for their consideration and only after their approval these should be given effect to.

16. The Committee also take note of the assurance given to them during evidence that the change in classification would not in any way affect the existing arrangements for drawal and disbursement of pensions of ex-servicemen; and that the accounting and audit thereof would continue to be with the Controller of Defence Accounts and Director of Audit (Defence Services) respectively.

17. The Committee take serious note of the difficulties and problems encountered by the retired Defence personnel, especially in hilly,

remote and far flung areas of the country, in the issue of sanctions and drawal and disbursement of pensions. The Committee desire that the work relating to simplification and streamlining of procedures in this regard should be completed within the next three months at the latest and the Committee informed about the completion of the task.

NEW DELHI;  
October 28, 1965  
Kartika 6, 1907 (S)

CHINTAMANI PANIGRAHI,  
*Chairman,*  
*Estimates Committee.*