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STANDING COMMITTEE ON DEFENCE

(2016-2017)

(SIXTEENTH LOK SABHA)

MINISTRY OF DEFENCE

**CREATION OF NON-LAPSABLE CAPITAL FUND ACCOUNT, INSTEAD OF THE
PRESENT SYSTEM**

THIRTY SECOND REPORT



LOK SABHA SECRETARIAT

NEW DELHI

August, 2017 / Shravana, 1939 (Saka)

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Presented to Lok Sabha on 10 .08. 2017

Laid in Rajya Sabha on 09.08. 2017



LOK SABHA SECRETARIAT

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23.12.2016 and 02.08.2017

COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2016-17)

Maj Gen B C Khanduri, AVSM (Retd)

-

Chairperson

Lok Sabha

2. Shri Dipak Adhikari (Dev)
3. Shri Suresh C Angadi
4. Shri Shrirang Appa Barne
5. Shri Thupstan Chhewang
6. Col Sonaram Choudhary(Retd)
7. Shri H D Devegowda
8. Shri Sher Singh Ghubaya
- 9.* Shri B. Senguttuvan
10. Dr Murli Manohar Joshi
11. Km Shobha Karandlaje
- 12.♦ Shri Vinod Khanna
13. Dr Mriganka Mahato
14. Shri Rodmal Nagar
15. Shri A P Jithender Reddy
16. Shri Ch Malla Reddy
- 17.+ Shri Rajeev Shankarrao Satav
18. Smt Mala Rajya Lakshmi Shah
- 19.# Shri Partha Pratim Ray
20. Shri Dharambir Singh
21. Smt Pratyusha Rajeshwari Singh
- 22.** Shri G Hari
- 23.\$ Capt Amarinder Singh
- 24.♠ Shri Gaurav Gogoi

Rajya Sabha

1. Shri K R Arjunan
2. Shri A U Singh Deo
3. Shri Harivansh
- 4.^ Shri Rajeev Chandrasekhar
5. Shri Madhusudan Mistry
6. Shri Praful Patel
7. Shri Sanjay Raut
8. Dr Abhishek Manu Singhvi
9. Smt Ambika Soni
10. Dr Subramanian Swamy
- 11.@ Shri Om Prakash Mathur

* **Nominated w.e.f on 13.02.2017**

** **Ceased to be Member of the Committee w.e.f. 13.02.2017**

\$ **Ceased to be Member of the Committee w.e.f. 23.11.2016**

Nominated w.e.f. 02.01.2017

@ **Ceased to be Member of the Committee w.e.f. 10.10.2016**

^ **Nominated w.e.f. 10.10.2016**

♠ **Nominated w.e.f. 28.03.2017**

♦ **Sad Demise of Member on 27.04.2017**

+ **Ceased to be Member of the Committee w.e.f. 28.03.2017**

SECRETARIAT

Smt Kalpana Sharma	-	Joint Secretary
2 Shri T G Chandrasekhar	-	Director
3 Smt Jyochnamayi Sinha	-	Additional Director
4 Smt Preeti Negi	-	Executive Assistant

INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2016-17), having been authorised by the Committee, present this Thirty-Second Report on 'Creation of Non-Lapsable Capital Fund Account, instead of the present system'.

2. The subject 'Creation of Non-Lapsable Capital Fund Account, instead of the present system' was selected for examination during the year 2016-17. The Committee took evidence of the representatives of the Ministries of Defence and Finance (Department of Economic Affairs) on 23 December, 2016. The draft Report was considered and adopted by the Committee at their Sitting held on 2 August, 2017.

3. The Committee wish to express their thanks to the officials of the Ministries of Defence and Finance (Department of Economic Affairs) for appearing before the Committee and furnishing the material and information which the Committee desired in connection with examination of the subject.

4. For facility of reference and convenience, Observations/Recommendations of the Committee have been printed in bold letters in Part II of the Report.

**New Delhi;
4 August, 2017
13 Shravana, 1939(Saka)**

**MAJ GEN B C KHANDURI, AVSM (RETD)
Chairperson
Standing Committee on Defence**

REPORT

PART I

Capital and Revenue segments are the main components of Defence Budget. Under the Revenue segment, provision is first made for salary and other obligatory expenses. The balance allocation available is distributed to meet the requirement of stores (including ordnance), transportation (of personnel and stores), revenue works and maintenance, etc. Allocations are reviewed at the Revised Estimates stage to cater for requirements which cannot be met by the Budget Estimates allocations. The Capital component provides allocation for Land and Construction Works of the three Services, capital expenditure of various Defence Departments and for Capital acquisitions of the Services, etc. In so far as the Capital segment is concerned, funds are first set aside to meet the projected Committed Liabilities that are likely to materialise during the year. The remaining allocation is distributed to meet the projected requirement for other items. The procurement plan for Capital modernization schemes may have to be reviewed and re-prioritized, based on available funds.

2. The Committee, in their Reports presented to Parliament on earlier occasions on the subject matter, recommended having Capital Budget as 'Non Lapsable' and 'Roll on'. Initially, the Committee in their 19th Report (13th Lok Sabha-April 2003) had recommended that the funds collected from the National Security Surcharge must be placed in a separate 'Non Lapsable Fund' to be utilized by the Ministry of Defence for capital expenditure. In reply, Ministry of Defence had, *inter alia*, stated after consulting the Ministry of Finance that creation of such a fund would not only violate the extant financial rules but also not serve any purpose, besides adding to the fiscal deficit.
3. The issue was again raised in the 21st Report (13th Lok Sabha- December 2003) of the Committee, the Ministry of Finance had agreed in December 2003 to creation and operation of Non-lapsable fund. This was taken note by the Standing Committee in para 11 of its 21st Report, in reply to which MoD intimated the Committee in December 2003 that the detailed accounting procedure had been drawn up for operationalising Defence Modernization Fund

and it had been forwarded to the Controller General of Accounts and Comptroller & Auditor General and further action would be taken after their approval.

4. While the process of getting approvals and opening of relevant accounting heads was underway, the then Finance Minister announced the creation of Non-lapsable Defence Modernization Fund with a corpus of Rs. 25,000 crore in the Interim Budget speech of 2004-05. However, in the General Budget 2004-05, there was no provision made for the said fund. Therefore, with the approval of the then Defence Secretary, it was decided to not to pursue the proposal further for opening of new heads of account required for implementation of the proposal.
5. The issue was then raised by the Committee in their 1st Report (14th Lok Sabha-August 2004). The observations of the Committee were as under :

“The Committee note that during the last five years, i.e. from 1999-2000 to 2003-2004, substantial allocations amounting to Rs. 32,740.26 crore for Capital expenditure has lapsed due to non fructification of the defence modernisation and procurement plans. The Committee are conscious that the modernisation of the Defence Services is a continuous process and the acquisition proposals which do not or cannot fructify in a financial year are processed/finalised in subsequent years but feel that the ritual of approaching the Ministry of Finance, every financial year, for re-allocation of lapsed fund for the same project, is dilatory and completely redundant. The Committee also feel that under-utilisation/non-utilisation of allocations do not augur well for defence preparedness and seriously undermine the capabilities of the Defence Forces.

The Committee were informed subsequently that the Ministry of Finance had, in principle, agreed to the creation of the Defence Modernisation Fund which would be available for utilisation over the coming three years. The Ministry has, however, surprisingly conveyed that no allocation for this fund has been made in General Budget 2004-2005 and that the Government has yet to take a decision to set up the said fund. The Committee are extremely dismayed at this abrupt policy reversal by the Ministry and express their deep anguish that a well considered decision which was taken after a lot of deliberations has been reversed without any justifiable reason. The Committee would, therefore, like the Ministry to set up at once the Defence Modernisation Fund with committed allocations for a period of five years.'

6. In response, the Ministry of Defence had, *inter alia*, stated that:

'It emerged while formulating the modalities for creation/operationalisation of the Defence Modernization Fund in consultation with the concerned authorities that the unspent funds in the Defence Modernization Fund would not be automatically available to the Ministry of Defence for utilization in a subsequent financial year. Ministry of Defence would be required to seek the approval of Ministry of Finance and Parliament at the stage of Budget Estimates as well as for any supplementary Demands for Grants for utilization of Funds out of Defence Modernization Funds.....

.. in this backdrop, the utility of Defence Modernization Fund in addressing the issue of assured availability of funds will be rather limited and hence the proposal is not being pursued further for the present. /....'

7. Not convinced with this, the Standing Committee on Defence raised this issue again in their 3rd Report (April 2005). In its reply of July 2005, the Ministry of Defence, *inter alia*, stated as follows:

'The question of creation of Defence Modernization Fund has been reconsidered as desired by the Standing Committee. The Ministry of Finance in January 2005 issued fresh guidelines/instruction on the creation of Reserve/Corpus Funds. These instructions impose a virtual ban on the creation of new funds. Further, as per these instructions, the transfers to such funds and transfers from this fund will be decided as part of the budgetary process. This implies that approval of Ministry of Finance and Parliament has been made mandatory for any transfers of money to such funds and utilization of money out of such funds. In the light of this instruction, it is not possible to create a Fund which does not require approval of Ministry of Finance/Parliament for transfers of money or for its utilization.'

8. This stand was reiterated in the Statement laid by the then Hon'ble Raksha Mantri (RM) in Rajya Sabha on 14th December, 2005 and in Lok Sabha on 15th December 2005 on the implementation status of the recommendation made by the Standing Committee on Defence (14th Lok Sabha) in their Third Report. The then Hon'ble RM had intimated the House that recommendation regarding creation of Defence Modernization Fund was 'not feasible'. The key arguments given by the MoD in support of its stated position as above had been (a) Utility of such a fund would be limited as Parliamentary approval would be required for appropriating any sum from the Fund (b) As per guidelines of MoF, Reserve Funds are created when Government has surplus funds to spare on specific objects of expenditure. Considering prevailing fiscal situation, setting up of such Fund may not be advisable and (c) MoF has assured of availability of additional funds, if required, for the modernization of Services. This stand has been reiterated till recently.

9. Not convinced with the response of the Ministry of Defence and Ministry of Finance, the Committee while examining the Demands for Grants during 2014-15, 2015-16, 2016-17 and 2017-18 have been relentlessly advocating for creation of 'Capital non-lapsable Fund' for Defence modernisation. The Ministry of Defence, in its brief, has submitted as under:

'Utilisation of the Defence Capital Budget must be viewed in its entirety. Focussing only on a particular service, or year, of underspending may not be appropriate as it gives a distorted picture. It is more appropriate to focus on underspending, if any, under the capital budget as a whole rather than any one Service. Underspending by one Service is usually counterbalanced by excess spending by another Service.'

10. However, in contrast to the brief submitted by the Ministry stating that no substantial amounts were available as surplus for rolling over, during the Sitting of the Committee on 4 April, 2016 for discussing Demands for Grants (2016-17) of the Ministry of Defence, a representative of the Ministry himself conceded that the Ministry had not been able to fully utilize capital budget:

'So far as the capital funds are concerned, we have not been able to expend full amount even when it has been given or reduced in the RE stage. The question of non-lapsable or roll on funds obviously come into the picture provided we expect to spend more and the Ministry of Finance is not able to give us. I will give you a small example to clarify this. The capital budget for this year was Rs. 77,000 crore. That is a modernisation budget. During the RE they reduced it because of different constraints that the Ministry of Finance knows best. They reduced it to Rs. 65,400 crore. In the capital component we have got two issues. One of them is the committed liability that is the different milestone payments that we have to make from time to time to the vendors. Then, there are new schemes and these are all for the respective services. We got it reduced from Rs. 77,000 crore to Rs. 65,400 crore. I said: "If we are in a position to spend much more than Rs. 65,400 crore, what are you able to give us?" They said: "That is not an issue. We can even go up to Rs. 77,000 crore because that is your BE." On the final analysis, there are differences. As the Hon. Member mentioned, there are a lot of issues which come about during the capital acquisition, the contracts signed which take about five to seven or to ten years also to materialise. There are also lapses from time to time on the part of the vendors. So, when the milestones are not achieved, we are not in a position to release the payment. Coming back to the numbers that I gave as an example, at Rs. 65,400 crore, I think, we have been able to spend only about Rs. 61,000 crore.'

11. Thus, the Ministry of Defence in the information furnished to the Committee on the subject matter in the past had, in general, not favoured the proposal for constituting a Non-Lapsable Defence Capital Fund Account. The Ministry, submitting the following data for capital budget, had stated that there had been no occasion in the last few years where any substantial amounts were available as surplus for rolling over:

Year	Budget Estimates	Revised Estimates	Actuals	%age utilisation
2010-11	60,000.00	60,833.26	62,056.00	102.01
2011-12	69,198.81	66,143.81	67,902.38	102.65
2012-13	79,578.63	69,578.63	70,499.12	101.32
2013-14	86,740.71	78,872.23	79,125.05	100.32
2014-15	94,587.95	81,965.24	81,887.42	99.91

2015-16	94,588.00	81,400.00 79,483.28 (Modified Appropriation)	80,081.64	98.38% (Revised Estimates) 100.75% (Modified Appropriation)
2016-17	86,340.00			

12. The Committee, referring to the above data, observed that when compared to BE allocation from 2011-12 onwards, it was quite clear that percentage utilization of capital budget was never 100 percent. In this regard, the Committee desired to know as to how could the Ministry plead that no substantial amounts were available for rolling over to the next year. The Ministry, in their response, stated as under:

'It may be seen from the above data that except for 2010-11, every year Ministry of Finance had imposed a cut on BE allocations at RE stage. Due to cut imposed by Ministry of Finance, expenditure had to be restricted to Revised Estimate figures. The figures indicated above clearly indicate that except for 2014-15 and 2015-16, there has been over-spending in comparison to RE allocations. In 2014-15 and 2015-16 also more than 99 percent and 98 percent respectively of the funds allocated under RE have been expended.'

13. The details of additional allocation sought by the three Services under RE 2016-17, as furnished by the Ministry of Defence, are as under: -

14.

	Budget Estimate 2016-17	Projected Revised Estimates 2016-17	Additionality projected	Revised Estimate allocation
Army				
Revenue (Net)	113,732.72	1,34,870.40	21,137.68	1,18,908.19
Capital	26,943.08	34,706.12	7,763.04	24,026.86
Total	140675.80	169576.52	28,900.72	1,42,935.05
Navy				
Revenue (Net)	17,424.79	19,348.23	1,923.44	17,813.99
Capital	22,000.09	22,530.04	529.95	19,596.28
Total	39,424.88	41,878.27	2,453.39	37,410.27
Air Force				
Revenue (Net)	23655.83	23817.22	161.39	23,817.52
Capital	29795.42	36512.95	6717.53	28,239.86
Total	53451.25	60330.17	6878.92	52,057.38

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asked to provide reasons for reduction in budget allocation for Revised Estimates 2016-17, the MoD submitted as under:

'While conveying the reduced ceilings, Ministry of Finance did not give any reason. In spite of taking up the matter of reduced allocations with the Ministry of Finance at the highest level, the request of this Ministry for additional funds was not acceded to by the Ministry of Finance.

However, during budget discussion with MoF, the slow pace of expenditure was cited by MoF as the reason for reducing allocations/ not granting additional allocations.'

15. Contrary to the stance taken in the past, the Ministry of Defence has, in its Brief submitted to the Committee on 22 December, 2016, favoured creation of 'Non-Lapsable Defence Capital Modernization Fund'. The Ministry of Defence, in the said brief, submitted as under:

'...the issue regarding creation of a non-lapsable Defence Modernization Fund has gone through three different phases in the past. While initially it was not favoured by the Ministry of Defence, MoD later on drew up a detailed accounting procedure for operationalising the Fund with the approval of Ministry of Finance and processed the proposal for opening of the accounting heads. A provision was also made for the said Fund in the interim Budget of 2004-05 but not in the General Budget presented in July 2004 by which time it was again felt that the usefulness of such a Fund would be limited. In January 2005, Ministry of Finance had issued guidelines on creation of Reserve/Corpus Funds, which imposed a virtual ban on creation of new funds. As per these instructions, transfer to and from such funds is to be decided as part of the budgetary process. This implies that approval of the Ministry of Finance and the Parliament is mandatory for any transfers of money to such Funds and utilization of money out of these Funds. Consequently, it was felt that creation of a Fund that does not require approval of Ministry of Finance/ Parliament for transfer of money or its utilization will not be possible. This was also conveyed to the Standing Committee.

Thus, since July 2004, MoD has been taking the stand that the utility of such a Fund is limited and therefore, the proposal is not being pursued. This has been stated in response to various Parliament questions and in the status report on implementation of the recommendations of the Standing Committee on Defence. However the Honourable Standing Committee has time and again raised the issue of setting up of a non-lapsable Defence Capital (Modernization) Fund. On further consideration in consultation with the Services and after taking into account the views of various think tanks, it has been felt that the utility of creation of a non-lapsable, roll over fund for Capital cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects. The Ministry therefore has reviewed its stated position taken so far and proposes to take up the case for setting up of a capital non-lapsable, roll-on fund afresh with Ministry of Finance immediately.'

16. Intimating the latest position in regard to creation of 'Non-Lapsable Capital fund Account' for the Services, the MoD has submitted as under:

'A proposal for obtaining 'in-principle' approval of Ministry of Finance on creation on Non-lapsable Capital Fund Account has been sent on 9.2.2017 after obtaining approval of Hon'ble Raksha Mantri. Response from Ministry of Finance is awaited.'

17. The Committee also sought the comments of the Ministry of Finance on the Ministry of Defence's opinion that the utility of creation of a Non-Lapsable, roll over fund for meeting capital expenditure cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds. The Ministry of Finance, in this regard, submitted as under:

'The perceived advantage in creation of a dedicated reserve/corpus fund in the Public Account is the non-lapsability of balances available in the corpus at the close of the financial year. However, the balance available in the corpus/reserve fund at the commencement of the financial year is not available automatically for being spent by any Ministry/Department on the intended schemes. For spending the balance available in any reserve/corpus fund, approval of the Parliament through valid appropriation is necessary.

Standing Committee on Finance, in one of its recommendations, recommended that the unutilized balances lying in the reserve/corpus fund kept in the Public Account be written back to Consolidated Fund of India for being utilized on the schemes where additional funds are required.

This Ministry has also been advocating against creation of reserve/corpus fund in the Public Account without matching receipts either in the form of tax receipts, cess receipts or any form of levy etc.

It may not be advantageous in creating a reserve/corpus fund in the Public Account. The requirement of Ministry of Defence for meeting its Capital Modernisation and acquisitions can be addressed through normal budgetary mechanism.'

18. When asked to delineate the measures by way of which a Non-Lapsable Capital Fund Account could be created/operationalised for the Defence Services, the Ministry of Finance submitted as under:

'The desired objectives of Ministry of Defence towards meeting its contractual liabilities, acquisitions, defence modernisation can be achieved through normal budgetary mechanism. There is no specific advantage for creating a reserve/corpus fund for this objective.

The Ministry would consider recommendations made in this regard with an open mind with a view to evolving an effective and efficient arrangement.'

19. A representative of the Ministry of Finance, on the issue of creation of Non-Lapsable Defence Capital Fund Account, deposed as under:

' Now, the basic issue is that the funds in public accounts are generally created when there are dedicated receipts. But in this case there are no dedicated receipts which merit the creation of a separate public account. The second point is, even if there are balances in the non-lapsable fund, they will be not available to the Ministry of Defence automatically. We have to still come for appropriation to the Parliament. So, that will be done on a year to year basis. And the same thing we are doing it currently through the Budget. So, it would really not make any material difference.

The other issue is the Budgetary provision for the year is discussed in detail with the Ministry of Defence by the Ministry of Finance. Then, accordingly the Budget is provided. In case there are some excess expenditure, the position gets reviewed at the stage of the Revised Estimates and additional funds are provided to the Ministry of Finance in case the need so arises.

From the year 2005, the Fiscal Responsibility and Budget Management (FRBM) regime has come into full force. With the result, we are required to maintain fiscal prudence and we are expected to do fiscal consolidation so that there is no excess funds which get unutilised and are parked elsewhere. In fact, the Standing Committee on Finance of the Parliament had also raised the issue that funds should not be left unnecessarily parked in public accounts and that they should be utilised at the earliest possible time. In case, funds are lying unutilised, they should be transferred back to Consolidated Fund of India and used there from.

The Ministry of Finance, based on the FRBM and the Report of the Standing Committee on Finance, issued instructions that the reserve fund should be minimised and they should be created only when there are dedicated receipts which are coming in. That, in brief, is my submission.'

20. When asked specifically whether lack of finance decreases effectiveness at the ground level, the Defence Secretary responded as under:

' That is a leading question because if money is not available, definitely it will affect the preparedness. The whole process of defence acquisition and budgeting is a complex system. For so many years now, we have been finding that the cycle of acquisition has been very long and it is not in anybody's interest to see that the cycle is as long as it is now. With a lot of efforts, we have now tried to bring it down.

The cycle is affected in three or four stages. First, of course, at the initial stage when the Acceptance of Necessity is given, we need to issue the request for proposal and normally the request for proposal takes a considerable time. Now we have streamlined it. The request for proposal is floated along with the Acceptance of Necessity (AoN) so that the time lag between the AoN and the request for proposal is considerably reduced now.

Similarly, the second part is, of course, when the proposals are received from the vendors, there is a field evaluation trial to be held. Now the field evaluation trials are protracted because of the various stringent necessities of the Services. The SQRs are to be complied with. The field evaluation trials are quite long. They take considerable time. Now we also need to see that in some Services, of course, like in the Air Force they have a system which is designed to complete the trials faster but

maybe, in the Army, they have to test the equipment in different circumstances like different weather conditions and temperatures. So, naturally, it takes a longer time. But on average the field evaluation trials take considerable time – maybe, two years, three years or even more. That is one part of the story.

Third part is when the commercial negotiations take place. Usually the commercial negotiations are very prolonged. It takes quite some time before Commercial Negotiation Committee (CNC) is concluded. Cumulatively, all these processes lead to a very long procurement cycle.

Of course, we have also the other side of it. Before the proposal is sent, it also goes to the Ministry of Finance where assessment of the proposal is done by the Ministry.'

21. When asked to respond to the Ministry of Defence's constant submissions to the Committee that the ceiling imposed by the Ministry of Finance adversely affects the acquisition plans/programmes of the Ministry, the MoF submitted its opinion which is given below:

'This Ministry has been providing budget provisions towards the schemes implemented by the Union Ministries/Departments based on the absorptive capacity of the Ministry/Department and also towards the committed/contractual liabilities of the line Ministries/Departments. The budget allocations also depend on resource position of the Government. The resource position include the tax receipts, non tax receipts, non-debt capital receipts and the borrowings allowed under Fiscal Responsibility and Budget Management Act 2003.

As far as allocations for the Defence Ministry, the Finance Minister has, at the time of presenting the Union Government budget, been emphasizing the importance of budget allocation of Ministry of Defence on the ground of national security. It has been stressed from time to time that additional provision, if required, would be provided to the Ministry of Defence.

It may also be pertinent to submit that the revised estimates during the course of the year after mid-year review are made based on the progress of expenditure and it may sometime result in reduction in the budgetary outlays depending on the immediacy of requirement.'

22. While the Ministry of Finance has stated that the requirements of the Ministry of Defence are a priority, the data on budgetary allocations of the last several years reveal that substantial cuts are imposed at the Revised Estimates stage. Responding to this issue, the Ministry of Finance submitted as under:

'During the course of year, the budgetary outlays provided to each Ministry/Department are reviewed. While making such a review, the progress of expenditure in the first six months and the absorptive capacity of the Ministry/Department are taken into account. Based on these two main factors, the revised estimates (the revised budgetary outlays) of any Ministry are fixed. This exercise is basically for identifying and locating savings available in any Grant/Appropriation and redistributing such resources, where additionalities are required, through Supplementary Demands for Grants.

Such readjustments through Supplementary Demand for Grants are necessary for utilizing the available resources in a best possible manner.'

Non-lapsable Central Pool of Resources for the North Eastern region

23. It is pertinent to mention in this context that in the Union Budget 1998-99, the Non-lapsable Central Pool of Resources for the North Eastern region was constituted with approval of Parliament. The broad objective of the Non-lapsable Central Pool of Resources scheme is to ensure speedy development of infrastructure in the North Eastern Region by increasing the flow of budgetary financing for new infrastructure projects/schemes in the Region. Both physical and social infrastructure sectors such as Irrigation and Flood Control, Power, Roads and Bridges, Education, Health, Water Supply and Sanitation - are considered for providing support under the Central Pool, with projects in physical infrastructure sector receiving priority.
24. Funds from the Central Pool can be released for State sector as well as Central sector projects/schemes. However the funds available under the Central Pool are not meant to supplement the normal Plan programmes either of the State Governments or Union Ministries/ Departments/ Agencies.
25. During the year, the institutional arrangements for administering the Non-lapsable Central Pool have been streamlined. The guidelines to administer the Pool have been revised. The Committee to administer the Non-Lapsable Central Pool of Resources (NLCPR) has been reconstituted. The reconstituted Committee is headed by Secretary, Ministry of Development of North Eastern Region and has representation from Ministries of Finance, Home Affairs and Planning Commission. Financial Advisor to the Ministry of Development of North Eastern Region has been included as a member. Representatives of Union Ministry/Departments, whose proposals are to be considered in a particular sitting for funding under NLCPR, are also invited.
26. For identification of projects under Non-Lapsable Central Pool of Resources, States are asked to submit, before the beginning of the financial year, a prioritized list of projects with a short write up on each project. The earlier practice of receiving projects throughout the year directly from the various state departments concerned has been stopped. Now the Planning and Development Department of the State concerned is the nodal department for NLCPR and that department is DoNER's interface with all other departments of the State. The

priority accorded by the State to the projects in the 'priority list' is only suggestive and the Committee scrutinizes the projects in the lists in order to identify and finally retain the suitable projects for detailed examination. In examining the priority, the Committee is, *inter-alia*, guided by considerations such as:

- Projects of economic infrastructure are given priority;
- In the social sector, priority to drinking water supply and other health and sanitation projects;
- Projects in Autonomous District Council (VIth Schedule of the Constitution) are given priority;
- Past performance of a State in implementing projects in the particular sectors to which the projects belong is also considered; and
- The overall utilisation and absorption of funds by a particular State in the past years also guide the overall quantum of projects to be undertaken for that State in a year.

27. Detailed Project Report(s) for such retained projects are then prepared by the state concerned. These project proposals are thereafter examined in consultation with the concerned Central Ministry/Department. The recommendations/views, thus received are placed before the Committee to administer the Non-Lapsable Central Pool, which considers the proposal and accords approval.

28. After approval of the Committee, funds are sanctioned and released by the Ministry of Development of North Eastern Region on submission of an implementation schedule. Subsequent releases are made only after receipt of Utilisation Certificate of earlier releases.

PART - II

OBSERVATIONS/RECOMMENDATIONS

- 1. The Committee, in their Reports presented on earlier occasions, have recommended making the Capital allocations for Defence acquisition as 'Roll on' and 'Non-Lapsable' following the ending of the financial year. In the information furnished to the Committee on the subject matter in the past, the Ministry of Defence had, in general, not favoured the proposal for constituting a Non-lapsable Defence Capital Fund Account.**

The reasons cited by the Ministry for not favouring the proposal for having a non-lapsable fund include (a) limitations of the utility of such a proposal as Parliamentary approval would be required for appropriating any sum from the Fund; (b) guidelines of Ministry of Finance (MoF) which stipulate that, Reserve Funds can be created when Government has surplus funds to spare on specific objects of expenditure and the fiscal situation was not suitable for setting up such a Fund; (c) assurance of the Ministry of Finance that additional funds for the modernization of Services would be made available, and (d) there being no occasion in the last few years where any substantial amounts were available as surplus for rolling over to the subsequent years.

While deposing before the Committee (2016-17), the Defence Secretary highlighted the complexities involved in Defence acquisition and budgeting. The aspect of likely adverse affect of lack of financial resources on defence preparedness has been brought to light in specific terms. Consequently, as a follow up, the Ministry has now reviewed its stated position and has admitted that the utility of creation of a non-lapsable, roll over fund for Capital cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects.

2. A proposal for obtaining 'in-principle' approval of the Ministry of Finance on creating a Non-lapsable Capital Fund Account has been sent on 9 February, 2017 by the Ministry of Defence with the approval of the then Hon'ble Raksha Mantri.
3. The Committee are despondent to note that the Ministry of Finance has not been in favour of creating a 'Non-lapsable Defence Capital Fund Account'. As per the Ministry of Finance, the perceived advantage in creating a dedicated reserve/corpus fund in the Public Account is the non-lapsability of balances that would be available in the corpus at the close of the financial year. However, the balance available in the corpus/reserve fund at the commencement of the new financial year would not be available automatically for being

expended by any Ministry/Department on the intended schemes. For spending the balance available in any reserve/corpus fund, approval of the Parliament through valid appropriation would be necessary. The Ministry of Finance has also been opposing the proposal for creation of a reserve/corpus fund in the Public Account without matching receipts either in the form of tax receipts, cess receipts or any form of levy etc. It has also been stated that it may not be advantageous to create a reserve/corpus fund in the Public Account and the requirements of the Ministry of Defence for meeting its Capital Modernisation and acquisition plans could be addressed through the normal budgetary mechanism.

4. The Committee would in this regard, draw the attention of the Ministry of Finance to the fact that in last few years, the allocations for the Ministry of Defence under the 'Capital' head have inevitably been lesser than the projection, not only at the Budget Estimates stage but also at Revised Estimates stage. To illustrate, against a projection of Rs. 1,46,155.54 crore for Capital Budget in 2017-18, only Rs. 86,528.65 crore have been allocated at the BE 2017-18 for the Defence Services (Army, Navy, Joint Staff, Air Force, DGOF, R&D and DGQA). Inadequacy of the allocation for Capital acquisition vis-à-vis the projections, affects several procurement proposals and contracts relating *inter alia* to Land, Aircraft and Aeroengines, Heavy and Medium Vehicles, Equipments, Military Farms, Procurement of Rolling Stock, Ex-Servicemen Contributory Health Scheme, Rashtriya Rifles, National Cadet Corps, Construction Works, National Defence Academy, Married Accommodation Project, North Eastern Projects and Special Projects, etc. which are stated to be finalised in 2017-18.

Therefore, the contention of the Ministry of Finance that the desired objectives of Ministry of Defence towards meeting its contractual liabilities, acquisitions and defence modernisation can be achieved through normal budgetary mechanism does not hold much

ground. Defence procurement and acquisition is a complicated process involving long gestation periods and funds allocated for capital acquisition in a particular financial year are not necessarily consumed in that year and ultimately have to be surrendered by the Ministry of Defence. The intention of the Committee in recommending having a Non-Lapsable Capital fund account for Defence modernization is primarily for ensuring that the money allocated for a particular item is spent on the specified item only, not necessarily in the same Financial year. Further, the Defence Secretary himself has been candid in submitting before the Committee that lack of finance definitely affects our operational preparedness.

5. The Committee are of the opinion that creation of a non-lapsable Defence Capital Fund Account is an imperative need for enhancement and heightened operational preparedness of our Defence Forces. They feel that even if certain financial rules and regulations have to be amended for creation of a 'Non-lapsable Defence Capital Fund Account' to meet the requirements of our Defence forces, it can and should be done in the interest of the nation. Therefore, the Committee are of the view that the Ministry of Finance should not have any rigid view in this regard. Moreover, creation of such a fund would also ensure that procurement of equipments, arms and ammunition for our Defence Forces which are in the pipeline and in the stage of fructification is not delayed because of lack of money due to technicalities of rules and regulations. Hence, the Committee would like the Ministry of Finance to work out the modalities for creation of a 'Non-lapsable Defence Capital Fund Account' in consultation with the Ministry of Defence and apprise the Committee of the progress made in this direction at the earliest, and not later than three months of the presentation of this Report to Parliament.
6. The Committee find it pertinent to mention in this context that in the Union Budget 1998-99, the Non-lapsable Central Pool of Resources for the North Eastern region was constituted

with the approval of Parliament. The broad objective of the Non-lapsable Central Pool of Resources scheme is to ensure speedy development of infrastructure in the North Eastern Region by increasing the flow of budgetary financing for new infrastructure projects/schemes in the Region. Both physical and social infrastructure sectors such as Irrigation and Flood Control, Power, Roads and Bridges, Education, Health, Water Supply and Sanitation - are considered for providing support under the Central Pool, with projects in physical infrastructure sector receiving priority. Funds from the Central Pool can be released for State sector as well as Central sector projects/schemes. However the funds available under the Central Pool are not meant to supplement the normal Plan programmes either of the State Governments or Union Ministries/ Departments/ Agencies.

7. The Committee to administer the Non-Lapsable Central Pool of Resources is headed by Secretary, Ministry of Development of North Eastern Region and has representation from Ministries of Finance, Home Affairs and Planning Commission. Financial Advisor to the Ministry of Development of North Eastern Region has been included as a member. Representatives of the Union Ministry/Departments concerned, whose proposals are to be considered in a particular sitting for funding under Non-Lapsable Central Pool of Resources (NLCPR), are also invited. For identification of projects under NLCPR, States are asked to submit, before the beginning of the financial year, a prioritized list of projects with a short write up on each project. In examining the priority, the Committee is, inter-alia, guided by considerations such as economic infrastructure, drinking water supply and other health and sanitation projects etc. Past performance of a State in implementing projects in the particular sectors to which the projects belong is also considered. The overall utilisation and absorption of funds by a particular State in the past years also guide the overall quantum of projects to be undertaken for that State in a year. Detailed Project Report(s) for such retained projects are then prepared by the State concerned. These project proposals

are thereafter examined in consultation with the concerned Central Ministry/Department. The recommendations/views, thus received are placed before the Committee to administer the Non-Lapsable Central Pool, which considers the proposal and accords approval. After approval of the Committee, funds are sanctioned and released by the Ministry of Development of North Eastern Region on submission of an implementation schedule. Subsequent releases are made only after receipt of Utilisation Certificate of earlier releases.

8. The Committee recommend that the Ministry of Defence, in consultation with the Ministry of Finance, and by taking inspiration from the 'Non-lapsable Central Pool of Resources for the North Eastern region', should institute streamlined arrangements for administering the 'Non-Lapsable' and 'Roll on' Capital Budget for defence acquisitions.

New Delhi;
4 August, 2017
13 Shravana, 1939(Saka)

MAJ GEN B C KHANDURI, AVSM (RETD)
Chairperson
Standing Committee on Defence

STANDING COMMITTEE ON DEFENCE

MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE
ON DEFENCE (2016-17)

The Committee sat on Friday, the 23rd December, 2016 from 1500 hrs. to 1630 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

MAJ GEN B C KHANDURI AVSM (RETD) - CHAIRPERSON

MEMBERS

LOK SABHA

2. Shri Shrirang Appa Barne
3. Shri Thupstan Chhewang
4. Shri H D Devegowda
5. Shri G Hari
6. Dr Murli Manohar Joshi
7. Dr Mriganka Mahato
8. Shri Rodmal Nagar

9. Shri A P Jithender Reddy
10. Shri Ch Malla Reddy

RAJYA SABHA

11. Shri A U Singh Deo
12. Shri Harivansh
13. Shri Rajeev Chandrasekhar
14. Shri Madhusudan Mistry
15. Shri Sanjay Raut

SECRETARIAT

- | | | | |
|---|------------------------|---|---------------------|
| 1 | Smt Kalpana Sharma | - | Joint Secretary |
| 2 | Shri T G Chandrasekhar | - | Director |
| 3 | Smt Jyochanamayi Sinha | - | Additional Director |

LIST OF WITNESSES

S.NO	NAME OF OFFICER	DESIGNATION	At the
	<u>MINISTRY OF DEFENCE</u>		the
1	Shri G Mohan Kumar	Defence Secretary	
2	Shri S K Kohli	Financial Advisor (DS)	
3	Shri Ravi Kant	Additional Secretary (R)	
4	Ms. Smita Nagaraj	DG(Acq)	
5	Ms. Anuradha Mitra	AS & FA (Acq)	
6	Shri A N Das	FA(AN) & JS	
7	Ms. Maulishree Pande	Director (Budget)	
8.	Maj Gen Sanjay Thapa	DG FP	
9.	Maj Gen Anil Puri	DDG (A)	
10.	Cmde Sanjay Vatsayan	PDNP	
11.	Cdr Ravi S Nair	JDNP	
12.	AVM BR Krishna SC	ACAS (Plans)	
13.	AVM P SubhashBabu	ACAS (Fin P)	
14.	Air Cmde DK Sharma	PD Fin P	
15.	Air Cmde Devender Sharma	DACIDS (FP)	
16.	Gp Capt Updesh Sharma	Director Budget	

MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)

1. Shri Prashant Goyal Joint Secretary (Budget)
2. Shri N M Jha Director (Budget)
3. Shri T Uthaya Kumar Additional Budget Officer

Chairperson welcomed the Members and representatives of the Ministries of Defence and Finance to the sitting of the Committee convened to take oral evidence on the subject, 'Creation of Non-Lapsable Capital Fund Account, instead of the present system'. The Chairperson drew their

attention to Directions 55(1) and 58 of the Directions by the Speaker, Lok Sabha regarding confidentiality of proceedings.

2. Thereafter, the representatives of the Ministry of Defence made a Power Point Presentation on the Subject. The Committee had detailed deliberations on various issues in the context which included: -

- (i) Non-fructification of the Defence modernization and procurement plans due to inadequate funds available with the Ministry of Defence;
- (ii) Need for creation of a 'Non-Lapsable, roll on fund for capital expenditure' to help in eliminating the prevailing uncertainty in providing adequate funds for various Defence capability development and infrastructure projects; and
- (iii) Reservations of the Ministry of Finance for creation of Non-lapsable Defence Capital Fund Account even though other non-lapsable accounts also exist.

3. The representatives of the Ministries of Defence and Finance responded to the queries raised by the Members during the deliberations.

4. The Committee desired the Ministry of Finance to explore modalities which include changes in the Rules for facilitation of creation of Non-Lapsable Defence Capital fund Account.

5. As regards the points on which the representatives could not readily respond, they promised to furnish written information at the earliest.

A copy of verbatim record of the proceedings has been kept.

The Committee then adjourned.

STANDING COMMITTEE ON DEFENCE

**MINUTES OF THE TWELFTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2016-17)**

The Committee sat on Wednesday, the 2nd August, 2017 from 1000 hrs. to 1020 hrs. in Committee Room `C', Parliament House Annexe, New Delhi.

PRESENT

Lok Sabha

2. Shri Suresh C Angadi
3. Shri Shrirang Appa Barne
4. Shri Thupstan Chhewang
5. Col Sonaram Choudhary(Retd)
6. Km Shobha Karandlaje
7. Shri Rodmal Nagar
8. Shri A P Jithender Reddy
9. Shri Ch Malla Reddy
10. Smt Mala Rajya Lakshmi Shah
11. Shri Dharambir Singh
12. Smt Pratyusha Rajeshwari Singh

Rajya Sabha

13. Shri K R Arjunan
14. Shri Rajeev Chandrasekhar
15. Shri Sanjay Raut
16. Smt Ambika Soni
17. Dr Subramanian Swamy

SECRETARIAT

- | | | | |
|---|-------------------------|---|---------------------|
| 5 | Smt. Kalpana Sharma | - | Joint Secretary |
| 6 | Shri T.G. Chandrasekhar | - | Director |
| 7 | Smt. Jyochanmayi Sinha | - | Additional Director |
| 8 | Shri Rahul Singh | - | Under Secretary |

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them about the agenda for the sitting. The Committee then took up for consideration the following draft Reports on:-

- i) 'Creation of Non-lapsable Capital Fund Account, instead of the present system'
- ii) 'Resettlement of Ex-servicemen'
- iii) 'Provision of Medical Services to Armed Forces including Dental Services'

3. After deliberations the Committee adopted the above Reports.

4. The Committee, then, authorized the Chairperson to finalise the above draft Reports and present the same to the House on a date convenient to him.

The Committee then adjourned.