

STANDING COMMITTEE ON DEFENCE

(2018-19)

(SIXTEENTH LOK SABHA)

MINISTRY OF DEFENCE

**[ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS
CONTAINED IN THIRTY- SECOND REPORT OF STANDING COMMITTEE ON DEFENCE (16TH
LOK SABHA) ON 'CREATION OF NON-LAPSABLE CAPITAL FUND ACCOUNT, INSTEAD OF THE
PRESENT SYSTEM']**

FORTY- FOURTH REPORT



LOK SABHA SECRETARIAT

NEW DELHI

January, 2019 /Pausa, 1940 (Saka)

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Presented to Lok Sabha on 7.1.2019

Laid in Rajya Sabha on 7.1.2019



LOK SABHA SECRETARIAT

NEW DELHI

January, 2019 /Pausa, 1940 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2018-19)

SHRI KALRAJ MISHRA

-

CHAIRPERSON

Lok Sabha

2. Shri Deepak Adhikari (Dev)
3. Shri Suresh Chanabasappa Angadi
4. Shri Shrirang Appa Barne
5. Col Sona Ram Chaudhary VSM (Retd)
6. Shri Thupstan Chhewang
7. Shri H D Devegowda
8. Shri Jayadev Galla
9. Shri Sher Singh Ghubaya
10. Shri Gaurav Gogoi
11. Dr Murli Manohar Joshi
12. Km Shobha Karandlaje
13. Dr Mriganka Mahato
14. Shri Rodmal Nagar
15. Shri Partha Pratim Ray
16. Shri A P Jithender Reddy
17. Shri B Senguttuvan
18. Smt Mala Rajya Laxmi Shah
19. Shri Dharambir Singh
20. Smt Pratyusha Rajeshwari Singh
21. Shri Rakesh Singh

Rajya Sabha

22. Shri K R Arjunan
23. Dr Ashok Bajpai
24. Shri Joginipally Santosh Kumar
25. Shri Madhusudan Mistry
26. Shri Soumya R Patnaik
27. Shri G V L Narasimha Rao
28. Shri Sanjay Raut
29. Smt Ambika Soni
30. Shri Ram Nath Thakur
31. Dr D P Vats

SECRETARIAT

- | | | | |
|----|------------------------|---|---------------------|
| 1. | Smt. Kalpana Sharma | - | Joint Secretary |
| 2. | Shri Srinivasulu Gunda | - | Director |
| 3. | Smt. Jyochnamayi Sinha | - | Additional Director |
| 4. | Shri Rahul Singh | - | Under Secretary |
| 5. | Smt. Preeti Negi | - | Executive Assistant |

INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2018-19), having been authorised by the Committee, present this Forty-fourth report on Action Taken by the Government on the Observations/Recommendations contained in the Thirty-Second Report (Sixteenth Lok Sabha) on 'Creation of Non-Lapsable Capital Fund Account, instead of the present system'.

2. The Thirty-second Report was presented to Lok Sabha on 10 August, 2017 and laid in Rajya Sabha on 9 August, 2017. It contained 8 Observations/Recommendations. The Ministry of Defence furnished Action Taken Replies on all the Observations/Recommendations in February, 2018.

3. The Report was considered and adopted by the Committee at their Sitting held on 14 November, 2018.

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

5. An analysis of action taken by the Government on the Observations/Recommendations contained in the Thirty-second Report of the Standing Committee on Defence (Sixteenth Lok Sabha) is given in Appendix II.

New Delhi;
27 November, 2018
6 Agrahayana, 1940 (Saka)

Kalraj Mishra,
Chairperson,
Standing Committee on Defence

REPORT

CHAPTER I

This report of the Standing Committee on Defence deals with action taken by the Government on the Observations/Recommendations contained in the Thirty-Second Report (Sixteenth Lok Sabha) on 'Creation of Non-Lapsable Capital Fund Account, instead of the present system' which was presented to Lok Sabha on 10 August, 2017 and laid in Rajya Sabha on 9 August, 2017.

2. The Committee's Thirty-Second Report (Sixteenth Lok Sabha) contained 8 Observations/Recommendations.

3. **Action Taken Replies have been received from the Government in respect of all the Observations/Recommendations contained in the Report. The replies have been examined and have been categorised as follows:-**

(i) (a) Observations/Recommendations which have been accepted by the Government:

Nil-may be shown in Chapter II (A) of the Draft Report **(00 Recommendation)**

(b) Observations/Recommendations which have been accepted by the Government and to be commented upon:

Nil-may be shown in Chapter II (B) of the Draft Report **(00 Recommendation)**

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:

Nil-may be shown in Chapter III of the Draft Report **(00 Recommendation)**

(iii) Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee and which require reiteration and to be commented upon:

Para Nos. 1, 2, 3, 4, 5, 6, 7 and 8

(08 Recommendations)

These may be included in Chapter IV of the Draft Report.

- (iv) Observations/Recommendations in respect of which Government have furnished interim replies:

Nil-may be shown in Chapter V of the Draft Report

(00 Recommendation)

4. **The Committee desire that the Ministry's response to the comments made in Chapter I of this Report be furnished to them at the earliest and in any case not later than three months of the presentation of this Report.**

Recommendation (Para Nos. 1-8)

5. The Committee in their Thirty-second Report had recommended as under:

'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 nonlapsable 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.

A proposal for obtaining 'in-principle' approval of the Ministry of Finance on creating a Nonlapsable 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.

..... As per the Ministry of Finance, the perceived advantage in creating a dedicated reserve/corpus fund i.e. 'Non-lapsable Defence Capital Fund Account 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.

.... 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-a-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 Work 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 NonLapsable 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.

. . . . creation of a non-lapsable Defence Capital Fund Account is an imperative need for enhancement and heightened operational preparedness of our Defence Forces. 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. 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. Accordingly, the Committee recommended that 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.

The Committee found 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.

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.

....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.'

6. The Ministry in its Action Taken Reply has stated as under:

'In accordance with observations/recommendations made by Standing Committee on Defence (SCoD) in its 32nd Report, Ministry of Finance (MoF) was requested to furnish a suitable response on matter relating to 'Creation of Non-Lapsable Capital Fund Account, instead of the present System'. Ministry of Finance in their response dated 16th February, 2018, stated that the proposal of Ministry of Defence for establishing a Non-Lapsable Reserve fund in the Public Account with the nomenclature 'Defence Modernisation Fund', based on the recommendations contained in 32nd Report (16th Lok Sabha) of the Standing Committee on Defence has been examined again in the Ministry. Ministry of Finance, further, reiterated the views conveyed by them vide their O.M. dated 03.07.2017 (Annexure) and also stated that the proposal is not agreed to.'

7. The Committee are disappointed to note that despite their repeated recommendations for making the Capital allocations for the Services on 'Roll on' and 'Non-Lapsable' basis by constituting 'Non lapsable Defense Capital Fund Account the same was not agreed to by the Ministry of Finance due to the following reasons :

(i) Adequate budget provision is made available to Ministry of Defence to finance the capital requirements of Defence Services;

(ii) Balances available in the non-lapsable funds will not be available to Ministry of Defence automatically. It requires Parliament's sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Hence, mere creation of non-lapsable funds yields no additional advantage to Ministry of Defence and could rather induce complacency in incurring expenditure;

(iii) Funds in the Public Account are generally created with dedicated receipts for being financed. In this case, there are no such dedicated receipts for financing the corpus of the reserve fund proposed to be created in the Public Account;

(iv) Creating a corpus out of general revenues could lead to unnecessary parking of funds and make them unavailable for other essential expenditure. Thus, non-lapsable funds result in sub-optimal utilization. Standing Committee on Finance (16th Lok Sabha), in their 2nd Report on Demands for Grants of Ministry of Finance for the year 2014-15, recommended that the unutilized funds/funds kept idle for more than two years may be transferred to Consolidated Fund of India so that these funds could be utilized for other prioritized schemes; and

(v) Moving general revenues out of Consolidated Fund and parking in corpus fund is against the spirit behind Article 266(1) of the Constitution. Giving go ahead in one case could raise competing demands from other Ministries.

8. With regard to adequate availability of funds to Ministry of Defence for financing capital acquisitions, the Committee, during examination of Demands for Grants of the Ministry of Defence for the year 2018-19, found that against a projection of Rs.1,60,199.81 crore for Capital Budget for the year 2018-19, only Rs.83,434.04 crore i.e. approximately 50% less than projections, had been allocated in the BE 2018-19 for the Defence Services (Army, Navy, Joint Staff and Air Force). Similarly, in the past also, the allocations for the Ministry of Defence under the 'Capital' head had been lower than the projected amounts. Hence, the lower budgetary allocations vis-à-vis the projected amounts appear to be a norm rather than an exception, probably affecting adversely capital equipment acquisition plans by the Ministry of Defence. This is evident in the candid submission of the representatives of Ministry of Defence before the Committee in 2016-17 to the effect that 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 Committee, therefore, feel that the contention of the Ministry of Finance at point no. (i) as mentioned in Para 8 above that adequate budget provision is made available to the Ministry of Defence to finance the capital requirements of Defence Services is not tenable.

9. The Committee strongly feel that since the 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 itself for variety of reasons and ultimately have to be surrendered by the Ministry of Defence. Therefore, the intention of the Committee in recommending a Non-Lapsable Capital fund account for Defence modernization is to ensure that funds allocated for capital acquisitions which are unspent / under spent are not surrendered but are transferred to the non lapsable fund. Monies lying in such a fund can be utilized for the stated purpose whenever the need arises. Such an arrangement, the Committee believe will go a long way in imparting much needed certainty for acquiring capital equipment.

10. Another reason adduced by the Ministry of Finance for not agreeing to the proposal for creation of 'Non-lapsable Defence Capital Fund Account' is that balances available in the non-lapsable fund will not be available to Ministry of Defence automatically as it requires Parliaments sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Further, moving the general revenues out of the Consolidated Fund and parking in a 'corpus fund' is against the spirit of Article 266(1) of the Constitution. The Committee, in this regard, would like to emphasize 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, the same may be done in the interest of the Nation, irrespective of complicated financial discourse. Moreover, creation of this 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 and due to technicalities of rules and regulations.

11. It is pertinent to mention here that the Ministry of Defence, though after a long time, eventually realised significance of creation of 'Non-Lapsable Defence Capital Modernization Fund'. Contrary to the stance taken in the past, the Ministry of Defence, in its brief submitted to the Committee on 22 December, 2016, had favoured creation of 'Non-Lapsable Defence Capital Modernization Fund'. When the Standing Committee time and again raised the issue of setting up of a non-lapsable Defence Capital (Modernization) Fund, the MoD considered this issue in consultation with the Services and after taking into account the views of various think tanks. Thereafter, as mentioned elsewhere in the report , the MoD felt that the utility of creation of a non-lapsable, roll over fund for Capital could not 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, reviewed its stated position taken so far and proposed to take up the case for setting up of a capital non-lapsable, roll—on fund afresh with Ministry of Finance immediately. The Committee, hence, would like the Ministry of Finance to discard their apprehension regarding creation of a 'Non-lapsable Defence Capital Fund Account' on the lines similar to theme 'Non Lapsable Central Pool of Resources (NLCPR)' for the North Eastern Region and come up with a solution in consultation with the Ministry of Defence and apprise the Committee in due course .

No.F.7(1)-B(AC)/2017
Ministry of Finance
Department of Economic Affairs
(Budget Division)

New Delhi,
3rd July, 2017.

OFFICE MEMORENDUM

Subject: Creation of 'Non-Lapsable Capital Fund Account' in Public Account for 'Defence Modernisation'.

The undersigned is directed to refer to Defence Secretary's D.O. letter No.3(10)/Bud-I/2016(Pt.)/70/Def.Secy.2017 dated 91.6.2017 on the subject cited above and to state that the proposal of Ministry of Defence for creation of non-lapsable Defence Modernisation Fund has been examined in this Ministry.

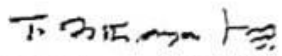
2. Considering the following facts against creation of a corpus fund in Public Account, the proposal of Ministry of Defence on 'Defence Modernisation Fund' in Public Account is not agreed to:

- (i) Adequate budget provision is made available to Ministry of Defence to finance the capital requirements of Defence Services;
- (ii) Balances available in the non-lapsable funds will not be available to Ministry of Defence automatically. It requires Parliament sanction through Demands for Grants of Ministry of Defence for being spent on Defence capital expenditure. Hence, mere creation of non-lapsable fund yields no additional advantage to Ministry of Defence and could rather induce complacency in incurring expenditure;
- (iii) Funds in the Public Account are generally created with dedicated receipts for being financed. In this case, there is no such dedicated receipts for financing the corpus of the reserve fund proposed to be created in the Public Account;
- (iv) Creating a corpus out of general revenues could lead to unnecessary parking of funds and make them unavailable for other essential expenditure. Thus, non-lapsable funds result in sub-optimal utilisation. Standing Committee on Finance (16th Lok Sabha), in its 2nd Report on Demands for Grants of Ministry of Finance for the year 2014-15, recommended that the unutilized funds/funds kept idle for more than two years may be transferred to Consolidated Fund of India so that these funds could be utilised for other prioritized schemes; and

(from pre-page)

- (v) Moving general revenues out of Consolidated Fund and parking in corpus fund is against the spirit behind Article 266(1) of the Constitution. Giving go ahead in one case could raise competing demand from other Ministries.

3. This has the approval of Finance Minister.


(T. Uthaya Kumar)
Additional Budget Officer

The Secretary
(Shri Sanjay Mitra)
Ministry of Defence
South Block
New Delhi.

CHAPTER II

(A) OBSERVATIONS/RECOMMENDATIONS, WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

-NIL-

**(B) OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE
GOVERNMENT AND TO BE COMMENTED UPON:**

-NIL-

CHAPTER III

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM THE GOVERNMENT

-NIL-

CHAPTER IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION AND TO BE COMMENTED UPON:

Recommendation (Para Nos. 1 to 8)

4.1 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.

4.2 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.

4.3 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.

4.4 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.

4.5 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.

4.6 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.

4.7 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.

4.8 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.

Reply of the Government

4.9 'In accordance with observations/recommendations made by Standing Committee on Defence (SCoD) in its 32nd Report, Ministry of Finance (MoF) was requested to furnish a suitable response on matter relating to 'Creation of Non-Lapsable Capital Fund Account, instead of the present System'. Ministry of Finance in their response dated 16th February, 2018, stated that the proposal of Ministry of Defence for establishing a Non-Lapsable Reserve fund in the Public Account with the nomenclature 'Defence Modernisation Fund', based on the recommendations contained in 32nd Report (16th Lok Sabha) of the Standing Committee on Defence has been examined again in the Ministry. Ministry of Finance, further, reiterated the views conveyed by them vide their O.M. dated 03.07.2017 and also stated that the proposal is not agreed to.'

(For comments of the Committee, please refer to Para Nos. 7,8,9,10 and 11 of Chapter-I of the Report)

CHAPTER V

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES/REPLIES AWAITED

-NIL-

**New Delhi;
14 November, 2018
23 Kartika, 1940 (Saka)**

**Kalraj Mishra,
Chairperson,
Standing Committee on Defence**

STANDING COMMITTEE ON DEFENCE

MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON DEFENCE
(2018-19)

The Committee sat on Wednesday, the 14th November, 2018 from 1500 hrs. to 1640 hrs. in Committee Room No. 139, Parliament House Annexe, New Delhi.

PRESENT

Shri Kalraj Mishra - Chairperson

**MEMBERS
LOK SABHA**

2. Col. Sonaram Choudhary, VSM (Retd)
3. Shri Thupstan Chhewang
4. Shri H.D. Devegowda
5. Shri Sher Singh Ghubaya
6. Km. Shobha Karandlaje
7. Shri Dharambir Singh

RAJYA SABHA

8. Dr. Ashok Bajpai
9. Shri Madhusudan Mistry
10. Shri G.V.L. Narasimha Rao
11. Shri Sanjay Raut
12. Smt. Ambika Soni
13. Shri Ram Nath Thakur
14. Lt. Gen. Dr. D.P. Vats

SECRETARIAT

- | | | |
|---------------------------|---|---------------------|
| 1. Smt. Kalpana Sharma | - | Joint Secretary |
| 2. Shri Srinivasulu Gunda | - | Director |
| 3. Smt. Jyochnamayi Sinha | - | Additional Director |
| 4. Shri Rahul Singh | - | Under Secretary |

2. At the outset, the Chairperson welcomed the Members of the Committee. The Committee then paid homage to late Shri Ananth Kumar, Union Minister for Chemicals & Fertilizers and Parliamentary Affairs. The Committee then took up the following draft Reports for consideration and adoption:

- (i) Action Taken by the Government on the Observations/ Recommendations contained in the Thirty-second Report (Sixteenth Lok Sabha) on 'Creation of Non-Lapsable Capital Fund Account, instead of the present system'; and
- (ii) Action Taken by the Government on the Observations/ Recommendations contained in the Thirty-third Report (Sixteenth Lok Sabha) on 'Resettlement of Ex-Servicemen'.

3. After deliberation, the Committee adopted the above Reports and authorized the Chairperson to finalize the Reports.

4. *****

The Committee then adjourned.

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

*****The matter does not pertain to this Report.

APPENDIX II

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS CONTAINED IN THE THIRTY-SECOND REPORT (16TH LOK SABHA) ON CREATION OF NON-LAPSABLE CAPITAL FUND ACCOUNT, INSTEAD OF THE PRESENT SYSTEM.'

1.	Total number of recommendations	08
2.	Observations/Recommendations which have been accepted by the Government (please see Chapter II A):	
	NIL	
		Total : 00 Percentage: 0%
3	Observations/Recommendations which have been accepted by the Government and commented upon (please see Chapter II B):	
	NIL	
		Total : 00 Percentage: 0%
4.	Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government (please see Chapter III):	
	NIL	
		Total : 00 Percentage: 0%
5.	Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee and which require reiteration and to be commented upon (please see Chapter IV): Recommendation Nos. 1, 2, 3, 4, 5, 6, 7 and 8	
		Total : 08 Percentage: 100%
6.	Observations/Recommendations in respect of which Government have furnished interim replies/replies awaited (please see Chapter V):	
	NIL	
		Total : 00 Percentage: 0%