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Standing Committee on Defence's Prescription for Increasing Capital Budget May Not Work

*Amit Cowshish**

The *Thirty-first Report* of the Standing Committee on Defence (SCoD)[1] was submitted to Parliament on 9 March 2017. The report examined the capital outlay for the defence services for the year 2017–18, procurement policy of the Ministry of Defence (MoD) and defence planning. A glance through the report showed that, apart from a rather sketchy analysis of these issues, the committee has only ended up making hackneyed observations and recommendations that have been made repeatedly in the past without much success. This detailed perspective looks look at five of the 17-odd recommendations made by the committee, which relate primarily to allocation and utilisation of funds for capital acquisitions, and indicates that these recommendations are unlikely to produce any perceptible change in the current or the coming years. Further, it makes some suggestions as regards the role the committee could play in channelising the current narrative into a result-oriented plan of action.

The *Thirty-first Report* of SCoD contains its critical assessment of the capital outlay for the year 2017–18.[2] While the focus of the analysis is clearly on the capital acquisition segment of the capital outlay, the committee has also examined some other related issues and made several observations/recommendations under the following headings:

1. Allocation under Capital Budget Head (paragraphs 1–5);

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2. Ratio of Capital and Revenue Outlay (paragraph 6);
3. Underspending (paragraphs 7–9);
4. Capital Acquisition—Creation of 'Roll on' and 'Non-lapsable Fund' (paragraphs 10–15);
5. Committed Liabilities and New Schemes (paragraphs 16–20);
6. Defence Procurement Procedure 2016 (paragraph 21);
7. Long Gestation Period in Procurements (paragraph 22);
8. Probity, Accountability and Transparency in Defence Procurement (paragraph 23);
9. Dependence on Foreign Suppliers for Military Hardware (paragraphs 24 and 25);
10. Import Content in Equipment Produced and Developed by DRDO (Defence Research and Development Organisation), Ordnance Factories and DPSUs (defence public sector undertakings) (paragraphs 26 and 27);
11. Make-in-India Policy and Self-reliance in Defence Production (paragraphs 28–31);
12. Private Sector Participation (paragraphs 32–35);
13. Strategic Partnership for various Platforms from the Private Sector Industry (paragraph 36);
14. Offset Clause (paragraphs 37-41);
15. Defence Planning (paragraphs 42–44);
16. Long-term Integrated Perspective Plan (LTIPP) (paragraphs 45 and 46); and
17. Married Accommodation Project (paragraphs 47–50).

The first five of these issues (no. 1–5) relate to allocation and utilisation of the capital outlay with focus on capital acquisition; issues listed at no. 6–14 relate to capital procurement policy and procedure; issues listed at no. 15 and 16 relate to planning; and the last issue relates the allocation for capital works of the three Services, which is a part of the capital outlay. The analysis in this article is limited to the first set of issues (no. 1–5).

Observations and Recommendations of the Committee

The observations and recommendations of the committee concerning the capital outlay can be summarised as follows:

1. With reference to last year's outlay, there has been a sharper increase in the other-than-capital acquisition segment of the capital outlay

in 2017–18 as compared with the increase in capital acquisition segment. This 'mismatch' has 'surprised' the committee.

2. The allocation made to the Services is far less than the requirement projected by them and the allocation for capital acquisition has been declining since 2010–11. This, and the skewed ratio of revenue and capital budget, has affected capital acquisition programmes adversely.
3. There is a need to check underspending of the budgetary allocation and also to create a non-lapsable fund to which all unutilised funds could be transferred, to be utilised in future.
4. Meanwhile, there is a need for monitoring the committed liabilities.

Before proceeding to analyse these issues, it needs be mentioned that capital acquisition budget, sometimes also referred to as the 'modernisation' budget, is a notional subset of the capital outlay for defence services. The committee has not examined the other-than-capital acquisition segment of the capital outlay in as much detail as the capital acquisition segment, and this is why the focus of this article is also on the budgetary allocation for capital acquisition and its utilisation.

Has there been a Sharper Increase in Other-than-Capital Acquisition Budget?

The observation made by the committee regarding sharper increase in the other-than-capital acquisition segment seems to be based on a faulty analysis as it does not take into account the changes made in the contents of the Demands for Grant of various ministries, including those of the Ministry of Defence (MoD), in 2016–17 and 2017–18.

The total provision made in Demand No 21: Capital Outlay on Defence Services for 2017–18,[3] at the Budget Estimates (BE) stage, is indeed Rs 86,488.01 crore, as observed by the committee, but the comparable figure for the previous year is not Rs 78,586.68 crore, which is the figure mentioned in the report. While allocation of Rs 86,488.01 crore includes the provision for Directorate General of Ordnance Factories (DGOF), DRDO, Directorate General of Quality Assurance (DGQA), Rashtriya Rifles (RR) and National Cadet Corps (NCC), the provision of Rs 78,586.68 crore made last year *did not* include the allocation for these organisations because in the year 2016–17, these organisations had been shifted out to Demand No. 19: Ministry of Defence (Miscellaneous).

For a like-to-like comparison, therefore, it is necessary to either exclude allocation for the aforesaid organisations from BE 2017–18 or

Table 1 Capital Acquisition and Other-than-Capital Acquisition Budget

(Rs in crore)

	BE 2016–17	*RE 2016–17*	*BE 2017–18*
Capital acquisition	70001.15	62730.36	69485.72
Other-than-capital acquisition	16296.57	16586.93	17002.20
Total	86297.72	79317.29	86487.92*

Note: * The difference of Rs 0.09 crore between this figure and the total allocation as per the Defence Services Estimates, as also mentioned in the SCoD report, is on account of rounding off.

to add them to the BE and Revised Estimates (RE) 2016–17 before splitting them into capital acquisition and other-than-capital acquisition segments. If the latter method is adopted, the comparable figures for these two segments of the capital outlay would be as shown in Table 1. As can be seen from this table, while there has been a marginal decrease of Rs 515.43 crore in the allocation for capital acquisitions in BE 2017–18 with reference to BE 2016–17, the corresponding increase in the other-than-capital acquisition segment has been a mere 706.63 crore and not a whopping Rs 8,326.43 crore as observed by SCoD.[4]

Is the Allocation Less than the Requirement Projected by the Services?

The committee has observed that for the year 2017–18, the army had projected a requirement of Rs 42,485.93 crore but it got only Rs 25,246 crore, while the navy got Rs 18,603.71 crore against the projection of Rs 27,546.49 crore, and the air force got Rs 33,570.17 crore against the demand of Rs 62,048.85 crore.[5] Thus, overall, the Services had asked for Rs 1,32,081.27 crore against which only Rs 77,419.88 crore could be allocated. As the data presented by the committee in the report shows, this is not unprecedented (see Table 2).[6]

The committee has made the following observation regarding the impact of this mismatch between the demand projected by the Services and the actual allocation:

> This decline in the allocation for Capital acquisition will definitely affect several procurement proposals and contracts relating *inter alia* to Land, Aircraft & Aeroengines, Heavy and Medium Vehicles, Other Equipments, Military Farms, Procurement of Rolling Stock, Ex-Servicemen Contributory Health Scheme, Rashtriya Rifles, National Cadet Corps, Construction Works, National Defence

Table 2 Capital Outlay of Services—Projection, Allocation and Actual Expenditure

(Rs in crore)

Year	*Budget Estimates*		*Revised Estimates*		*Actual Expenditure*
	Projected	*Allocated*	*Projected*	*Allocated*	
2010–11	68522.38	54640.41	62340.14	55231.72	56621.68
2011–12	88680.38	64150.55	72405.90	61199.55	63000.52
2012–13	93828.31	74518.67	80973.56	64533.67	65500.78
2013–14	123911.45	81241.70	112386.87	73136.67	73407.07
2014–15	132597.69	84076.95	85684.17	74151.29	73652.81
2015–16	104398.80	86032.41	88778.31	74412.68	71776.71
2016–17[#]	109449.60	78738.59	93749.11	71863.10	53589.76

Note: [#] Includes NCC, DGQA, Military Farm (MF), RR and Ex-servicemen Contributory Health Scheme (ECHS); actual expenditure up to December 2016.

> Academy, Married Accommodation Project, North Eastern Projects and Special Projects, etc., which are to be finalised in 2017–18. The budgetary cut at BE 2017–18 against projection indicate that all the pending procurement projects would not go through unless the Government increases the allocations at the Revised Estimate stage.[7]

This observation is not supported by any data. There is no mention of the specific contracts, slated to be finalised during 2017–18, which will get stalled, or specific 'pending procurement' projects that will not go through, because of the putative shortage of funds. There is one exception though. Apparently, when asked about the negative impact of the less allocation during 2016–17, the MoD intimated the committee that 'no funds are available for initial advance payment of medium range surface-to-air missile (MRSAM) (Rs 1579 crore) which has been forwarded to Cabinet Committee on Security (CCS) for approval'.[8] This too sounds a bit mendacious.

Anyone familiar with the system would know that even after approval of the CCS, it takes a while to sign the contract and the advance payment of 15 per cent of the total contract value is generally made within 30 days of submission of the bank guarantees, etc., after signing of the contract. It is unlikely that advance payment would have become due by 31 March 2017 in respect of the MRSAM case which was yet to receive CCS approval when this case was reported to SCoD by the MoD sometime after presentation of the budget on 1 February 2017.

Having made somewhat sweeping observation that shortage of funds would stall conclusion of pending procurement proposals, the committee went on to make the following recommendation:

> Therefore, the Committee fervently urge the Ministry to ensure that the allocations to the Services, under the Capital Head, match their demands and the allocation be suitably enhanced at the Revised estimate stage so as to enable our Services to meet the requirements of highest level of operational readiness.[9]

This recommendation—certainly not made for the first time—overlooks the fact that MoD is dependent on the Ministry of Finance (MoF) for allocation of funds and there is no way for it to ensure that the MoF allocates to it whatever is demanded by the Services. In fact, this recommendation ducks the larger question of viability of increasing the defence budget to meet the expectation and it also stops short of specifying as to what can MoD or MoF do in this regard.[10] Consequently, the observations and recommendations made by the committee are unlikely to make any difference to allocation of funds at the RE stage during the current year or at the BE stage in the following years.

Ratio of Capital and Revenue Outlay—Is it 'Skewed'?

While acknowledging that both the components are equally important, the committee has expressed deep anguish at the fact that 'with each year, the ratio of Revenue to Capital outlay is (getting more) skewed as the Budget for Capital acquisitions for the Services is declining in comparison to revenue allocations thereby adversely affecting the modernisation process of our Forces.' This apparently led the committee to recommend that the MoD 'should look into this aspect and overhaul their planning and budgeting mechanism to ensure a prudent and equitable distribution of funds to "Revenue" and "Capital" Heads.'[11] Table 3 shows the ratio of revenue and capital budget since 2012–13.[12]

Table 3 Ratio of Capital and Revenue Budget

Year	*Revenue*	*Capital*
2012–13	61	39
2013–14	61	39
2014–15	63	37
2015–16	65	35
2016–17 (RE)	68	32

The ratio of revenue and capital expenditure can be considered to be 'skewed' only if there is an ideal ratio which the MoD ought to maintain. In the absence of any such scientifically determined normative ratio, the committee's anguish is misplaced. There is also a fallacy in the assumption that spending more money on modernisation out of the capital outlay is somehow more important than spending money from the revenue budget on ensuring serviceability of the equipment already in use, buying ammunition, imparting training and a variety of other activities, which are as critical for operational preparedness as procurement of new equipment.

The presumptions underlying the committee's recommendation seem to be that: (a) the present distribution of funds between revenue and capital segments is not 'prudent' and 'equitable'; (b) there is a scope for drastic reduction in revenue expenditure; (c) such reduction would automatically make more money available for capital acquisitions; and (d) this problem can be fixed by overhauling the planning process. None of these assumptions is supported by any objective analysis.

The revenue expenditure is incurred on pay and allowances; transportation of personnel and stores; procurement of stores which range from ration and clothing to ammunition and spare parts for maintenance of equipment and infrastructure; and other miscellaneous items like the unit allowances and training. In the case of the navy, a part of the expenditure on repairs and refits, and in the case of the air force the entire expenditure on special projects, is met from the revenue budget. However, a bulk of the revenue budget is spent on pay and allowances. During the current year (2017–18) as much as 73.11 per cent of the revenue budget is estimated to be spent on pay and allowances, while just about 14.86 per cent is available for procurement of stores.[13] This leaves little room for correcting any perceived imbalance in the ratio of revenue and capital expenditure.

In fact, as the inventory of equipment, weapon systems and other platforms increases, the revenue expenditure also goes up concomitantly because of the increased cost of operation, maintenance and overhaul. More and more sophisticated and costlier ammunition is also required for the newer generation weaponry. Most of this expenditure is incurred from the revenue budget. Therefore, unless specific areas are identified where savings could be made, there does not seem to be much of a scope for any perceptible reduction in the revenue expenditure. In these circumstances, SCoD's recommendations are unlikely to help in achieving substantial savings in the revenue expenditure for beefing up the allocation for capital acquisitions.

The committee's prescription of fixing the perceived skewed ratio of revenue and capital expenditure by overhauling the planning process misses the point that there is no ideal mix of revenue and capital expenditure. If, on the other hand, there is some such ideal mix, the report does not throw any light on it or make any specific suggestions on how to achieve it.

Underspending

The problem of underutilisation of the capital outlay has been endemic. However, a closer scrutiny of the data on underutilisation shows that all the Services are not similarly afflicted by this problem. As Table 4 shows, the problem of underutilisation is more acute in the case of the army than the other Services. This has not been taken due cognisance of by SCoD. This is important from the point of view of fixing service-specific problems. Be that as it may, there is no denying that the extent of underutilisation has gone up in the past three years.

As can be seen from Table 2, the allocation is invariably reduced at the RE stage by the MoF. The standard explanation for this reduction is the slow pace of expenditure by the MoD, which prompts the MoF to withdraw funds at the RE stage on the grounds that MoD will not be able to utilise the unspent amount in the last few months of the financial year. There is some substance in this argument. At the end of December 2016, the army, navy, joint staff and air force were yet to spend 26.15, 42.18, 53.42 and 20.23 per cent, respectively, of the total allocation in the remaining three months of the fiscal year. [14] Though not impossible, the probability of this money getting spent would have been very low indeed.

The committee was 'disappointed to note the persistent trend of underutilisation of funds meant for capital expenditure for the Services even though the amount allocated under this head is always less than the projected one', but the following recommendation made by it to overcome the problem is quite unremarkable:

> The underutilization of funds highlights the loopholes in the planning and budgetary exercise undertaken by the Ministry of Defence and consistent failure to utilise the allocated funds has also contributed to reduction in Ministry's budget allocations by the Ministry of Finance. The Committee, therefore, recommend

Table 4 Capital Outlay—BE, RE and Actual Expenditure1[5]

(Rs in crore)

2011–12	*BE*	*RE*	*Actual*	*Underutilisation vis-à-vis BE*	*%age*
Army#	19210.69	16005.69	14947.82	4262.87	22.19
Navy	13729.12	16570.37	18433.21	–4704.09	–34.26
Joint Staff	928.71	888.71	778.31	150.40	16.19
Air Force	30282.03	27734.78	28841.18	1440.85	4.76
2012–13	*BE*	*RE*	*Actual*	*Underutilisation*	*%age*
Army#	19237.80	15749.30	14760.69	4477.11	23.27
Navy	23867.62	17367.62	16835.64	7031.98	29.46
Joint Staff	898.80	898.80	924.24	–25.44	–2.83
Air Force	30514.45	30517.95	32980.11	–2465.66	–8.08
2013–14	*BE*	*RE*	*Actual*	*Underutilisation*	*%age*
Army#	17883.83	14967.25	14433.29	3450.54	19.29
Navy	23408.95	19799.71	19707.52	3701.43	15.81
Joint Staff	740.08	619.27	651.33	88.75	11.99
Air Force	39208.84	37750.44	38614.93	593.91	1.51
2014–15	*BE*	*RE*	*Actual*	*Underutilisation*	*%age*
Army#	26533.60	21933.54	18586.73	7946.87	29.95
Navy	22803.80	17792.26	21625.39	1178.41	5.17
Joint Staff	1028.87	714.81	644.27	384.60	37.38
Air Force	33710.68	33710.68	32796.42	914.26	2.71
2015–16	*BE*	*RE*	*Actual*	*Underutilisation*	*%age*
Army#	27342.42	24230.47	20703.70	6638.72	24.28
Navy	24080.90	19032.25	19153.54	4927.36	20.46
Joint Staff	922.34	707.81	721.15	201.19	21.81
Air Force	33686.75	30442.15	31198.32	2488.43	7.39
2016–17	*BE*	*RE*	*Actual***	*Underutilisation*	*%age*
Army#	26935.81	24017.86	17198.92	9736.89	36.15
Navy	21041.22	18742.18	12167.23	8873.99	42.17
Joint Staff	958.87	854.10	446.64	512.23	53.42
Air Force	29795.42	28239.86	23770.25	6025.17	20.22

Notes: * includes NCC, MF, RR, ECHS;
** up to December 2016.

> that it is high time the Ministry rectified the deficiencies/anomalies in their budgetary planning and expenditure and took foolproof measures to ensure maximum utilisation of funds.[16]

Underutilisation of funds is not a new problem. Not a year passes without SCoD commenting on this persistent malady. The committee seems to be of the view that the problem is on account of 'deficiencies' and 'anomalies' in budgetary planning and expenditure. Even 10 years back, SCoD was making similar observations.[17] Assuming for argument's sake that the problem is on account of 'deficiencies' and 'anomalies', no solution can be found unless these are identified. Obviously, the MoD has not been able to identify them till now, and it is doubtful if SCoD's general observations about the need to 'rectify' the 'deficiencies' and 'anomalies' will make any difference.

The committee has also not taken cognisance of the widely held view that underutilisation is on account of the MoF blocking the process of approval of procurement proposals which require the sanction of the Finance Minister or the CCS.[18] The narrative is that it is because of dragging of feet by the MoF that the MoD is unable to utilise enough funds by the third quarter of the financial year, which then provides justification to the MoF to reduce the allocation at the RE stage.[19] The Services seem to have convinced themselves of the validity of this narrative. If this is indeed true, the trend of underutilisation cannot be arrested without first addressing this problem. On the other hand, if it is not true, it would be still worth the while to exorcise this narrative. This issue has been completely bypassed by the SCoD.

Creation of 'Roll On' and 'Non-Lapsable Fund'

The committee has gone to a great length in advocating setting up of a roll-on, 'Non-lapsable Defence Capital Fund Account'.[20] This is ostensibly intended to serve two objectives. One, the allocation that remains unutilised at the end of the year could be transferred to this fund rather than letting it lapse. And two, the corpus that gets built up over the years could help MoD tide over the problem arising from the gaping mismatch between the requirement of funds projected by it every year and the allocation made for capital expenditure. The committee has been recommending creation of such a fund for more than a decade, summarily dismissing all arguments advanced by the MoD as well as MoF about its futility.[21] These arguments can be summarised as follows:

1. At a time when the MoD finds it difficult to spend whatever allocation is made at the BE stage, it makes little sense to ask for more funds and, at the same time, pitch for setting up of a non-lapsable fund on the grounds that the allocation is always less than the demand projected to the MoF at the time of formulation of the annual budget and, therefore, the unutilised funds should be permitted to be cached to build up a corpus.
2. The unutilised balances are not in the nature of cash-in-hand which could be tucked away in a separate account to be used as and when required. Therefore, even if such a fund is created, the transfer of unutilised funds would only be notional. This implies that in the year in which the MoD may want to utilise the funds lying in the non-lapsable fund, the MoF will have to raise the required amount through the normal budgetary process. There is no guarantee that the MoF will be able to do it.
3. On the other hand, if the idea is to actually draw the unutilised money from the treasury and park it in the non-lapsable fund, it would amount to borrowing money only to be transferred to and kept idle in the non-lapsable fund, which makes little sense considering that the government's income is always less than the revenue it is able to raise in a given year, as a result of which it has been struggling to meet the fiscal deficit targets mandated by the Fiscal Responsibility and Budget Management Act, 2003.
4. Assuming that the transfer of funds is to be notional and the MoF is able to raise the additional sums required by the MoD to be taken out of the non-lapsable fund in a given year, appropriation of any amount out of the fund would still require approval of the Parliament, as is the case at present.
5. Any perceived advantage of setting up of the non-lapsable fund would be negated if the MoF continues to stall the process of approval of defence contracts, as widely believed by a section of the strategic community and even the serving officers of the armed forces.

The committee has expressed happiness over the MoD referring the proposal for setting up of the non-lapsable fund to the MoF for reconsideration on 9 February 2017, notwithstanding the fact that the MoF continues to be not in favour the idea of setting up this fund.[22] This virtual volte face on the part of the MoD, which had been opposing the idea for more than a decade, is clearly intended to cope with the pressure seemingly being built up by SCoD to set up a non-lapsable fund without caring to examine the issues raised by the MoD and the MoF in the past. Consequently, the viability and advantages of setting up a non-lapsable fund, as suggested by SCoD, are questionable.

Committed Liabilities and New Schemes

The term 'committed liability' refers to payments which have to be made during a given year as per the terms of the ongoing contracts concluded in the previous years. These payments are dependent on the vendor reaching a particular stage or achieving a milestone as envisaged in the contract. The term 'new schemes', on the other hand, refers to procurement proposals which are in the pipeline and expected to be finalised during a given year. The committed liabilities have to be—and indeed are—the first charge on the capital budget as the government cannot afford to default on contractual payments. A substantial chunk of the capital acquisition budget goes into making these contractual payments. Going by the data given by SCoD in its report, the committed liabilities accounted for 92 per cent and 89 per cent respectively of the total allocation for capital procurements in 2015–16 and 2016–17, leaving very little for new schemes.[23]

Though in the past the committee has been focussing on inadequacy of the funds available for new schemes, this time it has not accepted the MoD's contention that budgetary constraints will adversely affect payment of committed liabilities and progress of a large number of new schemes, pointing out that the trend of underutilisation of funds belies this claim.[24] The committee has made the following observation focussing on lack of proper financial planning by the MoD:

> The underutilization of funds for Committed Liabilities and New Schemes by the three Services pinpoints to the fact that the institutional mechanisms put in place for financial planning and monitoring utilization of funds is not effective. Though it is earnest desire of the Committee that adequate allocations should be made for Committed Liabilities and New Schemes for enabling modernization of the forces, the Committee cannot help but fervently urge the Ministry of Defence to be more prudent in their budget formulation and expenditure planning.[25]

The observation that adequate allocation needs to be made for committed liabilities was unnecessary as the government has never defaulted on making contractual payments, which is an indication of the adequate funds being allocated for the purpose. As for the new schemes, the committee has barely examined why whatever funds are allocated also do not get utilised in full. In the circumstances, urging the MoD to be more prudent in budget formulation and expenditure planning comes across as sheer magniloquence than a serious precept for action.

Delving Deeper could Help

There are no easy answers to the issues raised in the report. The problem has been that the committee's observations are almost always based on a sketchy and prejudicial analysis of facts and its recommendations are too generic to be converted into actionable points. Nevertheless, the SCoD could play a critical role in transforming management of the capital outlay by going beyond the soft option of berating the MoD for various problems related to allocation and utilisation of funds and making run-of-the-mill recommendations. Here are a few suggestions:

1. The mismatch between the requirement projected by the MoD and the actual allocation is basically on account of the government's inability to raise its revenue so substantially as to be able to make adequate allocation for defence and other priority sectors. This is clearly beyond the remit of the MoD and it would be wrong to think that the MoF is unconcerned about this issue. What could be helpful is if it could be demonstrated to the MoF how it could meet the MoD's requirement in full, or even in substantial measure, without labouring too much on raising its overall revenues, if at all this is possible as the SCoD seems to think. The SCoD could perhaps urge the government to set up a committee of defence economists to come up with a blueprint for achieving this feat, which could be presented to the MoF before the process of formulation of budget for the next fiscal begins.
2. Pending resolution of this larger issue, the SCoD could consider impressing upon the MoD and the Services need to formulate their plans based on a realistic assessment of the funds likely to be available over the next few years. This may require constitution of a broad-based Defence Planning Board under the aegis of the Defence Minister. A composite defence plan will have to encompass not just the three Services but also other organisations, such as the Coast Guard and the Border Roads. The committee could advise the MoD to ask a think tank like the Institute of Defence Studies and Analyses

(IDSA), which is fully funded by the MoD but hardly made use of, to work out the blueprint of the Planning Board, which will continue to be relevant even if the budgetary allocation goes up in future.

3. Underutilisation of funds is a serious problem. There has been no serious attempt to study the records related to various procurement proposals to determine the real cause of underutilisation in an objective manner. The committee could ask the MoD to assign this task too to IDSA with the directions to make the requisite records available to facilitate the study. No real solution to this problem can be found unless the root cause is objectively diagnosed.
4. The committee should stop obsessing about revenue and capital mix in the defence budget. What is important is to curb any expenditure that is avoidable. Several recommendations were made by the Defence Expenditure Review Committee in 2008–09, which was set up at the behest of the SCoD. The committee owes it to itself to focus on those recommendations and ensure compliance with the measures suggested by the Review Committee to curb avoidable expenditure and to optimise the utilisation of the budgetary allocations.
5. The committee also needs to stop obsessing about allocation for committed liabilities and new schemes, as also about creation of a non-lapsable pool of funds. For the reasons explained earlier, it is neither practical nor will it serve much purpose. Instead, it should ensure outcome-oriented allocation and utilisation of funds for new schemes and introduce a system of review of outcomes being reported to the committee every year, though not necessarily at the time of examination of the demand for grant. The idea of such monitoring should be not to find faults but to make sure that the problem areas get identified and solutions are found in good time. The committee had indeed made this recommendation last year.[26] All that was needed was to ensure that the MoD takes action on that recommendation, rather than rehashing old observations and recommendations.

Notes

1. SCoD (16th Lok Sabha), *Thirty-First Report*, 9 March 2017, available at http://164.100.47.193/lsscommittee/Defence/16_Defence_31.pdf.
2. Demand for Grant No. 21 (2017–18): Capital Outlay on Defence Services, available at http://indiabudget.gov.in/ub2017-18/eb/sbe21.pdf.

3. All figures mentioned in this article and the tables are based on the Demand for Grant No. 21 (2017–18), n. 2.
4. SCoD (16th Lok Sabha), *Thirty-first Report*, n. 1, para 1.
5. Ibid., para 4.
6. Ibid., para 2.
7. Ibid., para 5.
8. Ibid., para 1.28.
9. Ibid., para 5.
10. For a more detailed comment on this subject, see Amit Cowshish, 'Raising Defence Budget to 3 Per Cent of the GDP', *IDSA Comment*, 8 May 2017, available at http://idsa.in/idsacomments/raising-'defence-budget-to-three-per-cent-of-gdp_acowshish_080517.
11. SCoD (16th Lok Sabha), *Thirty-first Report*, n. 1, para 6.
12. Ibid.
13. Defence Services Estimates 2017–18, p. 3.
14. Percentages worked out from the data given in the table on pp. 9–10 of the SCoD (16th Lok Sabha), *Thirty-first Report*, n. 1.
15. Ibid., para 1.11, pp. 14–15.
16. Ibid., para 9.
17. See SCoD (14th Lok Sabha), *Eleventh Report*, 23 May 2006, paras 1.32–1.43.
18. As per the current delegation of financial powers, the following authorities are competent to sanction procurement proposal up to the value shown against each:
    (a) Vice Chiefs of Army and Naval Staff, Deputy Chief of Air Staff and Director General Coast Guard: up to Rs 150 crore;
    (b) Defence Secretary: Rs 150–Rs 300 crore;
    (c) Defence Minister: Rs 300–Rs 2,000 crore;
    (d) Finance Minister: Rs 2,000–Rs 3,000 crore; and
    (e) CCS: More than Rs 3,000 crore.
19. See Amit Cowshish, 'Dual Charge—An Opportunity to Fix Financial Management in Defence', *IDSA Comment*, 21 March 2017, available at http://idsa.in/idsacomments/dual-charge-opportunity-to-fix-financial-management-in-defence_acowshish_210317.
20. SCoD (16th Lok Sabha), *Thirty-first Report*, n. 1, para 12.
21. For a detailed analysis, see Amit Cowshish, 'Would a Non-lapsable Defence Modernisation Fund Work?', *IDSA Comment*, 10 February.2017, available at http://idsa.in/idsacomments/would-non-lapsable-defence-modernisation-fund-work_acowshish_100217.

22. SCoD (16th Lok Sabha), *Thirty-first Report*, n. 1, paras 11–12.
23. These percentages have been worked out on the basis of the data contained in ibid, para 1.27.
24. Ibid., para 20
25. Ibid.
26. SCoD (16th Lok Sabha), *Twenty-second Report*, 3 May 2016, Part II, para 12, available at http://164.100.47.134/lsscommittee/Defence/16_Defence_22.pdf.