

# Standing Committee Report Summary

## Creation of Non-lapsable Capital Fund Account

- The Standing Committee on Defence (Chair: Maj Gen B. C. Khanduri) submitted its report on the ‘Creation of Non-lapsable Capital Fund Account’ on August 10, 2017. Presently, the defence budget has two main components, capital and revenue. The revenue component is used for salaries, transportation, and other revenue works and maintenance. The capital component is used for land acquisition, construction works and capital acquisitions, such as procurement of weaponry.
- In the past, the Committee has recommended that a Non-lapsable Defence Capital Fund Account should be created. The money in such a Fund can be used by the Ministry of Defence in the following years, as and when required, without approaching the Ministry of Finance for re-approval. The salient observations and recommendations of the Committee include:
  - **Reasons for not favouring the creation of a non-lapsable fund:** The Committee noted that previously, the Ministries of Defence and Finance have not favoured the creation of this Fund. The reasons include:
    - (i) limitations of the utility of such a proposal as Parliamentary approval would be required for appropriating any sum from the Fund;
    - (ii) requirements of the defence forces for meeting their capital modernisation and acquisition plans can be addressed through the current budgetary mechanism, with an increase in allocation; and
    - (iii) in the last few years, there has been no occasion when any substantial amount was available as surplus for carrying forward to the subsequent years.
  - **Reasons for creation of a non-lapsable fund:** The Committee observed that in the last few years, the allocation towards capital expenditure of the Defence Ministry has been lower than the projections. While the Defence Ministry estimated a capital expenditure of Rs 1,46,155 crore in 2017-18, only Rs 86,528 (59%) was allocated to it at the budget estimate stage. The Committee stated that such a gap in allocation versus the projection for capital acquisition affects the Defence Ministry’s procurement proposals and contracts.
  - The Committee noted that defence procurement and acquisition is a complicated process and takes about five to ten years to materialise. The Ministry attributed this to lapses from time to time on part of the vendors.
  - Consequently, funds allocated for it in one financial year may not be completely utilised in that year itself. The Committee recommended that creation of a Non-lapsable Defence Capital Fund Account will ensure that the money allocated for a particular item is spent entirely on the specified item only, if not necessarily in the same financial year. It also stated that presently, lack of finance delays the procurement of equipment, and arms and ammunition and affects the operational preparedness of our defence forces.
  - The Committee stated that such a Fund would ensure that procurement projects that are in the pipeline are not delayed because of lack of money due to technicalities of rules and regulations.

DISCLAIMER: This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRs Legislative Research (“PRs”). The opinions expressed herein are entirely those of the author(s). PRs makes every effort to use reliable and comprehensive information, but PRs does not represent that the contents of the report are accurate or complete. PRs is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.