Defence Budgeting

Wing Commander
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According to Article 112 of the Indian Constitution

the Union Budget (Annual Financial Statement) is
a statement of
estimated receipts and expenditure
of govt for that particular year

Union Budget

1. Revenue Budget
2. Capital Budget

1. Revenue Budget.

Revenue Receipts

Receipts from tax/other sources and its expenditure.

Revenue Expenditure

Expenditure incurred on running the Govt Dept/interest charges on debt

Expenditure which does not create assets !

Capital Budget

1. Capital Receipts and Payments

Market loans raised by Govt from Public

borrowing by Govt from RBI

loans received from foreign Govts/Bodies

recoveries of loans from State Govts/UT

2. Capital Expenditure

Expenditure on acquisition of assets like land/buildings/military hardware costing > Rs 2 L having life of > 7 y

Defense Budget / Military Budget / Military Expenditure

Financial resources dedicated to raise/maintain armed forces essential for national security

Essence of Defence Budgeting is extent Op Preparedness is achieved with budgeted resources!

Revenue Expenditure in Defence

1. Pay and Allowances
2. Transportation (both movement of personnel and stores)
3. Stores, Repair & Refits (only for Navy)
4. Works (repair, upkeep & maintenance of buildings)
5. Miscellaneous.

Stores, transportation and Repair and refits (only for Navy) constitute what NATO & EDA classify as ‘Operations and Maintenance’ (O and M).

Annual Financial Statement

Shows receipts/ payments of Govt accounts held in

1. **Consolidated Fund**
2. **Contingency Fund**
3. **Public Fund**

Consolidated Fund

1. All revenues received by Govt
2. Loans raised by it
3. Its receipts from recoveries of loans granted by it
4. All expenditure of Govt is incurred from this Fund
5. Any withdrawal only after authorisation from the Parliament

Contingency Fund

1. **Imprest with the President of India, to meet urgent unforeseen expenditure pending authorisation from Parliament**
2. **The Corpus of Fund currently authorised is Rs 50 Cr**

Public Fund

1. Where the Govt acts banker, the money is kept in Public A/c
   i.e., PF and Small Savings transactions
2. Parliamentary authorisation for payments is not essential

1. **Non-Plan Expenditure**
   Estimated expenditure for spending during the year on routine functioning of the government
2. **Plan Expenditure**
   Expenditure on current development and investment proposals in the current plan

1. **Till 2017-18, end of 12th plan period, defence expenditure was classified as Non-plan expenditure.**
2. **The amount allocated both under the capital and the revenue budget was reflected in the Budget Statement-Expenditure (or Non plan Expenditure) under broad categories.**
3. **This included the demand for revenue budget for**

   Army (incl Inspectorates, ECHS, Military farms, Rashtriya Rifles, NCC)

   Navy (including Joint Staff)

   Air Force, DRDO and OFB
4. **One demand for capital budget for**

   three services

   all other entities whose revenue demand was included in Army/Navy revenue budget

   DRDO & OFB.

1. Defence Budgeting is considering next year's plans/targets in fiscal terms
2. For monitoring actual results to apply correction in time
3. In practice, there is no method to evaluate various budget proposals, or a satisfactory basis for evaluating the subsequent performance
4. Typically, they are prepared by adjusting the rate of inflation to the previous year's actual cost and
5. adding the cost of new programme and services.
6. The base therefore, remains last year's spending level, usually accepted without examination.
7. The test of a good Defence budget, thus becomes the test of budgeting skill rather than the performance.

Principles in Preparation of Budget

(a) The budget should be balanced.
(b) The estimates should be on cash basis.
(c) There should be only one budget for all financial transactions.
(d) Transactions should be 'gross' and not 'net'.
(e) Estimating should be close.
(f) Budget should be on annual basis.
(g) The rule of 'Lapse': All appropriation accounts are made up and balanced and the surpluses/deficits are ascertained for each year.
(h) The funds not realised during an year lapse.
(i) The form of estimates should correspond to that of accounts since estimates, are but anticipated accounts.

Structure of Defence Budget

The budgetary requirements are presented to the Parliament through Demands for Grants

1. Demand No 18, Defence Services	Army
2. 19	Navy
3. 20	Air Force
4. 21	Defence Ordnance Factories
5. Demand no 22	Capital Outlay only Defence Services

The first Demand 18 (Defence Services-Army) caters to the revenue expenditure of Army, NCC, R&D and DGQA.

Demands for Grants

1. Estimates of expenditure are submitted in form of Demands for Grants
2. Under Article 113 of the Constitution
3. Form consolidated Fund
4. Reflected in Annual Financial Statements
5. To be authorised by Parliament
6. One for each Ministry

1. Each Demand includes total provisions required for Service
2. Provisions on account of
   - revenue expenditure
   - capital expenditure
   - grants to State and Union Territory Governments
   - loans/advances relating to Service
3. Demands for grants are presented to LS, with Annual Financial Statement.
4. Each demand gives the totals of
   - "voted" and "charged" expenditure
   - "revenue" and "capital" expenditure
   - grand total of expenditure, for which Demand is presented
5. This is followed by
   - estimates of expenditure under different major heads of account
   - and under each a/c break-up between "Plan" and "Non-plan" is given

Charged Expenditure

Deemed to be guaranteed by the State

1. Salary/Allowances of President/Speaker/Deputy Speaker of LS/Chairman/Deputy Chairman of RS/ Supreme Court judges/CAG, Lok Pal
2. Debt charges of Government of India
3. Pensions of Supreme/High Court Judges

Hence need no be voted by Parliament !

1. Approval of Parliament is taken for the 'gross' expenditure under different Demands for Grants.
2. Receipts and Recoveries

   sale proceeds of surplus/obsolete stores

   receipts on account of services rendered to State Govts/ Ministries

   Net Expenditure = Gross –Misc expenditure

Defence Budget

Budgeting Calendar

1. Forecast Estimates by Service HQ by 10 Nov
2. Budget Estimates by 20 Dec
3. Budget is presented to the Parliament by FM
4. Vote on Account for 2 months expenditure, is passed by Parliament during Mar/Apr
5. Final vote for the budget in May
6. Preliminary Report by Service HQ after reviewing expenditure in Q1 by 20 Aug
7. Preliminary Revised Estimates based on the review of the Q1+Q2 by 10 Nov
8. Revised Estimates by 20 Dec and are inputs to Budget Estimates for the ensuing year
9. Modified Appropriations for the current year by 10 Mar
10. Actual expenditure is known after final closing of a/c in Aug/Sep of following year

Ministry of Finance (Defence)

1. Headed by Financial Adviser (Defence)
2. Principal Representative of MOF
3. Chief Accounting Officer to Defence Services
4. Prepares Appropriation Account
5. Advisory Controlling nature
6. To safe-guard economic efficiency/propriety in public finance

Finance Bill

The proposal of Government for

levy of new taxes

modification of the existing tax structure

continuance of the existing tax structure beyond the period approved by the Parliament

are submitted to Parliament, through the Finance Bill.

Appropriation Bills

1. To seek Parliament's approval to withdraw money from Consolidated Fund
2. After the Demands for Grants are voted by LS, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and the amount required to meet the expenditure charged on the Consolidated Fund, is sought through the Appropriation Bill.
3. Under article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the enactment of such law by Parliament.

Vote on Account

1. **Detailed consideration of the Demands for Grants, is not completed before new year starts**
2. **To enable Govt to function from 1st Apr till the Appropriation Bill is enacted, a Vote on Account is obtained from the Parliament, through an Appropriation (Vote on Account) Bill.**

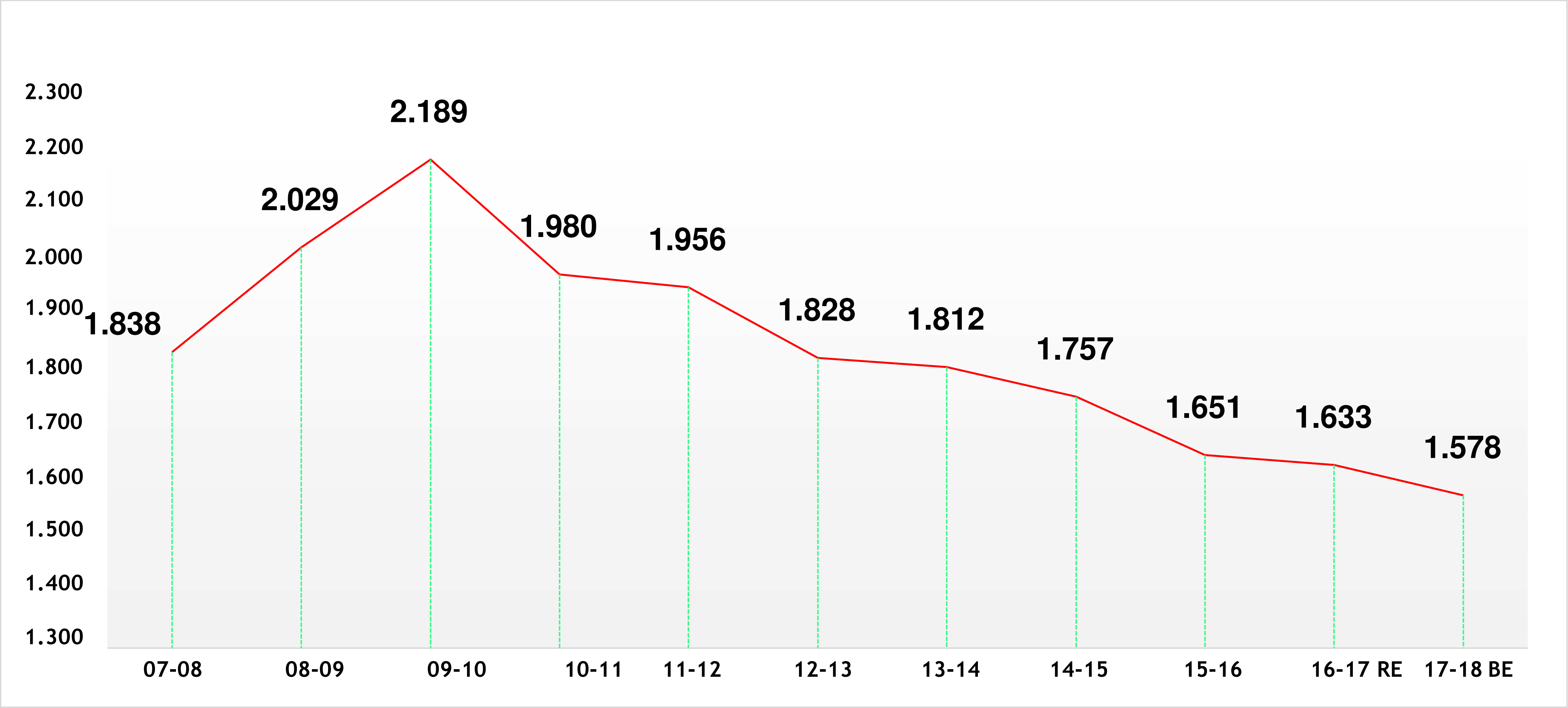
Presentation of Budget in the Legislature

1. Presentation of Budget by FM in both the Houses
2. Presentation of Demands for Grants
3. Voting of Grants
4. Presentation, Voting and Passing of the Appropriation Bill
5. Presentation, Voting and Passing of the Finance Bill

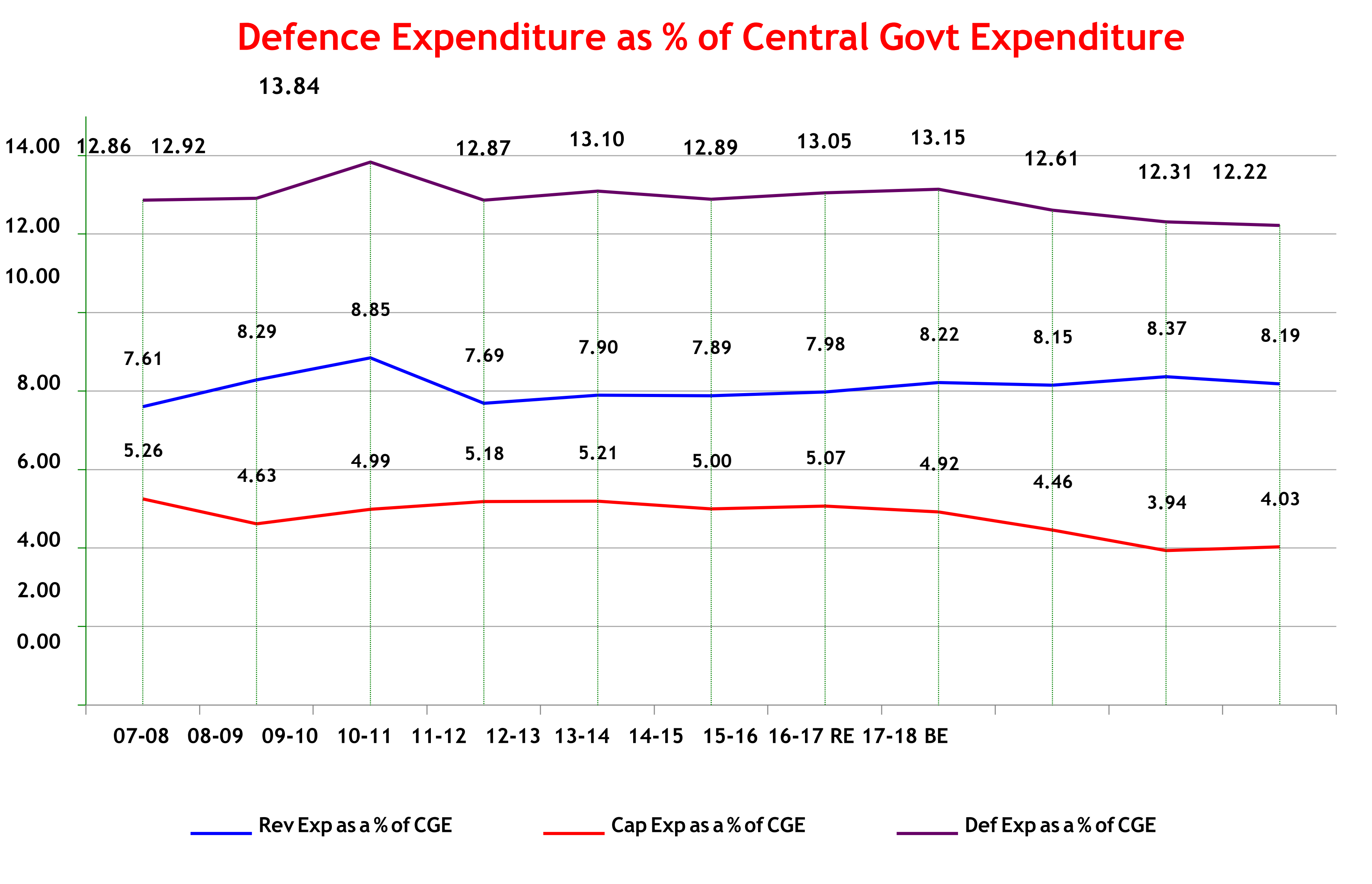
Budget estimates (BE)

When the budget is presented and passed in Parliament,
it’s called the Budget estimates (BE)

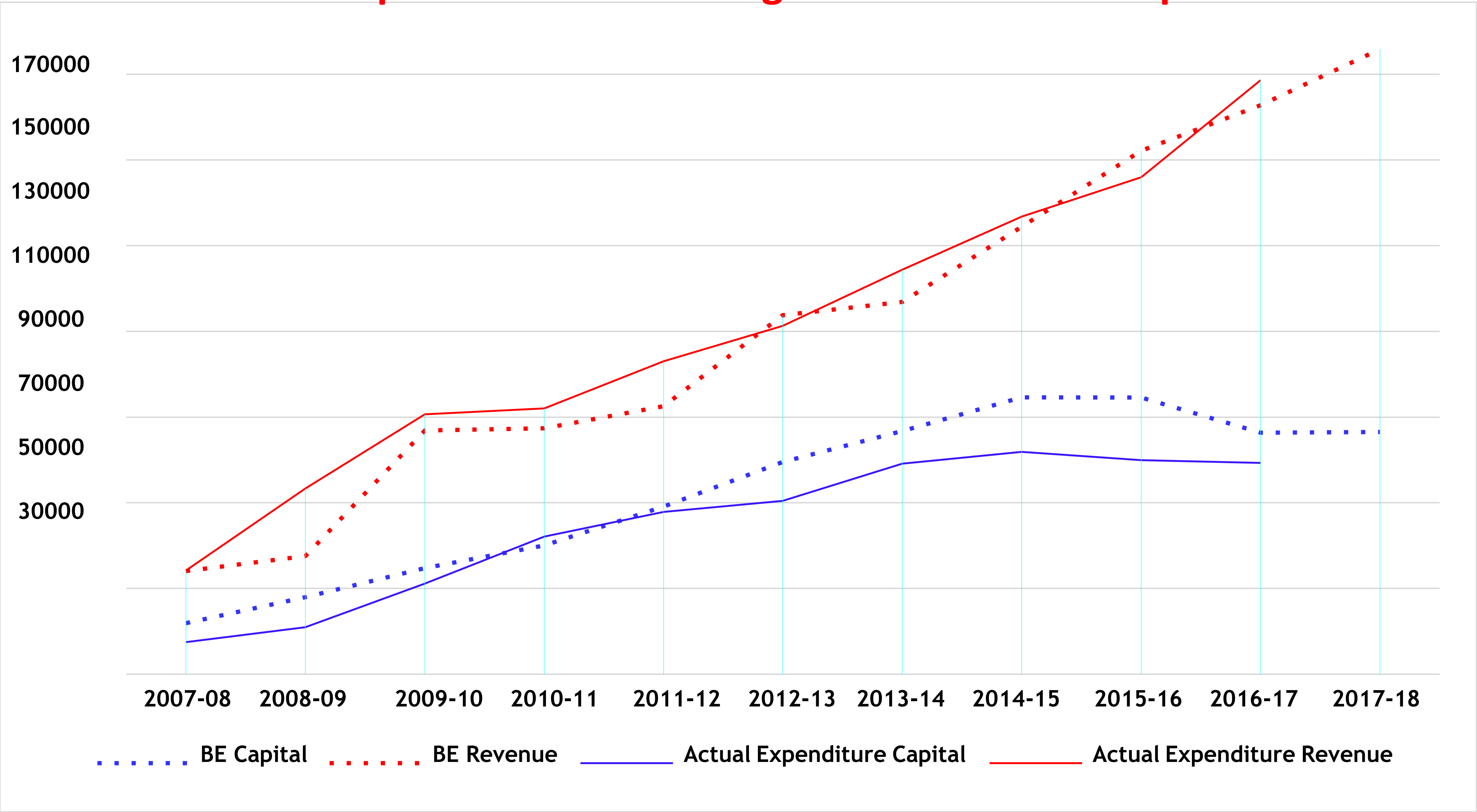
Defence Expenditure as % of GDP

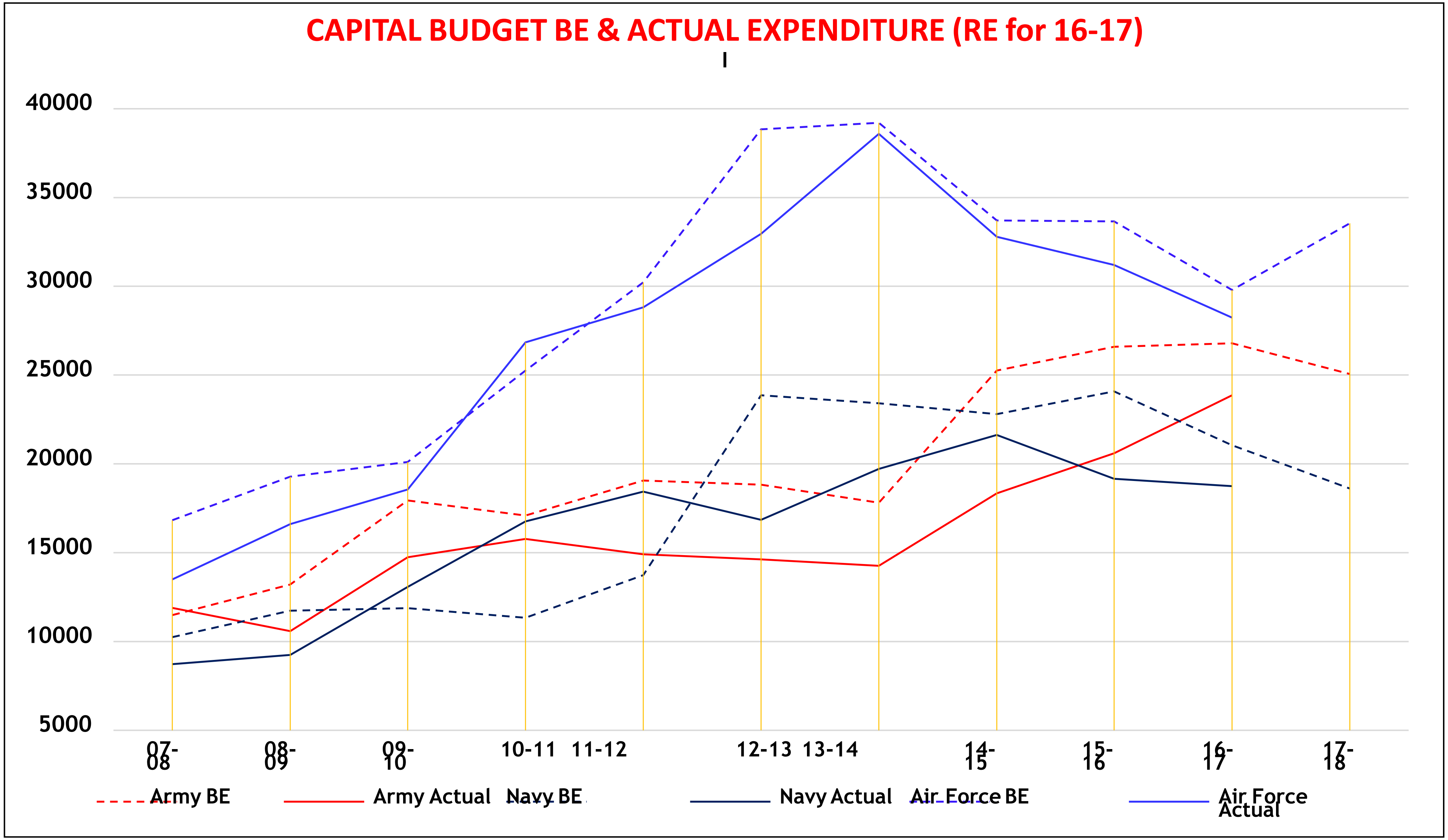


1. **GDP does not represent the amount of resources available with government to spend**
2. **Central Government Expenditure (CGE) is resources govt able to generate, including deficit permissible by the Fiscal Responsibility and Budget Management (FRBM) Act**
3. **Hence defence expenditure as % of CGE is realistic measure**


Defence Expenditure as % of Central Govt Expenditure
13.84
14.00
12.86
12.92
12.87
13.10
12.89
13.05
13.15
12.61
12.31
12.22
12.00
10.00
8.85
8.29
7.61
7.69
7.90
7.89
7.98
8.22
8.15
8.37
8.19
8.00
5.26
4.63
4.99
5.18
5.21
5.00
5.07
4.92
4.46
3.94
4.03
6.00
4.00
2.00
0.00
07-08 08-09 09-10 10-11 11-12 12-13 13-14 14-15 15-16 16-17 RE 17-18 BE
Rev Exp as a % of CGE
Cap Exp as a % of CGE
Def Exp as a % of CGE

Defence Capital & Revenue Budget- BE and Actual Expenditure




CAPITAL BUDGET BE & ACTUAL EXPENDITURE (RE for 16-17)
40000
35000
30000
25000
20000
15000
10000
5000
07-08
08-09
09-10
10-11
11-12
12-13
13-14
14-15
15-16
16-17
17-18
Army BE
Army Actual
Navy BE
Navy Actual
Air Force BE
Air Force Actual

Budgetary Reports

1. Reports sent by users during the year
2. Form basis for expenditure and budget allocation
3. These are

   Preliminary Estimates

   Preliminary revised Estimates

   Revised Estimates

   Modified Appropriation Reports

Weakness of Existing Budgeting System

1. System is input-oriented
2. Enables only the control of expenditure
3. It does not reflect the resources utilised by a particular establishment/unit
4. Thus the cost of services provided is not known
5. No linkage between the resources utilised and the results achieved
6. Since cost of achieving any activity is not reflected, there is no initiative/incentive for better/economical management of resources
7. Therefore, no accountability for the efficient use of funds
8. Since costing of activities/unit is not part of the system, no economics can be exercised to effect savings

Budget Allocation for Defence 2020-21

1. Total with pensions ₹4.71 L Cr vs ₹4.31 L Cr last year 5.67% higher
2. Rise in defence pensions 13.5% from ₹1.18 L Cr to ₹1.33 L Cr
3. Excluding defence pensions ₹3.37 L Cr 1.8% higher than revised estimates of 2019-20 (₹3.31 L Cr)
4. It is 1.5% of GDP. Lowest since 1962 war
5. Doesn't cover inflation and currency fluctuations