



FINANCIAL MANAGEMENT

वित्तीय प्रबंधन

HDMC - PRIMER

FINANCIAL MANAGEMENT PRIMER

1. Congratulations on being nominated for the prestigious Higher Defence Management Course at the College of Defence Management, Secunderabad. "**Artha evam Pradhana**", Economics is the core of all endeavours, and appreciation of this facet is an absolute must for military leaders.
2. I must compliment you on the commencement of your journey into the amazing world of finance. Finance, as you would learn during your quest, is the art and science of managing money and can be broadly divided into 'financial services' and 'financial management'. While 'Financial Services' relate to the design and delivery of financial advice and financial products, '**Financial Management**' means planning, organising, directing and controlling the financial activities such as procurement and utilisation of funds of the enterprise. The study of FM, therefore, is very closely related to the maximisation of efficiency in the utilisation of scarce resources, which is an integral part of your responsibilities.
3. For most of you, it is probably the first time in your career that FM is being introduced formally as a subject in a course curriculum. For your future positions of strategic leadership in future, it is apt to familiarise you with the theoretical and application orientation of FM at this key juncture in your career. Moreover, defence and economics have a very close relationship as the fiscal resources consumed in military capability development and sustainment, invariably contribute towards economic development.
4. The FM journey will take you through basic concepts of Economics, Macroeconomic theories, Govt Financial System, Financial Accounting, Managerial Economics, and Capital Budgeting. The Aim, Enabling and Terminal Objectives are given in the succeeding paragraphs.
5. **Aim.** To enable participants to understand and appreciate relevant Economic and Financial concepts and thereby empower them for qualified decision-making in the fiscal space.

6. **Enabling Objectives.**

6.1. Comprehend Defence Expenditure as a part of National Expenditure and its relation to the finances of a nation in the backdrop of the macroeconomic concepts.

6.2. Comprehend linkages between National and Defence Budgets, trends and constraints to ensure accurate forecasting and effective budgeting and expenditure.

6.3. Operate effectively within existing financial structure, regulations and procedures to maximise value.

6.4. Understand Capital and Revenue Budget models in the Services and effectively apply contemporary techniques and strategies to optimise expenditure.

7. **Learning Objectives.**

7.1. Understand fundamental concepts of Macro and Micro Economics and the differences between them.

7.2. Understand the Scope of Financial Management and the importance of Economics in managerial decision-making.

7.3. Analyse the relationship between National Security and total National Resources in terms of the Economy, allocation of resources for defence and management of Defence Expenditure.

7.4. Understand the Government Financial System, Financial Administration Structure and various financial Regulations in the Defence Forces.

7.5. Understand Contemporary Budgeting Techniques, Costing Concepts, Financial Accounting Principles and their possible application in Defence Services and latest trends in Financial Management.

8. **Preparation Phase.** You will do well to start broad reading on economics, finance, banking and budgeting. Few primers on the subject are available, however, Class XI and XII economics books would be a good starting point. You may like to graduate to Paul A Samuelson's book on Economics, the basic comprehensive

book. You may also like to pay closer attention to the economic section in the newspaper and, if possible, subscribe to Business Line/ The Economic Times.

9. **Online Resources.** There are many online resources of theory and videos to grasp the basic concepts and principles. They are a good beginning point; however, the accuracy needs to be corroborated with textbooks. A few of them are given in Appendix 'A'.

10. **Primers.** Primers on a few topics, where no concise material is available, have been prepared and given in the appendices for easy comprehension. The topics include the Government Financial Structure, Financial Administration in Defence Services and National Budgeting Process.

11. **Conclusion.** The euphoria of recognition of your perseverance and performance in terms of nomination is to be enjoyed and cherished. A little effort during this pre-joining time will stand you in good stead during the course to master the Financial Management and other subjects better. Happy learning.

FM ONLINE RESOURCES

1. www.investopedia.com/terms/m/macroeconomics.asp
2. <https://www.youtube.com/watch?v=g9uUIUqhrSQ>
3. <https://www.khanacademy.org/economics-finance-domain/microeconomics/basic-economic-concepts-gen-micro>
4. <https://www.imf.org/external/pubs/ft/fandd/basics/bigsmall.htm>
5. <https://www.youtube.com/watch?v=nKvrbOq1OfI>
6. <https://www.youtube.com/watch?v=LwLh6ax0zTE>
7. <https://www.britannica.com/topic/supply-and-demand>
8. www.investopedia.com/terms/a/accounting-convention.asp
9. <https://cleartax.in/s/financial-accounting>
10. <https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/understanding-balance-sheets#:~:text=The%20balance%20sheet%20provides%20information,and%20make%20distri>
11. <https://zerodha.com/varsity/chapter/understanding-balance-sheet-statement-part-1/>
12. <https://www.youtube.com/watch?v=eljCaeNm-Vk>
13. <https://www.youtube.com/watch?v=MTq7HuvoGck>
14. <https://www.youtube.com/watch?v=TZZFBkbC2IA>
15. <https://cleartax.in/s/cost-accounting>
16. www.accountingtools.com/articles/cost-accounting-basics.html
17. <https://www.wallstreetmojo.com/law-of-diminishing-marginal-utility/>
18. <https://www.youtube.com/watch?v=EEgZIYf3Y4w>
19. <https://www.youtube.com/watch?v=cy4PiY5ERTI>
20. <https://psu.instructure.com/courses/1806581/pages/introduction-what-is-time-value-of-money>
21. <https://www.masterclass.com/articles/time-value-of-money-explained>

GOVERNMENT FINANCIAL SYSTEM

Objectives: This topic will provide you with an overview of the structure of the Government Financial System, including the role and functioning of its various organs.

Overview of the System

1. The functions of the Government of India are not confined to the maintenance of law and order and protection from external aggression but extend over numerous welfare and developmental measures, as well as manifold industrial and commercial activities. An economy without a financial system would be subjected to all inefficiencies of a barter system. Also, without a sound financial system, the economy would probably have a relatively low level of investment and would tend to misallocate whatever investment it had. This naturally requires a vast and highly complex financial system. A financial system comprises financial institutions, financial markets, financial instruments, financial services and a regulatory body such as a Central Bank (Reserve Bank of India in the Indian context).

2. With the emergence of the Welfare State, Governments have come to look after virtually every sphere of human life. As would be evident to you during these difficult COVID-19 times, they have to perform manifold functions from maintaining law and order, protecting their territories, to the implementation of plans for economic and social betterment. Besides, they provide a variety of social services like education, health, employment and housing to the people. Needless to say, the necessary funds are mobilised from the country's resources by way of taxes, both direct and indirect, and loans, both long-term and short-term, to meet the government's expenditure. In India, the principal sources of revenue are Goods and Services Tax and Income-tax on individuals and companies.

Parliamentary Control over Finance

3. Ours is a Parliamentary system of Government based on the Westminster model with the basic postulate of accountability of the Executive to the Legislature. The financial structure conforms to this basic concept so that the Executive Government is made accountable for the handling of financial affairs to the Legislature. We also have a federal system of government with a strong unitary bias (Article 245, Constitution of India). The Parliament has the authority to legislate on matters included in the Union List, e.g. Defence of India, Foreign Affairs, etc., while the State Legislatures can legislate on

¹ india.gov.in/my-government/constitution-india/constitution-india-full-text

matters, which are listed in the State List, e.g. law and order, public health, etc. The federal form of government has added an additional complexity to the financial structure of the government. The Constitution has, therefore, vested the power over the purse in the hands of chosen representatives of the people. Preparation of the budget for the approval of the Legislature is a Constitutional obligation of the Government both at the Centre and the State levels. Legislative prerogative over taxation, legislative control over expenditure and executive initiative in financial matters are some of the fundamental principles of the system of Parliamentary financial control.

4. The financial management of any organisation must have a prudent financial system backed by sound and effective accounting procedures and internal controls. A well-designed and well-managed accounting system helps ensure proper control over funds. Accounts are an integral part of the financial management of activities.

Structure of Accounts and Flow of Funds

5. The accounts of Government² are kept in three parts: -

5.1. Consolidated Funds of India.

5.2. Contingency Funds of India.

5.3. Public Account.

6. The other important provisions are that the Parliament cannot vote money for any purpose whatsoever, except at the demand and upon the responsibility of the executive. Similarly, it cannot of its own volition impose a tax or increase a levy. Both the Union Government and individual State Governments have their respective Consolidated Funds, Contingency Funds and Public Accounts (Article 266-267).

Financial Structure

7. The main limbs of the financial structure are as follows: -

7.1. The executive, comprising of Ministry of Finance, Administrative Ministries and Other agencies.

7.2. The Parliament.

7.3. The Comptroller and Auditor General of India (C & AG).

² cca.ind.nic.in/govtac_out.htm

Ministry of Finance

8. The Ministry of Finance is an important ministry within the Government of India. It concerns itself with taxation, financial legislation, financial institutions, capital markets, centre and state finances, and the Union Budget. The cadre controlling authority of the Civil Services (including Indian Revenue Service, Indian Economic Service, Indian Cost Accounts Service and Indian Civil Accounts Service) are under the administration and supervision of the Finance Ministry.

9. The pivot in the financial structure is the Ministry of Finance, which exercises overall control over the financial administration of the country. The Ministry of Finance is responsible for evolving the Fiscal Policy of the Govt. The Fiscal Policy encompasses issues concerning public expenditure, public reserve and public debt or borrowing. The main objective of Fiscal Policy is the attainment of economic stability compatible with full employment in the economy. It also aims at increasing the rate of capital formation and reducing the degree of inequality/disparity in the distribution of income and wealth.

10. The Ministry of Finance is mainly responsible for and has authority over the raising of financial resources for the Government in the form of taxes, loans, etc. It also evolves the principles on which administrative ministries will formulate their requirements, vets them and includes them in the budget.

Administrative Ministries

11. The structure of the finance function in the administrative ministries varies depending on their function and the size of their budget. For the Defence Ministry, there is a Secretary (Defence Finance) who advises on various matters involving finance and whose concurrence is required for items of expenditure, for which independent financial powers have not been delegated to the Ministry of Defence or the Service Headquarters.

12. The Administrative Ministries are responsible for determining their requirement for funds, formulating their demands within the guidelines issued by the Ministry of Finance and defending their demands on the floor of the Parliament. They are also responsible for executing the budget, for keeping primary accounts, for answering audit objections and dealing with the Committees of Parliament.

Other Agencies

13. **RBI.** From ensuring stability of interest and exchange rates to providing liquidity and an adequate supply of currency and credit for the real sector, from

Ensuring bank penetration and safety of depositors' funds to promote and developing financial institutions and markets, and maintaining the stability of the financial system through continued macro-financial surveillance, the Reserve Bank plays a crucial role in the economy.

14. **Treasuries.** Each office or branch of the Reserve Bank, or the State Bank of India acting as agent of the Reserve Bank, shall keep a separate account of cash transactions undertaken by it on behalf of the State Government within whose area it is situated.

15. **Commercial Banks.** In the modern economy, commercial Banks play an important role in the financial sector. A Bank is an institution dealing in money and credit. Credit money is the major component of the money supply in a modern economy. Commercial banks are the creators of credit. The strength of the economy of any country basically depends on a sound and solvent banking system.

Financial Institutions in India

16. They are divided into two categories. The first type refers to the regulatory institutions, and the second type refers to the intermediaries.

16.1. The regulators are assigned the job of governing all the divisions of the Indian financial system. These regulatory institutions are responsible for maintaining the transparency and the national interest in the operations of the institutions under their supervision. The regulatory bodies of the financial institutions in India are as follows: -

16.1.1. Reserve Bank of India (RBI).

16.1.2. Securities and Exchange Board of India (SEBI).

16.1.3. Central Board of Direct Taxes (CBDT).

16.1.4. Central Board of Indirect Taxes & Customs (CBIC).

16.2. Intermediaries include the banking and non-banking financial institutions. Some of the specialised financial institutions in India are as follows:-

16.2.1. Unit Trust of India (UTI).

16.2.2. Securities Trading Corporation of India Ltd. (STCI).

16.2.3. Export - Import Bank of India (EXIM Bank).

16.2.4. Small Industries Development Bank of India (SIDBI).

16.2.5. National Bank for Agriculture and Rural Development (NABARD).

16.2.6. Life Insurance Corporation of India (LIC).

16.2.7. General Insurance Corporation of India (GIC).

16.2.8. Shipping Credit and Investment Company of India Ltd. (SCICI).

16.2.9. Housing and Urban Development Corporation Ltd. (HUDCO).

16.2.10. National Housing Bank (NHB).

17. The banking institutions of India play a major role in the economy of the country. The banking institutions are the providers of depository and transaction services. These activities are the major sources of creating money. The banking institutions are the major sources of providing loans and other credit facilities to the clients. Apart from the banking and financial institutions, there are a number of specialised financial institutions in India that have been incorporated for a definite purpose.

Public Sector Undertakings

18. The government-owned corporations are termed as Public Sector Undertakings (PSUs) in India. In a PSU, the majority (51% or more) of the paid up share capital is held by central government or by any state government or partly by the central governments and partly by one or more state governments. The Comptroller and Auditor General of India (CAG) audits government companies. In respect of government companies, CAG has the power to appoint the Auditor and to direct the manner in which the Auditor shall audit the company's accounts.

19. Public Sector Undertakings (PSUs) have laid a strong foundation for the industrial development of the country. The public sector is less concerned with making profits. Hence, they play a key role in nation building activities, which take the economy in the right direction.

20. Public Sector Undertakings (PSUs) can be classified as Public-Sector Enterprises (PSEs), Central Public-Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).

NITI Aayog (National Institution for Transforming India).³

21. The Planning Commission has been replaced by NITI Aayog. It aims to involve the states and is based on the principle of extensive consultations across the spectrum of stakeholders. NITI Aayog will seek to provide a critical directional and strategic input into the development process.

Finance Commission

22. The Finance Commission is constituted by the President under article 280 of the Constitution, mainly to give its recommendations on distribution of tax revenues between the Union and the States and amongst the States themselves. Two distinctive features of the Commission's work involve redressing the vertical imbalances between the taxation powers and expenditure responsibilities of the Centre and the States respectively and equalization of all public services across the States.

23. The recommendations of the Finance Commission are implemented as under:-

23.1. **Those to be Implemented by an Order of the President.** The recommendations relating to distribution of Union Taxes and Duties and Grants-in-aid fall in this category.

23.2. **Those to be Implemented by Executive Orders.** The recommendations in respect of sharing of Profit on Petroleum, Debt Relief, Mode of Central Assistance, etc. are implemented by executive orders.

24. **Parliamentary Oversight.** The parliamentary oversight function is one of the cornerstones of democracy. Oversight is a means for holding the executive accountable for its actions and for ensuring that it implements policies in accordance with the laws and budget passed by the parliament. The robust monitoring of the executive by the parliament is an indicator of good governance. Besides the parliament's legislative function, it is through oversight that the parliament can ensure a balance of power and assert its role as the defender of people's interests.

Estimates Committee

25. The Committee on Estimates, constituted for the first time in 1950, is a Parliamentary Committee consisting of 30 members, elected every year by the Lok Sabha from amongst its Members. The Chairperson of the Committee is appointed by

³ planning.commission.nic.in; pib.nic.in/newsite/PrintRelease.aspx?relid=114273

the Speaker from amongst its members. A Minister cannot be elected as a member of the Committee and if a member after selection to the Committee is appointed a Minister, the member ceases to be a Member of the Committee from the date of such appointment. The term of office of the committee is one year.

Parliamentary Account Committee

26. The Public Accounts Committee is constituted every year under Rule 308 of the Rules of Procedure and Conduct of Business in Lok Sabha. The Public Accounts Committee consists of not more than 22 members comprising of 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner. Since 1967, a member from the Opposition in Lok Sabha, is appointed as the Chairman of the Committee by the Speaker. The term of office of members of the Committee does not exceed one year at a time

Departmental Standing Committees

27. These are Parliamentary Standing Committees of the Houses related to Ministries/Departments. Each of the Standing Committees constituted consists of not more than 31 members, 10 members nominated by the Chairman from amongst the members of the Council, and 21 members nominated by the Speaker from amongst the members of the House. A Minister cannot be elected as a member of the Committee and if a member after selection to the Committee is appointed a Minister, the member ceases to be a Member of the Committee from the date of such appointment. The Chairman of each of the Committees is appointed by the Chairman of the Council from amongst members of the respective Committees, and the Chairman of each of the Committees is correspondingly appointed by the Speaker. The term of office of the committee is one year.

Comptroller and Auditor General of India

28. The institution of C&AG⁴ owes its origin to Kautilya who in his Arthashastra specifically mentions about an audit office with stringent rules and regulations. The GoI Act 1919 accorded statutory status to the Auditor General. The Indian Independence Act, 1947 and the Constitution of 1950 re-designated him as the C&AG of India. The Comptroller and Auditor General (C&AG) is appointed by the President under his hand and seal for a term of six years and can only be removed from office

⁴ www.cag.gov.in

in the same manner and on the same grounds as a judge of the Supreme Court. He is not eligible for any other office under the government after retirement. His oath of office requires him to uphold the constitution and the laws and to discharge his duties without fear or favour, affection or ill will.

Controller General of Accounts

29. Controller General of Accounts⁵ is the principal Accounts Adviser to the Government of India and is responsible for establishing and maintaining a technically sound management accounting system. He prepares a critical analysis of expenditures, revenues, borrowings and the deficit for the Finance Minister every month. He also prepares annual Appropriation Accounts (Civil) and Union Finance Accounts for presentation to the Parliament.

⁵ www.cga.nic.in

Web Resources

1. Ministry of Finance, Government of India – www.finmin.nic.in
2. Reserve Bank of India – www.rbi.org.in
3. Comptroller & Auditor General of India – <https://cag.gov.in>
4. Lok Sabha – <https://loksabha.nic.in>
5. Finance Commission – <https://fincomindia.nic.in>

FINANCIAL ADMINISTRATION IN DEFENCE SERVICES

Objectives: This topic will provide you an overview of the Financial Administration in Defence Services along with the role and functions of financial advisors.

Finance Division of Ministry of Defence

1. Finance Division in the Ministry of Defence deals with all matters having a financial implication. This Division is headed by Secretary (Defence Finance) (SDF) / Financial Adviser (Defence Services) (FADS) and is fully integrated with the Ministry. It performs an advisory role. The Ministry of Defence enjoys enhanced delegated financial powers to facilitate quicker decision making. These powers are exercised with the concurrence of the Finance Division. Finance Division prepares and monitors Defence Services Estimates, Civil Estimates of the Ministry of Defence and the Estimates in respect of Defence Pensions.

2. In order to bring about closer association between the Administrative Ministries and their Financial Advisers, and to enable the latter to play a more effective and constructive role, Government had introduced in October 1975 the Scheme of Integrated Financial Adviser under which the Financial Advisers become a part and parcel of the Administrative Ministry concerned and are therefore, more closely associated with formulation and implementation of proposals. The basic aim of the scheme is to expedite decision making by delegation of financial powers to the executive authorities which are to be exercised in consultation with the Integrated Financial Advisers to bring in the concept of authority with responsibility and accountability. In accordance with that policy, the scheme of Integrated Financial Adviser was introduced in the Ministry of Defence.

Delegated Enhanced Financial Powers

3. With a view to ensuring greater efficiency in administration and quicker disposal of the cases, Ministry of Defence has been delegated enhanced financial powers in regard to expenditure met from the Defence Service Estimates. In matters within the delegated powers of the Ministry of Defence, Financial Adviser (Defence Services) or his officers are to be consulted before exercise of financial powers. In such cases, it is open to the Defence Secretary to over-rule the advice of the Financial Adviser (Defence Services) by an order in writing, but it will also be open for the Financial Adviser (Defence Services) to request that the matter be placed before the Raksha Mantri.

4. In all matters beyond the powers delegated to the Ministry, Financial Advisor (Defence Services) and his officers' function as Associate Finance and are responsible to have the right of access to the Ministry of Finance and the Finance Minister through Secretary (Expenditure). If any important change in the duties and functions of the Financial Advisor (Defence Services) or the Defence Accounts Department is contemplated, approval of the Finance Ministry is necessary.

Financial Control/ Canons of Financial Propriety

5. The financial control exercised by the Financial Advisor and the officers is really a careful and intelligent scrutiny of all proposals involving expenditure from the public funds, the objective being the safeguarding of economy, efficiency and financial propriety in public finance. Before according financial concurrence to any proposal involving fresh expenditure,

6. The rules provide that no expenditure which has not been provided for in the Budget or which, having been provided, has not been sanctioned, shall be authorized without the concurrence of the Financial Adviser or representative. The strict observance of this rule is automatically ensured as the Controllers of Defence Accounts will not make any disbursement in respect of charges not covered by regulations or Government orders.

7. The Financial Advisor prepares the budget and other estimates for the Defence Services and also furnishes the Heads of the Branches of the Armed Forces Headquarters with all information at his disposal to enable them to discharge their financial responsibilities in respect of the grants allotted to them and advises them regarding the preparation of proposals and the disposal of financial business generally. He is also fully associated with the formation and implementation of Defence Plans.

8. In addition to the above functions, the Financial Adviser is also the Chief Accounting Officer for Defence Services. It is in this capacity that he prepares the Appropriation Accounts for the Defence Services. The Financial Advisor is also ultimately responsible for the internal audit and accounting of Defence Expenditure, but this responsibility is discharged through the Controller General of Defence Accounts.

Defence Accounts Department

9. The Defence Accounts Department (DAD), which has lived through more than two and a half centuries is one of the oldest departments under the Government of India. Its origin can be traced to the Military Pay Masters under the East India Company. The Department was re-named as Defence Accounts Department (DAD) on October 1st,

1951, and the Departmental Head was designated as Controller General of Defence Accounts (CGDA). For more than three decades after independence, the DAD functioned under the administrative control of the Ministry of Finance. With the introduction of the Integrated Financial Advisor scheme in the Ministry of Defence from August 1983, the Department came under the administrative control of the Ministry of Defence.

10. Defence Accounts Department, with the Controller General of Defence Accounts as its head, functions under the administrative Control of Financial Adviser (Defence Services). The duties of Defence Accounts Department are broadly audit, payment and accounting of all charges pertaining to the Armed Forces, including bills for supplies and services rendered and for constructions/repair works, pay and allowances, miscellaneous charges, provision etc. The Department is also responsible for the audit of cash and stores account kept by the various units and formations (including arsenals, workshops and storage depots) in the three services and maintenance of pay accounts of Army, Officers and combatants, of the Army. The manufacturing Accounts of Ordnance Factories and the Naval Dockyard and the store accounts of the Ordnance factories are also kept by the Defence Accounts Department. They also maintain Accounts relating to works services and audit the construction and other accounts relating to works project maintained by Military Engineer Services.

11. In addition to the duties mentioned above, the Controllers of Defence Accounts function as Local Financial Advisers to the General Officers Commanding-in-Chief of Commands, Area Commanders and various other establishments. The Defence Accounts Department has also positioned Internal Financial Advisors at Service HQs to render financial advice on powers delegated to them.

Evolution of India's Defence Planning Structure

12. Post-Chinese aggression in 1962, India felt the acute need for defence planning. Consequently, a Defence Planning Cell was created within the MoD, which undertook the task of formulating the defence five-year plan and thus the first plan was prepared for the period 1964-69.

Categories of Defence Plans

13. Based on the above, Current Defence plans are prepared in three categories of time frames as under:-

13.1. **Integrated Capability Development Plan (ICDP)**. This is a long-term plan where the security environment, technological advances and defence requirements are forecast over a 10 years' time frame.

13.2. **Five Year Defence Plan.** This is a firm plan, which is approved by the cabinet Committee on Security (CCS). The proposals including the fund provisions are clearly defined.

13.3. **Annual Plan.** This is more in the nature of the annual budget - a plan of action for one year in accordance with the funds allocated to the Services for the year.

General Defence Budget

14. The principal task of the Ministry of Defence is to frame policy directions on defence and security related matters and communicate them for implementation to the Service Headquarters, Inter-Service Organisations, Production Establishments and Research & Development Organisation and also to ensure effective implementation of the Government's policy directions and the execution of approved programs within the allocated resources. The Budgetary allocations of the Ministry of Defence are contained under four Demands for Grants.

15. The details of demands are as follows:-

Demand No. (FY 21-22)	Description	Major Head
18	Ministry of Defence (Misc) to include MoD Sectt, Coast Guard, JAKLI, ECHS, DEO & Misc Gen Services	Multiple
19	Defence Services – Revenue- Army	2076
	Defence Services – Revenue- Navy	2077
	Defence Services – Revenue- Air Force	2078
20	Capital Outlay on Defence Services includes All Services and joint staff.	4076
21	Defence Pensions	2071

Compilation of Receipts & Expenditure in DAD

16. With a view to compiling receipts & expenditure in Defence Services, separate code heads for Defence as well as Civil have been opened. The various accounting heads as given in the list of Major and Minor Heads of Account are published by the Controller General of Accounts. The accounting Code Heads operated by DAD are contained in the Pamphlet of Revenue Debt & Remittances Heads (RD & R Pamphlet) and the Classification Handbook for Defence Receipts and Expenditure. The former contains heads debitable to Civil and the latter to Defence Estimates.

Preparation of Defence Budget

17. The following are the steps in preparation of the Defence Budget:-

Step 1	PSOs at SHQ	Preparation of Estimates
Step 2	Defence Finance Wing MOD	Scrutiny of the budget estimates in discussion with SHQ.
Step 3	FADS & Defence Secretary	Policy Decisions and discussions with MoF
Step 4	RM	Approval of Demand for Grants.
Step 5	Ministry of Finance	Incorporation in the Consolidated Estimate.

18. An estimate of revenue is prepared by the Ministry of Finance in consultation with the Central Board of Direct Taxes and Central Board of Indirect Taxes. The Consolidated Budget is then submitted to both the Houses of Parliament through two important documents -Annual Financial Statement (Budget) and Demand for Grants – for consideration and approval.

Control of Budget Provision

19. The funds allotted on items of expenditure included in the budgetary susceptible to control against budget provision by various administrative and executive authorities subordinate to the Govt. of India. This control is exercised in three different stages as follows: -

19.1. Initial Distribution of Budget Grants.

19.2. Watching expenditure against allotment.

19.3. Re-appropriation.

Delegation of Financial Powers

20. The Defence services had a long-standing demand to be allowed to control their own budget. Finally, in 1990 the Arun Singh Committee on Defence Expenditure (CDE) envisaged delegation of revenue expenditure to the three services in consultation with a Financial Adviser. Based on the CDE recommendations for greater autonomy, the three services initiated individual studies to implement control of revenue expenditure. The Navy's case for the implementation of the New Management Strategy (NMS) was accepted as pilot project for the three services. Accordingly, Naval HQ initially implemented NMS in Naval Dockyard in October 1993

followed up by full implementation through Naval Instructions 01 May 1997 and Army HQ implemented New Financial Management Strategy (NFMS) for MGO's Branch in April 1997.

21. The delegation of financial powers have since been revised many times as per the requirements of the defence services.

IFA System

22. The objectives of IFA system are to enable the executive authorities to exercise the delegated financial powers and to implement the concept of NMS like:-

22.1. Creation of Authority cum Responsibility cum Budget Centres.

22.2. Objective settings and fixing the targets.

22.3. Budgeting.

22.4. Value for money etc.

NATIONAL BUDGET PROCESS

Objectives: This topic will familiarise you with the process of preparation and execution of National Budget.

Need for Budget

1. Every item of expenditure has to be well thought out and total outlay worked out for a specific period. Prudent spending is essential for the stability of Government and proper earnings are a pre-requisite to wise spending. Hence, planned expenditure and accurate foresight of earnings are sine-qua-none of sound Governmental finance.

Budget and Budgetary Process

2. The 'Annual Financial Statement', laid before both the Houses of Parliament constitutes the Budget of the Union Government. This statement takes into account a period of one financial year. The financial year commences in India on 1st April each year. The statement embodies the estimated receipts and expenditure of the Government of India for the financial year.

3. The Constitution as per Article 112 requires that an annual financial statement i.e., a Statement of the Estimated Receipts and Expenditure of the Government of India for the coming financial year be laid before both Houses of Parliament. This statement is commonly referred to as the "budget". It can be considered under the following heads: -

- 3.1. Preparation of the Budget.
- 3.2. Voting of the Budget.
- 3.3. Execution of the Budget.
- 3.4. Review of the Budget as executed.

Preparation of the Budget

4. Budget is made through a consultative process involving ministry of finance, NITI Aayog and spending ministries. It starts with preparation of estimates of expenditure and revenue receipts by local officers all over India sometime in July or August. These are vetted and consolidated by the heads of departments and then

scrutinized by the Administrative Ministry. They are also checked by the Accountant Generals. Then they are examined by the Ministry of Finance and after discussions with the Administrative Ministry, where necessary, finalized for inclusion in the annual financial statement,

5. The estimates prepared in July or August are called Preliminary Estimates and provision exists for periodical reviews on the basis of the experience and decisions of the current year before they are incorporated in the annual financial statement to be presented to the legislatures. The estimates are to distinguish between Charged Expenditure and Voted Expenditure.

6. The estimates are also to show separately the following:-

6.1. Revenue Expenditure.

6.2. Capital Expenditure.

Demands for Grants

7. The estimates of expenditure included in the Budget and required to be voted by Lok Sabha are in the form of Demands for Grants. These Demands are arranged Ministry-wise and a separate Demand for each of the major services is presented. Each Demand contains first a statement of the total grant and then a statement of the detailed estimate divided into items.

Presentation of Budget

8. The General Budget is presented in Lok Sabha by the Minister of Finance. He makes a speech introducing the Budget and it is only in the concluding part of his speech that the proposals for fresh taxation or for variations in the existing taxes are disclosed by him. The 'Annual Financial Statement' is laid on the Table of the Rajya Sabha at the conclusion of the speech of the Finance Minister in the Lok Sabha.

9. Immediately after the presentation of the Budget, three statements under the Fiscal Responsibility and Budget Management Act, 2003, are also laid on the Table of Lok Sabha. These are -The Medium Term Fiscal Policy Statement, The Fiscal Policy Strategy Statement and The Macro Economic Framework Statement. Simultaneously, a copy of the respective Budgets is laid on the Table of the Rajya Sabha.

Discussion / Allotment of Time for Discussion

10. No discussion on the budget takes place on the day it is presented to the House. Budgets are discussed in two stages: the General Discussion, followed by detailed discussion and voting on the demands for grants.

11. The whole process of discussion and voting on the demands for grants and the passage of the Appropriation and Finance Bills is to be completed within a specified time. As a result, often the demands for grants relating to all the Ministries/Departments cannot be discussed and demands of some Ministries get guillotined i.e. voted without discussion. The Minister of Parliamentary Affairs, after the presentation of the Budget, holds a meeting of leaders of Parties/ Groups in Lok Sabha for the selection of Ministries/ Departments whose demands for grants might be discussed in the House. On the basis of decisions arrived at this meeting, the Government forwards the proposals for the consideration of the Business Advisory Committee. The Business Advisory Committee after considering the proposals allots time and also recommends the order in which the demands might be discussed. It is generally left to the Government to make any change in the order of discussion.

12. After the allotment of time by the Business Advisory Committee, a time table showing the dates on and order in which the demands for grants of various Ministries would be taken up in the House is published in Bulletin-Part II for the information of members.

Consideration of the Demands by Standing Committees of Parliament

13. After the first stage of General Discussion on the General Budget is over, the House is adjourned for a fixed period. During this period, the Demands for Grants of various Ministries/Departments are considered by concerned Standing Committees (Rule 331G). These Committees are required to make their reports to the House within specified period without asking for more time. The system of consideration of Demands for Grants by the Standing Committees was introduced from the Budget for the year 1993-94. The Standing Committee consists of 45 Members, 30 from Lok Sabha and 15 from Rajya Sabha. The reports of the Standing Committees are of persuasive nature (Rule 331N). The report shall not suggest anything of the nature of cut motions.

Discussion on Demands for Grants

14. The demands for grants are presented to Lok Sabha along with the Annual Financial Statement. These are not generally moved in the House by the Minister concerned. The demands are assumed to have been moved and are proposed from

the Chair to save the time of the House. After the reports of the Standing Committees are presented to the House, the House proceeds to the discussion and voting on Demands for Grants, Ministry-wise. The time for discussion and Voting of Demands for Grants is allocated by the Speaker in consultation with the Leader of the House.

15. The scope of discussion at this stage is confined to a matter which is under the administrative control of the Ministry and to each head of the demand as is put to the vote of the House. It is open to members to disapprove a policy pursued by a particular Ministry or to suggest measure for economy in the administration of that Ministry or to focus attention of the Ministry to specific local grievances. At this stage, cut motions can be moved to reduce any demand for grant but no amendments to a motion seeking to reduce any demand is permissible.

Cut Motions

16. The motions to reduce the amounts of demands for grants are called 'Cut Motions'. The object of a cut motion is to draw the attention of the House to the matter specified therein. Cut Motions can be classified into three categories: -

17. **Disapproval of Policy Cut.** A cut motion which says "That the amount of the demand be reduced to ₹ 1" implies that the mover disapproves of the policy underlying the demand. The member giving notice of such a Cut Motion has to indicate in precise terms the particulars of the policy which he proposes to discuss. Discussion is confined to the specific point or points mentioned in the notice and it is open to the member to advocate an alternative policy,

18. **Economy Cut.** Where the object of the motion is to effect economy in the expenditure, the form of the motion is "That the amount of the demand be reduced by Rs (a specified amount)". The amount suggested for reduction may be either a lump-sum reduction in the demand or omission or reduction of an item in the demand.

19. **Token Cut.** Where the object of the motion is to ventilate a specific grievance within the sphere of responsibility of the Government of India, its form is: "That the amount of the demand be reduced by ₹ 100". Discussion on such a cut motion is confined to the particular grievance specified in the motion which is within the sphere of responsibility of the Government of India.

20. For the facility of members, printed forms for giving notices of cut motions are kept in the Parliamentary Notice Office.

Guillotine

21. On the last of the allotted days for the discussion and voting on demands for grants, at the appointed time the Speaker puts every question necessary to dispose of all the outstanding matters in connection with the demands for grants. This is known as guillotine. The guillotine concludes the discussion on demands for grants.

Supplementary and Excess Demands for Grants

22. If the amount authorised to be expended for a particular service for the current financial year is found to be insufficient for the purpose of that year or when a need has arisen during the current financial year for supplementary or additional expenditure upon some 'new service' not contemplated in the Budget for that year the President causes to be laid before both the Houses of Parliament another statement showing the estimated amount of that expenditure.

23. If any money has been spent on any service during a financial year in excess of the amount granted or the service for that year, the President causes to be presented to Lok Sabha a demand for such excess. All cases involving such excesses are brought to the notice of Parliament by the Comptroller and Auditor General through his report on the Appropriation Accounts. The excesses are then examined by the Public Accounts Committee which makes recommendations regarding the regularization in its report to the House.

24. The Supplementary Demands for Grants are presented to and passed by the House before the end of the financial year while the demands for excess grants are made after the expenditure has actually been incurred and after the financial year to which it relates, has expired.

Appropriation Bill

25. After the demands for grants have been passed by the House, a Bill to provide for the appropriation out of the Consolidated Fund of India of all moneys required meeting the grants and the expenditure charged on the Consolidated Fund of India is introduced, considered and passed. The introduction of such Bill cannot be opposed. The scope of discussion is limited to matters of public importance or administrative policy implied in the grants covered by the Bill and which have not already been raised during the discussion on demands for grants. No amendment can be proposed to an Appropriation Bill which will have the effect of varying the amount or altering the destination of any grant so made or of varying the amount of any expenditure charged on the Consolidated Fund of India, and the decision of the Speaker as to whether such an amendment is admissible is final. An amendment to an Appropriation Bill for

omission of a demand voted by the House is out of order.⁴⁰ In other respects, the procedure in respect of an Appropriation Bill is the same as in respect of other Money Bills.

Finance Bill

26. “Finance Bill” means a Bill ordinarily introduced every year to give effect to the financial proposals of the Government of India for the next following financial year, and includes a Bill to give effect to supplementary financial proposals for any period.

27. The Finance Bill is introduced immediately after the presentation of the Budget. The introduction of the Bill cannot be opposed. The Appropriation Bills and Finance Bills may be introduced without prior circulation of copies to members.

28. As the Finance Bill contains taxation proposals, it is considered and passed by the Lok Sabha only after the Demands for Grants have been voted and the total expenditure is known. The scope of discussion on the Finance Bill is vast and members can discuss any action of the Government of India. The whole administration comes under review. The procedure in respect of Finance Bill is the same as in the case of other Money Bills.

Execution of the Budget

29. The Grants are distributed to the Administrative Ministries after the passing of the Appropriation Act. The Controlling officers in the Ministries are responsible to see that the expenditure under each sub-head is kept within the appropriation and that the appropriations are properly utilized. For this purpose periodic returns are provided for and the Ministry of Finance is kept informed of the progress of expenditure. To lend flexibility to the system, controlling officers at various levels have been delegated powers of re-appropriation i.e., to transfer funds within a grant from one unit of appropriation in which they have savings to another where the amount is inadequate.

Deficit Financing

30. Deficit refers to the difference between expenditure and receipts. In public finance, it means the government is spending more than what it is earning. Government expenditure and revenue can be split into capital and revenue. Capital expenditure generally includes those expenses which result in creation of assets. Revenue expenditure is primarily that which does not result in asset creation—for example interest payments, salaries, subsidies, etc. Similarly, on the receipts side, whatever the government receives as taxes is revenue receipt. Receipts not of a recurring nature are generally capital receipts. These include domestic and external borrowings, proceeds of disinvestment, recovery of loans given by the Union government, etc.

The Fiscal Responsibility and Budget Management Act, 2003

31. An Act to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long-term macro-economic stability by removing fiscal impediments in the effective conduct of monetary policy and prudential debt management consistent with fiscal sustainability through limits on the Central Government borrowings, debt and deficits, greater transparency in fiscal operations of the Central Government and conducting fiscal policy in a medium-term framework and for matters connected therewith or incidental thereto.

32. As per this Act, the Central Government shall lay in each financial year before both Houses of Parliament, the following statements of fiscal policy along with the Annual Financial Statement and demands for grants, namely:-

32.1. The Medium-term Fiscal Policy Statement.

32.2. The Fiscal Policy Strategy Statement.

32.3. The Macro-economic Framework Statement.

32.4. The Medium-term Expenditure Framework Statement.

33. **Fiscal Management Principles.** As per the Act, the Central Government shall take appropriate measures to limit the fiscal deficit upto 4.3% of GDP by the 31 March 2027. The medium-term aim to reach a debt to GDP ratio of 50±1 per cent by FY 2030-31.