

**GOVERNMENT LETTER**

**No. PC-11(1)/Bud.I/2007  
Government of India  
Ministry of Defence  
New Delhi  
Dated 25<sup>th</sup> September 2007**

To:

**The Chief of Army Staff  
The Chief of Naval Staff  
The Chief of the Air Staff  
Chief of Integrated Staff Committee**

**Subject: Classification of expenditure.**

Sir

Based on the recommendations of the Study Group, the cost criterion for classification of capital expenditure was revised from Rs.2 lakhs to Rs. 10 lakhs without any change in the life criterion, of seven years vide Ministry of Defence (Finance) ID No 11(9)/B-I/2003 dated 04.12.2003 (copy enclosed as Appendix to this letter). The status of classification has now been reviewed on the directives of the Ministry of Finance and the provisions of the General Financial Rules, 2006 with a view to ensuring that expenditure of capital nature is classified accordingly under appropriate capital heads.

2. I am directed to say that after careful consideration it has been decided that expenditure on items listed in Annexures 1 to IV to this letter, which are considered to be basically capital in nature but expenditure in respect of which is presently being booked to revenue heads, will be booked to capital heads as shown in the Annexures, subject to the cost-life criteria being met in individual cases.

3. It has also been decided that procedure as laid down in Defence Procurement manual 2006 will be followed for procurement of the items mentioned in the Annexures and the CFAs for sanctioning such procurements will be determined with reference to the orders issued in 2006 concerning delegation of financial powers for revenue procurements. However, offsets will not be applicable in respect of purchases under these orders.

4. It is also clarified that expenditure on Motor Vehicles and Machinery & Equipment are required to be classified as capital expenditure even if procured as 'replacement' of existing assets, subject to fulfillment of the cost-life criteria.
5. Service Headquarters will intimate the likely expenditure/cash outgo on account of purchases under these orders to the Capital Acquisition Wing.
6. The provisions of this letter are to be read in conjunction with other related orders on classification of expenditure between Revenue and Capital issued from time to time.
7. The position will be reviewed after one year.

Yours faithfully,  
sd/-  
(Mukesh Kumar Sinha)  
Director (Finance/Budget)

Copy to:  
SS(J), AS(N), AS(DP), DG(Acq), AS & FA(Acq)  
All Joint Secretaries in the Ministry of Defence  
All Addl. FAs & JS in Ministry of Defence (Finance)  
All FMs  
JS (Budget), Ministry of Finance  
DGADS  
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SO to Defence Secretary  
PS to Financial Adviser(Defence Services)  
PS to Secretary(Defence Production)  
PS to SA to RM

**ANNEXURE-I**

**Army (including TAG)**

<b>Nomenclature of items and the Minor Head under which presently expenditure being booked</b>	<b>Minor Head of Capital Outlay under which to be booked</b>
<p>Vehicles under the Store Head (110-C)</p> <ul style="list-style-type: none"> <li>(i) Water Bowzers (2KL &amp; 5 KL)</li> <li>(ii) 2.5 ton LPTA</li> <li>(iii) Stallion 5/7.5 Ton</li> <li>(iv) TTF Large</li> <li>(v) ATF Refueller</li> <li>(vi) FAT 3/5 Ton</li> <li>(vii) Bus Long Chassis</li> <li>(viii) Light Bullet Proof Veh</li> <li>(ix) 2.5 Ton Ambulance</li> <li>(x) Crane all types</li> </ul>	<p>Minor Head 102 – Heavy &amp; Medium Vehicle</p>
<p>B. Vehicles under the Store Head (110-E)</p> <ul style="list-style-type: none"> <li>(i) Exc Loaders</li> <li>(ii) Cr Tr Size II (Plant)</li> <li>(iii) Cr Tr Size IV (Plant)</li> </ul>	<p>Minor Head 102 – Heavy &amp; Medium Vehicle</p>
<p>Air Frames and Aero-engines under Stores Heads (110-F), namely:</p> <ul style="list-style-type: none"> <li>(i) Main Rotor Head Assy</li> <li>(ii) Main Gear Box</li> <li>(iii) Shock Strut (Front) NLG</li> <li>(iv) Automatic Control Box Assy</li> <li>(v) Gyro Magnetic Compass type 512-3</li> <li>(vi) Main Rotor Blade</li> <li>(vii) LP PUMP</li> <li>(viii) Tail Rotor Assy</li> <li>(ix) Weather Radar T/R Unit</li> </ul>	<p>Minor Head 102 – Heavy &amp; Medium Vehicle</p>

<ul style="list-style-type: none"> <li>(x) Main Rotor Actuator Collective</li> <li>(xi) Hydraulic Package (2.75 FT)</li> <li>(xii) HVDR</li> <li>(xiii) Junction Box</li> <li>(xiv) Main Rotor Actuator Roll</li> <li>(xv) AGB Assy</li> <li>(xvi) AFCS COMP JTER (4Ax1S)</li> <li>(xvii) SHIU</li> <li>(xviii) CWP</li> <li>(xix) Relay Unit</li> <li>(xx) HP Pump Assy</li> <li>(xxi) Motor Wingsheld Wiper</li> <li>(xxii) Digital Indicator</li> <li>(xxiii) M DAU</li> <li>(xxiv) Tail Rotor Actuator</li> <li>(xxv) Pilot Control Unit</li> <li>(xxvi) Integratged Sensor Unit</li> <li>(xxvii) Pilot Control Unit (EFS)</li> <li>(xxviii) Main Rotor Actuator Pitch</li> <li>(xxix) Control and Display Unit</li> <li>(xxx) Virex Test Set Model 8500C+ (Balancer Analyser 8500+) with complete Accessories</li> <li>(xxxi) Test Eqpt for Gyro Magnet with Accessories</li> <li>(xxxii) Test Bench for Techno Meter Indicator and Test Bench for Techno Generator</li> </ul>	
<p>Expenditure on creation of assets like Telephone Exchanges and terminal equipments incurred from Tele-Adm Grant (TAG)</p>	<p>Minor Head 103 – Other Equipment</p>

## ANNEXURE-II

### Navy

<b>Nomenclature of items and the Minor Head under which presently expenditure being booked</b>	<b>Minor Head of Capital Outlay under which to be booked</b>
Repair and Refit of Ships meant for enhancing the capability (MH 106 (a))	204 (d)
Repair and Refit of Submarines meant for enhancing the capability (MH 106 (b))	204 (d)
Repair and Refit of aircraft meant for enhancing the capability (MH 106 (c))	101
Procurement of Naval stores – Boats and Yardcrafts (MH 110 (a))	204 (c)
Replacement of WT Eqpt, Comm and EW, Radar and associated Eqpt, Electrical Eqpt, Hydrographic Eqpt, Diving Eqpt, Met Eqpt, Aviation/Armament Eqpt and other machinery & Equipment resulting in upgradation or enhancement of capabilities. (MH-110)	103
Replacement of Mechanical Transport Vehicles such as: (MH 110) (i) Heavy and Medium vehicles (ii) Specialist and Aviation Vehicles (iii) Dockyard vehicles	102

**ANNEXURE-III**

<b>Nomenclature of items in respect of which expenditure is presently being booked under Minor Head of Stores (110)</b>	<b>Minor Head of Capital Outlay under which to be booked</b>
DRE for setting up of repair facility for Bison	103
Vehicles	102
Aircraft Specialist Vehicles	102
Airfield Support Vehicles	102
ETB upgrade at 4 BRD	103
Modification of Old M 53-P engines to bring to stand of new engines	101
Procurement of SSFDR	103
Bison GPU	103
GPU 12 KVA	103
AN 32 GPU	103
SAT 300	103
Universal HST	103
Proc of Drive Generator and installation kit for Bison	103
Procurement of MP-7 Flash Card	103
Proc of critical aggregates	103
DRE for overhaul facilities for Jaguar aircraft	103
Replacement of Herons (UAV) along payloads	103
Test Equipment, GSE/GHE/tools for AWACS Aircraft	101
TTLE, OH and re-equipment of AN-32	101

Aircraft	
Replacement of Aeroengine on expiry of TTL	101
DMDD System	103
Additional Sites for IMMOLS	103
Networked Station	103
Procurement of booster and Accessories of VUHRFT set up-322 for AD Radar units	103
Procurement of V/UHF RT set for OSA-Ak System	103
CTSW Microlight A/C	103
Upgradation/Replacement of existing individual system of weapon platform	103
Procurement of rotables	103
3D Co-Ordinate measuring machine	103

**ANNEXURE-IV**

**Joint Staff**

<b>Nomenclature of items and the Minor Head under which presently expenditure being booked</b>	<b>Sub Head of Capital Head of Navy (MH-104) under which it can be booked</b>
Expenditure on creation of assets like Telephone Exchanges, Network systems and terminal equipments	Sub - Head – Other Equipment
Hardware of Wireless Communication	Sub - Head – Other Equipment
Tri-Services War Game Package	Sub - Head – Other Equipment
Upgradation of Display System	Sub - Head – Other Equipment
Bulk Encryption Units	Sub - Head – Other Equipment
Tractor, Dozers, DFT, etc.	Sub - Head – Other Equipment
2.5 Ton, 6.5 Ton vehicles	Sub - Head – Other Equipment



**APPENDIX**

**MINISTRY OF DEFENCE (FINANCE)  
BUDGET-I**

**Subject: Reconstruction of Minor Head – 102 – heavy and Medium Vehicles and 103 – Other Equipments under Major Head 4076 – Capital Outlay on Defence Services.**

Based on the recommendation of the Study Group, the cost criteria for classifying Capital expenditure has been revised from Rs. 2 lakhs to Rs. 10 lakhs. It has also been decided that DGOF issues to Army, Navy, Air Force etc. which hitherto were booked under Revenue Stores of respective Services, will now be booked under Capital heads based on the above cost criteria of the item.

2. Accordingly, Minor Head – 102 - Heavy and Medium Vehicles of Army and 103 – Other Equipments of Army, Navy and Air Force under Major Head 4076 – Capital Outlay on Defence Services have been reconstructed to show the procurement from Trade and DGOF supplies separately and these amendments will be effective from 01.04.2004. The allocations for BE 2004-05 are therefore required to be projected in DSE Vol. II as per these reconstructed Sub heads (Copy enclosed).

3. It is, therefore, requested that break-up as per the new Sub heads may please be furnished to Budget Section alongwith RE 2003-04/BE 2004-2005 projections.

sd/-  
**(Mukesh Singhal)**  
**AFA (Budget-I)**

**Addl. DGFP, Army HQrs.,  
DNP/Naval HQrs.,  
DFP/Air HQrs.**

**MoD (Fin) ID No. 11(9)/B-I/2003 dated 04.12.2003**

Copy to        Director (Fin/Navy)  
                  Diercotre (Fin/AF/Eqpt.)  
                  DFA (Acq)