REPORT OF THE COMMITTEE ON REVIEW OF FINANCIAL POWERS DELEGATED TO THE SERVICES

1. PREAMBLE

1.1 One of the target areas for MoD as per PMO's directives is to consider higher delegation of financial powers to the Defence Services. In pursuance thereof a Committee was formed vide MoD letter dated 27 Dec 2005 under the Chairmanship of FA(DS), with JS(O/N), JS&AM (MS), Addl FA (M), two star Service Officers from the three Services and CISC as Members and Principal IFA, JS (Air) & representative of DGAFMS as co-opted members to look into the following :-

(a) Adequacy of Financial powers presently delegated to Services.

(b) Measures for improving existing delegation of Financial Powers.

(c) Readiness of the Services to take up powers for Capital Acquisition, thereby sharing the burden of the Acquisition Wing.

1.2 The composition of the Committee and detailed terms of reference are given in **Appendix-A**.

2. DELEGATION OF FINANCIAL POWERS OVER THE YEARS

2.1 The scheme of delegation of financial powers had its origin in 1975 as per which, amongst other powers, MoD was vested with full powers for procurement of stores which are scaled and Rs.50 lakhs for items which are non-scaled. The single tender power was Rs 25 lakhs and PAC power was for Rs.10 lakhs.

2.2 A major step forward in this direction was taken by the Committee on Defence Expenditure constituted in 1990 which recommended substantial delegation of financial powers to the Services except for creation of posts and import of stores and introduction of new scales. The Committee had recommended that while certain enhanced powers were immediately being delegated to the Services further delegation would have to be linked to the establishment of appropriate systems of financial advice and control.

2.3 The MoD at the time had mooted initiation of further studies on the concept of Authority cum Responsibility Centres on lines of those adopted by the UK Army, to be further validated in the base logistics units in peace areas since delineation of performance indicators in these units would be comparatively easier. These initiatives planted the seeds for formulation and implementation of the New Management Strategy (NMS) for the three Services, leading to substantial delegation of financial powers in Revenue Expenditure to the three Services during the period from 1996 to 2000, whereby a substantial portion of the Revenue budget came under the delegated powers of the Service HQrs. As per these delegations, the Services had powers of Rs 3-5 Cr for procurement of stores indigenously, Rs 3 Cr for imports, Rs 7 Cr for repairs and refits and Rs 3 Cr for release of FE. For procurement of IT systems, the Services were delegated powers upto Rs. 1 Cr. The powers were to be exercised in consultation with the Integrated Financial Advisers.

2.4 During October 1998, a Task Force was formed under the Chairmanship of Additional Secretary (Expenditure) with representatives from the three Services and Addl.FA(M), MoD as Members of the Committee to look into adequacy of financial powers of the Services and for simplification and streamlining of procedures. The objectives of fully decentralized resource management, coupled with accountability, will be fully served only if there is further decentralisation of these powers to the level of Commands and lower formations. This, however, calls for a clear enunciation of authority and responsibility centre with clearly defined and measurable performance goals and resource needs. It is also essential that certain high value cases pertaining to Revenue expenditure continue to be dealt with in MoD in keeping with the different dimensions of these proposals such as import /indigenous, capacity utilisation vis-à-vis targets in repair depots / workshops / dockyards of the Services and Ordnance Factories and PSUs, interface with other government departments, foreign governments and strategic partners. This would provide the MoD an overview of maintenance and support requirements of the Defence Services which constitutes a sizable chunk of the total budget.

2.5 During the post Kargil period, a Group of Ministers was set up by the Govt to examine the National Security Environment and based on recommendation of the Task Force on Higher Defence Management, a Committee headed by the then Secretary Defence (Finance) undertook a comprehensive review of financial powers of the three Services which culminated in delegation of higher financial powers not only to the Services HQrs but also to Commands, formations down to the unit Commanders. Such delegation was, however, to be preceded by the provision of the mechanism to provide financial advice (IFA System) to the CFAs so that proper checks and balances are exercised and expert financial advice is available.

2.6 As a logical continuum, during September 2002 based on Adviser to MoD's recommendations, delegation of powers at various levels of MoD were notified vide MoD/D (Coord) letter dated 16 Sep 2002 for Revenue Procurement for various types of financial transactions with corresponding MoD(Fin) interface.

2.7 Another offshoot of the GOM recommendations was setting up of the Acquisition Wing in 2002 to look into the whole gamut of processing new Capital acquisition proposals for the Services and creation of overarching decision structures like DAC & DPB. MoD issued a letter in January 2003, indicating powers at various levels in the Department of Defence for according necessity angle approval for Capital procurements. While RM has full powers for approving procurement of scaled items, his powers for non-scaled items was Rs 50 Crs which has since been enhanced to Rs100 Crs. For capital items under Fast Track Procedure, which are initiated by respective Services Chiefs in the event of operational requirement, the power of RM is Rs 300 Crs.

2.8 The present Committee under FA(DS) embarked upon its journey with the following methodology :-

3. **METHODOLOGY**

3.1 The thrust was to obtain as much data as possible from the Services HQrs, Commands / Formations/Ests of the three Services and HQrs IDS on the existing systems and extent of delegation of financial powers, the linkage of budget allocation to CFAs with performance and accountability, problems being faced by field functionaries in the exercise of delegated powers and to identify anomalies and any lacunae / omission in the existing delegation. To have the benefit of experience gained in the exercise of financial powers with IFAs, a Sub-Committee under the Chairmanship of Principal Integrated Financial Adviser was formed to deliberate in detail on the proposals/suggestions of the Services HQrs and other Members of the Committee. The following broad parameters were laid down for this exercise -

(a) CFA-wise, and budget holder-wise budget allocation against Minor Head, Sub Head and detailed heads and firm up accountability of each budget holder with reference to powers delegated for ensuring optimal utilization of budget allocated.

(b) Budget has to be an efficiency indicator and any additional financial powers proposed to be vested should ensure higher efficiency level, in terms of serviceability and maintainability of equipment/machinery/platform/ weapon system. This has assumed importance in the context of outcome budget which MoF has been insisting upon.

(c) The proposals for enhancement of financial powers by Service HQrs should bring out the quantum of likely budget utilization by the MoD, Services, HQrs Commands and echelons down below. For this purpose RE 2005-06/ BE 2006-07 could be the basis for working out budget utilization under present delegation and comparison with the likely budget utilization on proposed enhancement of powers.

(d) Inter-services and intra-service rationalization of financial powers for comparable levels of functionaries, while taking care of service specific requirements.

(e) Need for identifying right functionaries as CFAs and further delegation down the line from Service HQrs to Commands and to lower echelons based on functional requirements.

(f) Drawing up Annual Prioritized Revenue Procurement Plan for each Service bringing out carry forward liabilities and new schemes during the Financial Year against delegated powers and MoD powers separately and provisioning review to address desired serviceability, and fleet availability. Appropriate MIS should be in place to review the results achieved vis-à-vis targets and time and cost overruns with reference to milestones set and under-utilization of budget.

(g) Need to put in place an institutional arrangement by which differential rates, inter & intra service, for the same items/products and by different levels within the same Service are minimized/avoided.

3.2 The Sub-Committee was also asked to look into the dichotomy in PAC/Single tender powers between the three Services, as also inadequacies in the annual ceiling for purchase of stationery in Army.

3.3 While examining the proposal of the Services for delegation of financial powers for Capital items it was impressed that the comprehensive procedures and systems put in place, after setting up of the Acquisition Wing in 2002, must not be diluted and checks and balances envisaged at each stage viz formulation of QRs, AON, Categorization. Quantity Vetting, detailed RFP formulation and Vetting, duly retaining the advantage of economy of scales by clubbing similar requirements of the Services, Joint Staff QR (JSQR) for common items are of paramount importance in case of Capital acquisition.

3.4 The Sub-Committee was asked to bring up data on budget utilization by the three Services and the proportion of cases handled under the present delegation vis-à-vis percentage of budget and cases that are likely to be handled under the proposed delegation.

4. RECOMMENDATIONS FOR ENHANCED DELEGATION OF FINANCIAL POWERS

4.1 The Services had asked for delegation of certain financial powers without consultation of IFAs in following circumstances :-

(a) During War, Special Operations & emergencies.

(b) CFAs located in far flung and operational areas where IFA cover is not available.

(c) In certain cases where IFAs have been positioned/co-located in order to provide financial flexibility.

4.2. As regards War / hostilities / emergencies etc, financial powers without consultation of IFA have been agreed and included for the Services. In the case of CFAs located in remote areas where IFAs have not been provided/ co-located, certain enhancement/delegation of financial powers has also been considered for functional efficiency.

4.3 Enhancement of financial powers without financial concurrence has not been considered where IFAs have been positioned, as this goes against the grain of financial advice system. Accordingly, Services have been asked to process such proposals separately on file, with detailed supporting justification.

4.4 The Committee noted that the delegation should not be rank based but based on operational and functional requirements. As such, total parity between CFAs at various levels in the three Services cannot be achieved, as each Service has its unique functional requirements to necessitate delegation of financial powers to various authorities at different levels.

4.5 The financial powers have generally been recommended to be enhanced by 50-100% of existing levels and in some cases even higher, duly taking into account escalation in the interregnum. Some new CFAs have been introduced in the organizational interest.

Powers for Write-Off of losses were held in abeyance in the 2002 review and have now been recommended for Naval HQ and its lower formations. Due care has been taken that delegation is available down the line for quick decision-making.

4.6 The enhanced delegated powers are shown in the Schedules placed at Annexure 'A', 'B' 'C' and 'D' in respect of the Army, Navy, Air Force and Joint staff respectively.

4.7 As regards the procurement of major equipment / weapon systems for the Army, Navy, Air Force and Joint Staff, certain basic principles were followed for proposing the enhanced powers. Full powers are delegated for revenue procurements to the RM, which have in turn been delegated to MoD authorities and the Services, for various types of procurements. The present distinction enshrined by the MoF, in DFPRs, has generally been maintained while proposing enhanced powers, between the following type of purchases-

(i) Scaled and Non - Scaled Items.
(ii) Procurements from DGOF/ PSUs and Trade sources.
(iii) Indigenous procurements and imports.
(iv) Single Tender & PAC cases as distinct from OTE / LTE.

4.8 This distinction has been factored into the enhanced financial powers of the CFAs in the three Services. Thus, the procurement powers for scaled items are higher than those for non-scaled and for indigenous purchases higher than those for imports. **The powers for purchases ex-import include powers for release of FFE in consultation with IFA upto the limits of the delegated financial powers of various CFAs**. For indigenous purchases / repairs / overhaul in the Navy and IAF the powers of various CFAs is comparably higher for purchase/repairs through PSUs/OFs than those through Trade. Further, PAC and Single Tender cases should be as few as possible and an effort be made to develop at least two established sources of procurement.

4.9 The trend of actual expenditure by the three Services against Revenue and Capital allocations and Revenue stores during the last 4 years including BE allocation for 2006-07 is placed at **Appendix-B.**

4.10 Budget utilization for procurements by the three Services with the present delegation is about 30% while the proportion of cases handled is around 82%. With the proposed enhancement in the delegated powers the overall budget utilisation percentage would go up to 46 % and percentage of cases dealt with by Service HQrs would increase to about 87%. **Details of the above indicating Service-wise position are enclosed as Appendix-C.**

4.11 **Powers at a glance for higher level budget holders in Service HQrs before and after enhancement of delegation are given in Appendix-D.** Almost all the suggestions of MGO, QMG, AOM, COM & DGAFMS have been factored in.

4.12 The rationale behind the increased delegation, service-wise, is given in the succeeding Paragraphs.

5. **ARMY**

5.1 Proposed enhancement / rationalization of powers in the major areas of expenditure and their overall impact, category-wise is explained below.

5.2 **Improved Serviceability State of Stores / Eqpt/ Supplies**.

5.2.1 **Procurement of Ordnance Stores (Indigenous)**

(a) **Scaled Items-Purchases based on Provision Reviews**: With the enhancement in financial powers of the VCOAS/MGO and other functionaries down the line, more cases would get processed in Army HQ, reducing the processing time for procurement. Overall the Army would be able to make improvement in the present availability state of major equipment and weapon systems. MGO will become responsible for spending upto 46 % of the overall budget for indigenous procurements as against existing 24%, while 90-95% of the total number of cases would be finalized within Army HQ and about 5% of the high value cases sanctioned in MoD.

(b) **<u>Non-Scaled/NIV Items</u>** :

(i) The major improvement effected is by empowering MGO for procurement of equipments/stores, both indigenous and ex-import, upto Rs 25 lakhs as samples for tests, trials and experimentation.

(ii) VCOAS Non-scale powers are being enhanced and will also cover items required urgently for Special Operations/Special Forces on lines of the Army Cdr's Special funds.

(c) **<u>Import of Stores</u>** : Financial Powers for imports for MGO are particularly recommended for substantial enhancement upto Rs 20 Crs to meet requirements of Special Clothing and Mountaineering equipment for Siachen Glacier. This will enable utilization of the budget provision for imports upto 35% in-house by the Army CFAs as against existing about 15%.

(d) **<u>Siachen Clothing</u>** : Enhancement of the financial powers of MGO for procurement of Special clothing and Mountaineering Equipment ex-import for the troops posted on the Glacier, is sought due to increase in the authorization and scales in April 2005 and the high rate of wear and tear of special clothing. The non-availability of items of personal clothing causing hardship to soldiers in the Siachen Area has also been commented upon by the Standing Committee on Defence in their Sixth Report in Dec 2005, based on their study visit to forward areas. The present cost ex-import ranges between Rs 2 Crs to Rs 18 Crs per item for one year in respect of Cat I items. The enhanced powers will enable the MGO to provide for timely supply of the special clothing which is absolutely vital for the basic survival of troops in Siachen Glacier and other areas where these are authorized.

5.2.2 **Enhancement of Financial Powers of EME.**

(a) **Improvement in Serviceability State** : Enhancement of powers for Local Purchase / Local Repair Contracts will lead to improvement in the serviceability state of eqpt, since field workshops will be able to procure spares / stores locally or enter into local repair contracts for eqpt / vehicles when so justified on grounds of urgency or when repair capacity of own workshop is full or repair facility not available or when transportation of the eqpt/ vehicle to any other workshop is uneconomical / not feasible. Enhancement of powers will ensure that serviceability state of major war waging eqpt is always higher than the minimum desired threshold.

(b) **Decrease in Mean Time to Repair (MTTR)** : MTTR is a very important parameter for assessing the efficiency of engineering support set up. Often equipment remains out of action (EOA) due to non-availability of spares, due to processing time required for obtaining the necessary CFA sanction. With the proposed enhancement of financial powers, there should be a significant reduction in MTTR of equipment.

(c) **<u>Powers for Modernization of Army Base Workshops sanctioned under Capital Budget</u>** : The pace of existing modernization projects has been slow due to inadequate delegation of financial powers and also procedural bottlenecks. Accordingly, delegation of financial powers is recommended to the MGO, DGEME and CE/Comdts ATC / ABWs for execution and establishment of essential plant, machinery and infrastructure schemes within the umbrella sanction issued by MoD for such modernization projects. This would enable the operating level i.e. the Comdts of Advance/Army Base Workshops to execute some schemes within their delegated powers. **An SOP should be put in place for this purpose.**

(d) **<u>Product Development & Indigenisation</u>**: So far the Corps of EME was only responsible for Product Improvement. However, wef 01 Jul 06, the responsibility for indigenization too will be transferred from DGQA to them. Indigenization would be carried out in the Army Base Workshops by optimally utilizing and augmenting their capacity. Financial powers are proposed for the MGO & EME CFAs at par with the IAF to operationalise the activity and provide necessary impetus for such effort.

5.2.3 **<u>ASC Supplies.</u>** The financial powers of QMG for concluding contracts for provision review cases are not being enhanced though there is some increase in procurement powers of other CFAs. The following rationalization has been carried out :-

(a) The QMG had been unable to utilize his provisioning powers of Rs 40 Crs for scaled items as a large number of items are clubbed in MoD while determining the value of the procurement, as also the volumes involved are large. The ambiguity is now being removed by an annotation that the value will be determined "on per item basis" rather than clubbing all items in a particular category.

(b) Financial powers delegated to the QMG for contracts for fresh supply beyond Rs 3 Crs are presently exercisable in consultation with MoD (Fin). As such, meat and other contracts exceeding value of Rs 3 Crs were going to MoD (Fin). The stipulation in this regard has now been deleted, thereby allowing QMG to sanction contracts within his delegated powers in consultation with the IFA.

(c) At present no Milk and DP contracts are being concluded under the delegated powers of Command CFAs. Enhancement in delegated powers of Army Cdrs upto Rs 3 Crs will enable large number of contracts to be finalized at the Command level.

5.2.4 **Sanction of Works.** There has been a successive erosion in the delegated powers of the Army CFAs for sanction of works due to steep increase in the prices of the steel, cement, timber and petroleum products (affecting transporting cost) since 2002. In 2002, 30% of the budget was getting utilized at the level of the MoD and 70% within powers of the Army. At present 60% of the Works budget is being sanctioned under the MoD powers and 40% within the powers of the COAS and lower CFAs, with consequential slowing down in progress of cases. Enhancement of powers of Army CFA is expected to restore the earlier ratio of budget utilization, to 75% in house by Army and 25% in MoD.This will lead to speedier processing of works proposals and improve the position with regard to maintenance and low budget works. Almost 60% of the schemes under the Major Works Programme (MWP) would get approved within the delegated powers of COAS leading to timely utilization of funds. The saving in terms of time would be between 3 to 6 months.

5.2.5 **Removal of Certain Anomalies/Bottlenecks.**

(a) **Non-inclusion of appropriate CFAs** : Financial powers of authorities below the level of Army HQ for Technical Trg & Instructional Equipment Grant, available in extant AIs/MoD letters, were not reviewed / enhanced nor included in the MoD order issued in Apr 2002, leading to considerable hardship to field functionaries who are authorized this grant. The powers given in earlier AIs/Govt letters are very meager and unrealistic at current prices. These Command CFAs are recommended for inclusion factoring for inflation.

(b) **Purchase of Stationery:** As per extant Govt. orders since 2003 the Army units/fmns are purchasing stationery stores out of their ACG Budget upto a ceiling of 20% of the total allocation. The financial powers of various CFAs presently given in Schedule XI, are inadequate and much less than 20% of the annual allocation. It is recommended that financial powers of Army CFAs for purchase of Stationery should be the same as for other purchases from ACG and the annual limit for purchase of Stationery be enhanced from existing 20% to 30% of ACG allocation.

(c) **Write off of Losses of Stores and Public Money:** At present no financial powers have been conferred in this regard on higher functionaries at Army HQ for Units/Fmns/Ests other than those of Ord, MF, RVC & Emb HQ. Thus, in cases relating to the Fd Army when the amount of loss is beyond the powers of the highest Comd CFA, i.e. GOC-in-C Command, sanction of the Govt. is reqd, which leads to delay in regularization of losses. The tardy settlement of cases related to write off of Losses has been adversely commented upon by the CGDA. The outstanding cases date as far back as 1970-71. Accordingly, VCOAS and AG have been recommended as higher CFA at Army HQ for Write off of Losses to enable early settlement of approximately 50% cases upto Army HQ level.

(d) **Other Omissions in Financial Powers** : Powers given in FRs / AIs /Govt Letters issued prior to 2002 for certain field functionaries, were missed out in the Apr 2002 letter, such as powers for sanction of Tests and Trials of Eqpt/ Systems to DCOAS (P&S)/ Hiring of services / manpower by Mil Farms, RVC, Purchase of Chemicals by Food Inspection Organisations, powers of Station Cdrs/ BROs for repair, Repair of Port Crafts by Engineers etc. These are recommended for inclusion as they will enable these functionaries to accomplish their day-to-day assigned tasks.

5.2.6 **Areas of Enhanced Activities of the Army**

(a) **R&D Projs by ATC/ABWs**: Need for Delegation of Powers for in-house Army R&D effort by ATC/ABWs to MGO, DGEME and Comdts ABWs is recommended.

(b) **Simulators** : Enhancement of financial Powers for Development of Simulators by SDD under GOC-in- ARTRAC is recommended. This will provide a boost to the Simulator Development Division under GOC-in-C ARTRAC to undertake projects of higher value.

(c) **Induction of Simulators**: Induction / Procurement of Training Simulators developed by SDD in Cat 'A' Ests for Trg Purposes from the Stores Procurement Head was proposed. At present there is no clear cut guideline on the induction of Simulators developed by the SDD. It is recommended that procurement of Simulators for training the troops be done from the ATG Grant for Revenue items and for Simulators costing over Rs10 Lakhs from the Capital Budget, under procedure to be included in DPP.

(d) **Powers for Access Networks**: Under IT head financial powers have been proposed for delegation to SO-in-C/CSO Comd/Corps for sanction of 'Access Networks and Media Connectivity' for executing the Network Projects for the Army.

5.2.7 **Important Recommendations for Field Army** .

(a) **Unit/Miscellaneous Grant:** Enhancement of financial powers of Field Functionaries for various Miscellaneous / Unit Grants will enable them to utilize their allocated grant efficiently and obviate the compulsions for resorting to splitting of orders due to inadequacy of powers

(b) **Stationery Stores:** Enhanced financial powers and annual ceiling of funds for purchase of Stationery stores through ACG, with commensurate powers as given in Schedule I, will provide much needed relief and reduce the number of audit objections due to units not being able to live within the ceiling restriction.

(c) **Repairs**: Enhancement of LP powers for purchase of spares/stores required for repair of eqpt / vehicles under

Schedule XII, thereby reducing the MTTR for eqpt / vehicles and enhancing the fitness of the field Army.

(d) **IT Powers**: Decentralisation and enhancement of financial powers for integrated IT projects, purchase of computer stationery and consumables and maintenance and repairs of IT equipment will facilitate rapid pace of automation and take care of day-to-day/ MIS needs of all units/estts, thereby enhancing their overall efficiency.

5.2.8 **Army Cdrs' Special Financial Powers (ACSFP) Related Issues.**

(a) **Ceiling for Emergent Repairs**. Existing ceiling for emergent repairs of equipment / vehicles through Ord / EME Local Purchase powers is proposed to be enhanced from existing 0.5% to 1% of total ACSFP allocation for Northern and Eastern Commands and from Rs 15 Lakhs to Rs 30 Lakhs per annum for other Commands. This will facilitate urgent repairs of eqpt / vehicles used for CI Ops/ IS Duties in adverse terrain and remote locations.

(b) **FOL.** Provision did not exist so far for drawal of FOL from ASC Depots for eqpt/machinery procured over and above PET/WET and held as Sector Stores nor was FOL authorised as an item to be procured out of ACSFP. This was causing a major problem in running of vehicles / eqpt purchased under ACSFP. Provision has been included to authorize drawal of FOL for such eqpt/ vehicles from ASC Supply Depots as a more cost effective option, which will enable HQ Commands to run this equipment / machinery.

5.2.9 **Improvement in Op Preparedness**

(a) **Powers during Special Operations:** No powers were delegated in the Apr 2002 letter for the Army CFAs, for procurement of stores/eqpt required urgently during war/hostilities/special operations (including disasters), though available to the Army Authorities in FRs, 1983. These are now recommended, as delegated to the Navy in 2003. The powers will become operative on the issue of a Govt. Order declaring a State of Ops, enabling the Army to meet all eventualities.

(b) **Emergent Procurement of stores/spares from abroad:** Delegation of powers to MAs for procurements of stores/spares upto Rs 15 lakhs to meet operational/technical requirements on grounds of urgency is recommended with appropriate checks and balances as regards initial grant of AON by MGO.

(c) **Powers to VCOAS for Special Forces**: Financial powers delegated to VCOAS for procurement of Non-Scale/NIV items (including ex-import) on lines of procurements being made under Army Commanders' Special Financial Powers, will give him the necessary flexibility to meet the requirements of Special Forces/special operations ordered by the Army.

5.2.10 **DGOF Supplies**. The indents of MGO for DGOF supplies on the Revenue side are of the order of Rs 4000 Crs annually. Before finalizing the pricing of such issues, approval of concerned Addl FA should be invariably taken as it will help in cost comparison with similar items from trade and ex-imports, measures taken by DGOF for reviewing the estimates, man-hour rates, reduce overheads and rejection %. There is also a definite need for optimally utilizing the in-house capacity of Ordnance Factories. It would be necessary to critically examine actual consumption vs desirable norms for usage of ammunition of various types for training and operational needs, as ammunition constitutes nearly 40% of the value of issues. Further, the value addition by VFJ in case of `B' Vehicles, keeping in view that TOT has been taken, needs close monitoring.

6 NAVY

6.1 The enhancement sought by the Navy in the existing financial powers is **primarily aimed at bringing about improved serviceability and availability of systems/platforms at their optimal and peak performance levels.** The focus, therefore, has been on revising the crucial powers relating to procurement of indigenous and imported stores, as well as offloading of ships for repairs and overhaul. It **is envisaged that with the enhancement in financial powers the serviceability and availability of these platforms would increase significantly as enumerated below:-**

(a) **Indigenous Procurement**. Procurement of Naval stores, spares and other equipment account for almost 43.5% of the Naval Revenue Budget. It is largely utilised to ensure operational availability of Naval equipment and platforms. Enhancement of financial powers for procurements by Naval functionaries will ensure speedy procurement and optimize operational efficiency. Accordingly, the following enhancement of delegation of powers is recommended -

(i) For procurement of Weapon/Non-Weapon stores ex-trade, the powers of COL and COM have been enhanced from Rs 10 crs to Rs 15 crs and those of ACOL/ACOM have been revised from Rs 5 crs to Rs 7 crs.

(ii) For purchase of Galley equipment, the powers of VCNS have been revised from Rs 10 lakhs to Rs 15 lakhs.

(iii) For offloading repair/refit of Ships etc, through PSUs/Port Trusts, VCNS is proposed to exercise powers up to Rs 15 crs as against earlier Rs 12 crs.

(iv) For purchase of office equipment, the powers of FOC-in-C are proposed to be enhanced from Rs 15 lakhs to Rs 20 lakhs in consultation with IFA.

(b) **Imported Stores**. The powers for procurements ex-import on grounds of urgency or operational or technical requirement are recommended for enhancement primarily to allow CFAs to procure equipment for urgent repairs, especially when afloat in foreign waters. The powers of NAs / DAs are also being substantially enhanced to speed up the process of procurement of stores from the OEMs located in foreign countries. It is expected that the enhanced powers would enable processing of about 61% cases under the delegated powers NHQ as against the present level of 20%.

(c) **Refit and Maintenance / Repair of Ships.** The powers for refits, maintenance and repair of ships are proposed for substantial enhancement as they have a direct impact on the availability of ships for operational commitments. Powers for offloading repairs of ships both to PSUs and trade are recommended for enhancement. With this increase, the time taken for refits and dry docking of ships is expected to reduce by about 30%, leading to better availability of ships / platforms for meeting operational requirements and reduction in the backlog of refits. Provision has also been made to allow repair / AMCs of the onboard equipment in order to cut down delays by reducing the lead time for repairs. Another likely advantage is that the cost of off loading refits to trade would decrease substantially due to speedy processing and more realistic assessment of costs by the CFAs who are operational authorities themselves.

(d) **Hiring of Services**. The powers for Hiring of Services are being enhanced by 50% at NHQ and 150% at Command level. The primary aim is to provide necessary flexibility to the CFAs to ensure that the support services are in place at the right time and their non-availability is not an impediment to smooth operations.

(e) **Hiring of Transport.** Similarly powers for Hiring of Transport have been doubled for NHQ functionaries and the powers of Cs-in-C in the Commands enhanced from existing Rs 3 lakhs to Rs 200 lakhs. With such outsourcing, the focus of the Navy will be more on operational matters. **However, further guidelines need to be evolved keeping in view the audit inputs to ensure that rates finalised are reasonable and disparity between rates for the three Services in the same station are avoided.**

6.2 **Inclusion of New CFAs**. In consonance with the spirit of NMS and need for further decentralization of powers to the operating and functional levels, **a large number of CFAs have been added, like COM & ACOM, ACOL, DGONA/DGNAI at NHQ level and COS, CMP/CPRO, Chief Hydro, FOSM, NOICs, NAIs at Command level**. The aim is to include all those authorities that have a bearing on the operational and combat efficiency of the Navy. The new CFAs are primarily at Command level and a few have been added at NHQ to provide impetus to and optimize speedy procurement.

6.3 **Rationalisation of Existing Provisions**. The provisions of the existing NI have been rationalized for better implementation. The number of Annexures have been reduced and Serials of the Annexures reduced / rationalized. This is aimed at optimizing use of the extensive powers delegated in this revision.

6.4 **Power to Write Off Losses**. Delegation of powers for write off of losses have been proposed, which had remained inoperative since 1981. This would enable the Naval authorities to settle a large number of the pending cases of losses in respect of the Commands, which are caused due to or not due to theft, fraud or neglect.

6.5 **Overall Improvements**: The significant improvements expected as a result of this delegation include -

(a) Reduction in lead-time for procurement of critical spares/yard material which in turn will reduce the down time of Ships / Systems / Weapons / Sensors.

(b) Reduction in delays and cost in off loading of refit of ships to trade due to quicker processing and more realistic assessment of costs.

(c) Reduction in the backlog of refit of ships and equipment.

(d) Reduction in the lead-time towards commencing and executing emergency repairs of ships and submarines through trade.

(e) Increase fiscal awareness leading to better financial management of resources.

(f) Greater matrix units of refit work are completed due to quicker decision making at the Command level resulting in more efficient management of resources.

7. <u>AIR FORCE</u>

7.1 The enhancement of financial powers in the Air Force is **primarily aimed at bringing about improved serviceability and maintainability of Aircrafts/ Systems and cater appropriately for repair and overhaul of the ageing fleet of air crafts as also to cater spares support for recent additions to the transport fleet.** Proposed enhancement / rationalization of powers in the major areas of functioning and their overall impact on the above key result areas are amplified in the succeeding section.

7.2 **<u>Maintenance of Air Crafts</u>**: The serviceability of various types of aircrafts, particularly the transport fleet, would improve substantially and be around the desired levels. Since 94% of the import cases would be handled at Air HQrs with the proposed increase in import powers of VCAS/AOM from Rs.8 crs to Rs.20 crs, the serviceability norms and compliance with the same would have to be closely monitored so that AOG situation is avoided. Also need for augmenting repair and overhaul facility in BRD and HAL and its cost effectiveness vis-à-vis imports needs close examination.

7.3 **Repairs and Overhaul:** MoD should decide ROH cases, which involve long term requirements based on foreseeable needs by inviting tenders from as many OEMs as possible. The experience is that such bulking has been cost effective apart from ensuring assured availability of spares and critical lines on a long term basis.

7.4 **Delegation to HQ Maintenance Command:** The provisioning and procurement responsibility has been decentralized to HQ MC IAF, in phases, which had lead to enhanced efficiency and speedy procurement of spares. Due to rapid increase in prices of Aviation spares in recent years, the process has begun to slow down as a large number of cases now get referred to Air HQrs and MoD. Enhancement of powers for HQ MC IAF is therefore recommended to ensure timely availability of spares for the field units.

7.5 **FOL Consumption:** ATF constitutes 31 % of the Stores budget and 19 % of the Revenue Budget of IAF and is an important component of revenue expenditure. The escalating international crude prices require that a more effective control and monitoring system be put in place. Decentralisation of ATF payment will also be brought under the control of Commanders at Field level for cost consciousness and optimum usage, through innovative measures for achieving economy in expenditure.

7.6 **Consumption Norms:** It is also necessary to evolve consumption norms of various types of fleet, number of sorties made and sortie duration. As the squadron strength has come down and older generation aircrafts are being replaced by latest generation aircrafts, POL consumption in physical terms should come down. This is a major area for monitoring.

7.7 **Enhancement of Financial Powers.** The important recommendations for enhancement in powers of Air Force authorities are as follows: -

(a) For procurement of stores from PSUs/Govt Departments, the powers of VCAS / AOM / AOC-in-C have been enhanced from Rs 15 crs to Rs 30 crs.

(b) For procurement of stores ex-trade, the enhancement of powers of above CFAs is from Rs 10 Crs to Rs 20 Crs.

(c) The powers of VCAS/AOM/AOC-in-C have been enhanced from Rs 8 Crs to Rs 20 Crs for procurement of stores ex-import and release of FFE to cater for the enhanced requirements for repairs and overhaul of ageing fleet of aircrafts and provide continued spares support for new inductions, completing their warranty.

(d) Powers of VCAS/DCAS/AOM/AOC-in-C have been enhanced from Rs 25 lakhs to Rs 50 lakhs for procurement of stationery items.

(e) Powers relating to Acceptance of Necessity and Administrative Approval for Works have been enhanced by approximately 50%, for all the CFAs.

(f) Powers for Hiring of Civil Transport have been enhanced from Rs 1Cr to Rs 2 Crs due to increase in transportation cost on account of increase in FOL prices and increased movements.

(g) Powers for Integrated IT Projects have been substantially increased from Rs 1 Cr to 4 Crs for the DCAS/VCAS and AOC-in-C in order to provide impetus to implementation of advanced automation projects of the Air Force.

7.8 **Overall Impact.** The benefits expected to accrue from enhanced delegation of financial powers to the Air Force field commanders are as follows :-

(a) Expeditious conclusion of most procurement contracts at local level itself, which will reduce procurement cycle time.

(b) This in turn will facilitate early materialisation of spares/services / resources which will consequently result in -

(i) Increased production at field units.

(ii) Enhanced aircraft serviceability and availability.

8. Joint Staff

8.1 The proposed delegation of financial powers to the Joint Staff utilizes NI 1/S/2003 as the base document duly supported by the financial powers proposed for the Army / Air Force which are not covered in the NI. Financial Powers for the Army elements at ANC / SFC have been added and powers delegated for write off of losses, regularization of audit objections and executing contracts as obtaining for the Army. The CISC and C-in-C, SFC have been equated with VCNS and COM/COL as per the Govt directive. Appropriate financial powers have been proposed for the CISC, keeping in view his status as Chairman, VCC. The existing financial powers of C-in-Cs have been enhanced as per the proposed powers for the Navy and the Army and Air Force elements.

8.1.1 **New CFAs:** Commandants TSIs have been included as new CFAs to facilitate smooth functioning. Powers have been delegated to Bde Cdrs, AOCs, Component Cdrs, COs / Sqn Cdrs of IDS units based on powers proposed for equivalent functionaries in the Army / IAF Schedules.

8.1.2. **Tri Service Institutions (TSIs):** NDA Khadakvasla, DSSC Wellington and CDM Secunderabad, which were earlier under control of the Army, have been shifted under HQ IDS wef FY 2005-06 as independent self accounting establishments. Since NI 1/S.2003 did not cater any financial powers for TSIs, the Comdts TSIs are now being delegated financial powers appropriate to their status as proposed for equivalent authorities in the Army to enable them to operate the allocated Budget and obviate the need to refer cases to CISC, as being done presently.

8.2 **Enhancement of Powers.** The Schedules of proposed powers in respect of Joint Staff are placed at Annexure`D', which has eight parts, as follows:-

(a) **Annexure-1** contains the delegation of powers to CIDS and C-in-C (SFC), both of whom presently exercise powers equivalent to Vice Chief of the Naval Staff under NI/1/S /2003. The powers proposed in Annexure-1 are in line with those being proposed by Naval HQrs in their revised proposal.

(b) In **Annexure-2**, the methodology adopted for Commands and their lower Formations as also for Tri-Service Institutes (TSI) is based on NI/1/S/2003 without any change except for use of corresponding designations for equivalent functionaries in the Army. Commandants of TSIs have been included in this exercise since they are now administratively and functionally under HQ IDS but function as independent entities and subject to corresponding budget controls by this HQrs.

(c) The powers proposed for DDG Signal Intelligence (DDGSIs) in-charge of respective zones, are similar to those being considered for Naval Officers-In-Charge of stations functioning under the three Naval Commands. This is because the Signal Intelligence Organization has been placed under the Integrated Defence Staff (operating through the Directorate General Defence Intelligence Agency) and no longer covered by the delegated powers of the Cs-in-C in the area of their location.

(d) The remaining Annexures from Annexures 3 to 7 are on the lines of the NI/1/S of 2003 with appropriate changes in the designations including those for the SFC.

(e) In order to cater to the Army element within SFC and ANC and their onward deployment in operational areas, the relevant extracts of powers proposed for revision for the Army, have been incorporated in Annexure -8.

9. **DGAFMS**

9.1 **Provisioning.** DGAFMS is responsible for provisioning of medical stores and equipment for the Armed Forces. Existing powers of DGAFMS and other lower authorities were considered inadequate as many of the Rate Contracts (RCs) have to be finalized at MoD.

9.2 **Rate Contracts.** The budget handled by the AFMSDs is almost 60% of the total revenue budget for medical stores and there are inbuilt delays in the supply chain and problems of overstocking and life expiry of drugs.

9.2.1 Accordingly, it is recommended that rate contract powers for both PVMS and NIV drugs and consumables upto a value of Rs 5 Crs be delegated to DGAFMS and Rs1.5 Crs with Addl.DGAFMS which will hasten finalization of rate contracts of about 600 out of 650 items which have an annual turnover of Rs.20 lakh per annum for each item.

9.2.2 Hospitals commanded by Brig. and above and four other Hospitals of the Navy and Air Force commanded by Col and equivalent will be DDOs, which will enable them to obtain their supplies of drugs and consumables within allocated budget directly from vendor with whom RCs have been concluded by DGAFMS and not through AFMSDs. This should minimize the problems highlighted above.

9.2.3 Further, based on the experience gained, all hospitals can be made DDOs, thereby improving supply chain management significantly. With this, the DGAFMS would be fully vested with powers for utilization of the Revenue budget.

9.2.4 In addition, certain increase in powers down the line has been suggested so that the competent authorities in the hospitals are able to procure life saving drugs, consumables, anti cancerous medicines, cardiac drugs, stents and immune suppressive drug in time.

9.3 **Out-Sourcing of Services.** Delegation of financial powers for outsourcing of Conservancy Services and Waste Management for

Hospitals, which had been a problem area, has been made and will result in better sanitation and patient care in Hospitals.

9.4 **Capital Procurements**. The proposed increase in capital powers of DGAFMS from Rs.50 lakhs to Rs.2 crore would ensure 30% utilization of budget under delegated powers and would enable him to equip hospitals large number of hospitals with much needed diagnostic, surgical facilities and medical equipments.

10. DELEGATION OF FINANCIAL POWERS FOR PROCUREMENT OF 'CAPITAL' ITEMS

10.1 The Committee considered the proposed delegation of financial powers under the Capital Head of expenditure to the Services Headquarters. In the meanwhile, AS(I), DG(Acq) had made a strong case for delegating powers to Service HQrs upto Rs.10 crores with a view to mitigating problems regarding timely and optimal utilization of capital budget allocation and relieving the burden of large number of cases with the Acquisition Managers.

10.2 IFA (CISC) had brought out the dangers inherent in such delegation leading to uncoordinated procurement of small value equipment, causing problems subsequently in terms of interoperability and likely increase in inventory both in range, quantity, and ESP.

10.3 Commonality of equipment like communication systems, NVDs, Gen sets, UAVs, ALHs and IGLA would have to be carefully examined by HQrs IDS before firming up necessity, evolving Jt.SQRs and assessing the possibility of indigenization through TOT route.

10.4 The Sub-Committee under Principal IFA has brought out that with a delegation of Capital acquisition powers upto Rs.10 Crs, roughly 35% in terms of numbers and 1% in terms of estimated cost of the capital schemes would be handled by the SHQrs. **The details of AAP-2005-06 and 2006-07 indicating the total number of cases and estimated cost thereof, and number of cases upto Rs 10 Crs and cost thereof is enclosed as Appendix `E'.** This would allow the Ministry of Defence to concentrate on high value cases.

10.5 However, the checks and balances provided in DPP 2005 have to be followed. Thus, the existing procedure may continue to be followed for seeking initial in-principle approval of the DPB while the TPC/CNC and CFA's approval could be left to the Services HQ. These powers will be exercised in consultation with the IFAs at the respective Service HQ. A **flow chart of the proposed capital acquisition process to be followed by the Services under the delegated powers is placed at Appendix-F.**

10.6 There were suggestions that in place of TMs, PD(Plg) in the Service HQrs could initiate the RFP and be in the loop for Staff Evaluation. The Committee however felt that the data base of vendors maintained by TMs and their experience in floating comprehensive RFP would be extremely useful to the Services while trying out the proposed delegation. However, based on experience gained by the Services, this can be reviewed. The Dy. Chief of Army Staff also made a suggestion regarding incorporating a provision in the recommendations for review of the delegated powers one year later. This has been agreed to. It was also a considered suggestion of Defence Secretary that FA(DS) should invariably be consulted in case of any doubt, ambiguity and clarification required for implementing the procedure under delegated powers.

10.7 A Quarterly Report should be rendered by VCOAS/ VCNS and DCAS respectively to the DPB through DG (Acq) regarding the progress of various schemes under delegated powers, inter alia indicating the time taken for acquisition and actual cash outgo against budget projected for each scheme. The present mechanism for expenditure monitoring on a monthly basis for carryover liability and new schemes under delegated powers would continue to be done by FA (Acq) to ensure that the consolidated position on monthly outgo against acquisition schemes get reported to DPB, as hitherto fore.

11. **MAJOR RECOMMENDATIONS**

11.1 The important suggestions consequential on enhanced delegation of financial powers to the Services are -

(a) Since the suggested enhancement in the delegated financial powers of Service HQrs would take away some powers of various functionaries in the MoD/MoD (Fin), a suitable exercise is to be undertaken to rationalize the delegation within the Ministry of Defence for various functionaries. A Sub-Committee consisting of JS(Air), JS(O/N) and Addl.FA(A) and Addl.FA(M) would come up with their recommendations in this regard.

(b) Both in the Services HQrs and MoD the TPC / PNC will only be a recommendatory body for purchases which will be sanctioned at next higher level by the CFA.

(c) The Services HQrs must undertake an exercise to rationalize the structure of delegation within their HQ/lower formations to suggest deletion of those CFAs who are not required to exercise financial powers vested in them and to ensure that suitable budgetary allocations are made to various CFAs.

(d) MGO and QMG have a Revenue Procurement Plan. Air HQrs and Naval HQrs also have a data base on committed liabilities and new schemes. The Revenue Prioritised Procurement Plan (PPP) must give details of carry over liabilities as also the new schemes to be concluded during the course of the Financial Year, indicating those to be sanctioned under delegated powers of the Services and under MoD powers separately.

(e) The PPP must be prepared at each level of CFA as a sub-set of the overall Procurement Plan for all major areas of procurement for each of the Services. These plans will be made both at HQ level and Command level in respect of various budget holders in consultation with respective IFAs and notified formally.

(f) The Budget allocation at various stages against Sub Heads and detailed heads should be formally notified after due consultation with respective IFAs so that there is proper linkage between expenditure and budget available and timely reappropriation of allocation and optimal budget utilisation is ensured.

(g) It is recommended that these PPPs are duly linked with Performance Parameters, efficiency levels envisaged and budget involved. The DPB should preferably be apprised of these Priority Procurement Plans on the Revenue side so that they are duly harmonized with AAPs of Capital Acquisition schemes and the maintenance requirements are duly factored in our budgeting process, till we graduate to adopting life cycle costing in our Acquisition process.

(h) A **suitable MIS for reporting the expenditure outgo against Revenue Priority Procurement Plan vis-à-vis budgets allocated, on a monthly basis, through the concerned Addl FA & JS would have to be formalized,** so that the FA (DS) / Defence Secretary and RM are apprised regularly about the progress of revenue expenditure and state of efficiency levels in maintenance consistent with the targets fixed by the Service HQrs.

(i) The performance norms should be evolved in a clear timeframe by SHQrs in consultation with Joint Secretaries and Addl.FAs in distinct areas of revenue expenditure so that the budget holders are amenable to performance based budget monitoring and the mandate of MoF in regard to outcome budget gets implemented by the Service HQrs. There must be an in-house mechanism for monitoring actual performance against milestones.

(j) Revenue Procurement must be viewed as a Project Management where diverse elements like Civil Works, Manpower induction, Testing / Evaluation, Erection and commissioning are involved. Formal structure must be put in place for such procurements to review the major milestones with reference to PERT chart so that time and cost overruns are avoided.

(k) In-house capacity of OFs / ABWs / BRD / Naval Dockyards must be optimally utilized and emphasis should be on full capacity utilization. Offloading to trade / outsourcing could be an option for low-tech, cost ineffective items.

(l) Services are expected to conduct focused and time bound review of their PET / WET making full use of the ETRC inputs on the subject with a view to eliminating authorities of item of stock which have become redundant in the current operational milieu. Efficacy of such reviews would need to be periodically checked.

(m) A comprehensive review should also be undertaken urgently regarding the efficacy of the transportation model for direct dispatch of stores eqpt/items by the OFs/PSUs/Other Vendors directly to consignees, instead of following a circuitous route involving centralized stocking by CODs/ ODs and their re-issue to the DOUs / ultimate consignees , so that the inventory carrying costs, losses in transit, delays and inconvenience inherent in centralised stocking are avoided.

(n) The Parliamentary Standing Committee on Defence while reviewing the Procurement Policy and Procedure has advised in its Sixth Report, tabled in Parliament on 12 Dec 2005 that –

- DoD should make a clear distinction between defence equipment and other items such as telecom hardware, IT hardware, office equipment, spare parts etc. which do not strictly come under defence equipment and avoid complexity of procedures for the latter (Para 15.5).
- Time frame for procurement should be curtailed and time frame prescribed for getting delivery of items of the defence forces and the same should be strictly adhered to (Para 15.4).
- Single vendor situation should be applicable in exceptional circumstances and for exclusive weapon systems / items (Para 7.6).

In other words, the main thrust of the Parliamentary Committee recommendations is OTE for COTS items and avoidance of Single Vendor situation. There is a need, therefore, to make broad based specifications to ensure competition for common user items and to compress the timeframe for procurement.

(o) There is also a definite need to update vendor registration periodically and share such data base both intra service and inter service. Electronic networking of such data base between the Services CFAs, IFAs and MoD and MoD(Fin) would, therefore, need to be established in a time bound manner. Decision on suitable platforms and operating systems must co-opt in-house expertise so that there is smooth transition during operation of such system. Marketing intelligence has to be an important element before taking procurement decisions.

(p) The **financial powers being delegated to the Services for exercise during War, Hostilities, Natural Calamities and Special Operations will get invoked on the issue of a Govt notification declaring such a situation.** Since these powers are now being uniformly promulgated for all the three Services, **there is need to evolve detailed procedural guidelines for procurement of such operational requirements,** as has been done in the case of Capital Acquisitions, by way Fast Track Procedure (FTP). **During the review of DPM-2005 this aspect should be kept in mind.**

(q) An MIS should be maintained by the Services for disposal of stores and close monitoring of slow-moving and non-moving items. The inventory management packages of the three Services should address this concern in a time bound manner.

(r) Suitable MIS should also be instituted to have a feedback on audit paras etc., in the areas where higher delegations are now being proposed, so that the concerns of Statutory bodies and Parliamentary Committees are properly addressed by MoD.

11.2 Both the CNS and CAS have made a powerful case for connecting Service HQrs, Budget Centres, CGDA, MoD & MoD(Fin) to a shared data base and graduate to e-accounting and e-auditing with requisite checks and balances and security safeguards.

11.3 We have to remain strongly focused to devise ways to stem waste, abuse, professional neglect and inefficiencies in expenditure. Military requirements for confidentiality are legitimate so long as they relate to plans and capability. It is with the processes, procedures and methods that deviations and inadequacies creep into the system, unless there is accountability. Given the diverse needs, perceptions and compulsions of the Defence Services and need for inter-services and intra-service rationalization and prioritization, the process of streamlining, often divergent view points, is only possible at the level of FA (DS) / Def Secy / RM who have a holistic view of the threat perceptions, defence goals and missions and combat imperatives. The capability of DRDO and Defence PSUs / OFs also need to be appropriately dovetailed into this process.

11.4 Accordingly, while delegating such large powers, the Ministry should not lose sight of its overarching role for long term planning of its Capital and Revenue requirements and the linkage between acquisition and operating and maintenance costs. Till we graduate to life cycle costing for all our systems, the Prioritized Revenue Procurement Plans for the three Services would need to be in sync with the AAPs of the three Services for new capital schemes and carry over capital schemes. Long term requirements, contracts with price escalation clauses, negotiations involving contracts for similar items with inter-service usage and contracts with foreign Governments and strategic parameters should be within the functional domain of the Ministry. The delegation of powers for capital acquisition schemes should be hedged with abundant caution.

11.5 Specific recommendations of the Committee for enhanced delegation of financial powers to the Army, Navy, Air Force and IDS placed at Annexures 'A', 'B', 'C' and 'D' respectively be approved.

11.6 The powers delegated vide the above Annexures on the Revenue side be in place for a period of four years i.e upto 30 Jun 2010. A review may be initiated, if required, in the third year so that further revision of powers can be instituted in a timely manner.

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LIST OF APPENDICES