No. 7(3) E-Coord./2006
Ministry of Finance
Department of Expenditure

New Delhi, the 22th July, 2006.

OFFICE MEMORANDUM

Subject: **Expenditure Management – Economy Measures, Rationalization of Expenditure and Measures for Augmentation of Revenues.**

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1. Background

1.1 With a view to containing non-developmental expenditure, and thereby releasing additional resources for meeting the objectives of priority schemes, particularly under the NCMP, Ministry of Finance has been issuing guidelines on 'Austerity Measures' in the Government from time to time. Such measures are intended at promoting fiscal discipline, without restricting operational efficiency of the Government. Last such instructions were issued vide OM No.7(2)/E.Coord/2005 on November 23, 2005.

1.2 Now, due to unforeseen developments resulting in additional demands which have been made post budget on the Central exchequer, it has become imperative to curtail and rationalize Government expenditure, and in particular, to avoid ostentatious and superfluous expenditure. Economy measures are called for, inter alia, in day to day planning and functioning of the Government, in observance of discipline in the fiscal transfer to States, Public Sector Undertakings etc., and augmentation of revenues. With these objectives in view, the following additional guidelines are issued regarding austerity measures with immediate effect as enumerated in the succeeding paragraphs.

2.1 5% mandatory cut on non-Plan expenditure.

For the year 2006-07, every Ministry/Department shall make a mandatory 5% cut on non-Plan expenditure excluding interest payment, repayment of debt, Defence capital, salaries, pension and the Finance Commission grants to the States. No re-appropriation of funds to augment the non-Plan heads of expenditure shall be allowed during the current financial year. Financial Advisers shall review implementation of this cut on quarterly basis and report to the administrative Secretary and the Minister and the Department of Expenditure.

2.2 Economy Measures

Various Government offices under Central Government shall make every effort to avoid ostentatious and unnecessary expenditure. Day to day functioning of Government offices shall be managed with utmost economy in operating expenses such as maintenance of buildings, office equipments, transport, communication, conservancy, stationery, furniture, hospitality and furnishings at the offices/offices at residences.

2.3 Vehicles

No new vehicles shall be purchased even for replacement of condemned vehicles. The requirement of vehicles shall be met through hiring on medium term basis excepting in the Armed Forces etc. where the scope for hiring of vehicles is limited. There shall not be any fresh appointment of drivers. Excess drivers in any Ministry/Department shall be either sent to the Surplus Cell or else utilized by hiring of vehicles without drivers. Purchase of new vehicles shall only be permitted in respect of new organizations and that too at the senior most levels in such organizations.

2.4 Telephone

The norms for usage of telephone at offices, residence and cellphone are already in place. All the offices in Government of India shall adhere to these norms and excess expenditure over and above the norms shall be borne by the individual users.

2.5. Seminars and Conferences

Utmost economy would be observed in organizing Conferences/Seminars/ Workshops. The prescribed expenditure limit with respect to these should be strictly enforced. Only such Conferences/ Seminars/ Workshops, which are absolutely necessary, should be held. Holding of exhibitions/seminar/conferences abroad is strongly discouraged, except in the case of exhibitions for trade promotion.

2.6 Ban on creation of Plan and non-Plan posts

2.6.1 The existing ban on creation of posts should be enforced strictly. Any unavoidable proposal for creation of Plan/non-Plan posts, including Group A, B, C and D posts, shall continue to be referred to the Ministry of Finance (Department of Expenditure) for approval. In such unavoidable proposals, creation of post should invariably have a support of matching financial saving by adjustment, by abolition or keeping in abeyance of post(s) from the establishment strength of the Ministry / Department.. DoPT's extant O.M. No. 2/8/2001-PIC dated May 16, 2001 regarding optimization would continue to be in force and shall be strictly adhered to.

2.6.2. Every Ministry/Department shall undertake a review of all the posts in the Ministry/Department and in the attached and subordinate offices and make available the outcome of such review and full details of vacant posts to the Department of Expenditure in a time bound manner. The posts that have remained vacant for more than a year shall not be revived except under very rare circumstances, after seeking clearance of the Department of Expenditure.

2.7 Foreign Travel

There is a need to prune down expenditure on foreign travel. It would be the responsibility of Secretary of each Ministry/Department to ensure that foreign travel is restricted to most necessary and unavoidable official engagements and extant instructions with respect to foreign deputation are strictly adhered to. Following instructions with respect to foreign travel would need to be strictly adhered to:

(i) No proposal for participation in workshop/conference/seminar/ presentation of papers abroad at Government cost shall be entertained. With respect to these, only those proposals which are 100% funded by sponsoring agencies may be considered keeping in view the public interest and Government business at home.

(ii) No officer should undertake more than 4 official visits abroad in a year. If in certain Ministries, nature of work demands a larger number of visits, a calendar of visits for the entire year would be prepared as far as possible, and visits should be prioritized. The proposal relating to the visits exceeding the fourth by an officer, detailed justification would need to be taken and such visit would be allowed in more exceptional cases.

(iii) The number of 'goodwill visits' is to be severely restricted except under extraordinary circumstances. Such restriction will not apply to 'goodwill visits' undertaken by the President, Vice-President, Prime Minister, Speaker of the Lok Sabha and members of the Higher Judiciary.

(iv) The size of the official delegation where foreign travel is essential will be restricted to the bare minimum. Normally a visit shall not exceed 5 days.

2.8 Transfer Policy

The transfer policies and the frequency and the periodicity of transfers of officials, whether within the country or overseas, shall be reviewed as frequent transfers cause avoidable instability, resulting in inadequate development of expertise and grasp of the responsibilities, besides resulting in avoidable expenditure. All Ministries, including Ministry of External Affairs, shall review the policies with a view to ensuring reasonable tenures at posting within the overall policy framework, thereby reducing the expenses on allowance and transfers.

2.9 Use of Information & Communication Technology

Increased use of Information and Communications Technology should be further encouraged, with a view to ensuring better utilization of resources available with the Government and improved delivery of public services. Cabinet Secretariat is already monitoring the progress in this behalf. Ministries/Departments will immediately complete preparing roadmaps of systems development in this regard, keeping present and future user requirements in view. All Ministries/Departments shall introduce e-procurement to reduce cost and improve deficiency in procurement.

Similarly, the Ministries/Departments shall also encourage and ensure payments through e-payment mechanism by way of direct transfer to beneficiary account.

2.10 Advances for Schemes/Projects

It has been observed that a large number of Government agencies viz. Autonomous bodies/PSUs tend to have large cash balances, mainly contributed by advance payments from Ministries/Departments of the Government. Rule 159(1) of GFR, 2005 deals with advance payments. With reference to that Rule, it is advised that all advance payments to implementing agencies for any scheme/project/acquisition shall be limited upto 10% of the approved financial outlay in the current fiscal year. Subsequent payments should be strictly related to deliverables/milestones. This restriction shall be applicable in the case where expenditure is effected through a contract. Advances to grant-in-aid to institutions shall be kept out of the ambit of this restriction.

3. Formulation of schemes and their implementation

3.1 Eleventh Five Year Plan is to commence from April 1, 2007. Therefore, it is imperative that all ongoing schemes, both Plan and non-Plan, are carefully scrutinized and evaluated to determine their continued relevance. The Ministries/ Departments in conjunction with Planning Commission shall undertake this exercise immediately and determine as to which schemes and projects have outlived their relevance/utility/effectiveness. The resultant release of funds should become available to the Ministries for augmentation of provisions for effective and efficacious schemes.

3.2 While formulating new schemes, better service levels for the targeted beneficiaries, need for improvements in service delivery and the control of wastage in running programmes should invariably be factored in and considered by the appraising agency responsible for its pre-sanction appraisal. The on-going schemes may also be reviewed keeping this objective in view.

3.3 Additional expenditure over and above the prescribed approved ceilings for individual schemes shall not be permitted. Ministries/Departments should also ensure that no fresh financial commitments are made, which are not provided for in the Budget approved by the Parliament. In case a Ministry / Department wishes to extend a scheme beyond approved outlay or seek additional allocations, it will have to indicate matching savings from some other schemes/projects under the relevant budget 'Demand' under its administrative control.

3.4 While formulating budget proposals, the Ministries/Departments should lay greater emphasis on explicit recognition of revenue constraints and should make only a realistic projection of budgetary provisions required for various projects/schemes. All procedures laid down for approving for releasing and for incurring expenditure on schemes, both Plan and non-Plan, should be followed scrupulously and without any deviation.

3.5 Each Ministry/Department would be expected to keep an account of the savings resulting from the above-mentioned measures implemented in the Ministry/Department. Secretaries to Government and Financial Advisers will monitor the progress in this regard and will bring the progress/bottlenecks to the notice of the Ministers-in-charge as well as the Ministry of Finance.

3.6 All Ministries/ Departments should ensure that any scheme proposed by them is commercially viable and carries an internal rate of return not less than the rate prescribed. Wherever such returns are not prescribed, the overall cost benefit of the scheme should be assessed in qualitative terms. Only those schemes should be taken up in which a positive cost benefit ratio is clearly manifest.

3.7 Strict monitoring and fixing of accountability for delays in the implementation of schemes and projects that lead to major cost overruns and revised estimates, should be established.

4. **Observance of discipline in fiscal transfers to States, Public Sector Undertakings and Autonomous Bodies at Central/State/Local level**

4.1 No amount will be released to any entity(including State Governments), which has defaulted in furnishing utilization certificates for grants-in-aid released by Central Government in the past without clearance from the Ministry of Finance.

4.2 Ministries/Departments will not transfer funds under any Plan schemes in relaxation of conditionalities attached to such transfers(such as matching funding). Where a scheme contemplates a prior determination of each State's entitlement to Central Budget and support, the actual disbursements will be limited to these entitlements. Specifically, it will not be open to any Ministry/Department to release excess funds to any State by diverting "savings" in respect of another State as the practice tends to aggravate imbalances.

4.3 The State Governments are required to furnish monthly returns of Plan expenditure – Central, Centrally Sponsored or State Plan – to respective Ministries/ Departments along with a report on amounts outstanding in their Public Account in respect of Central and Centrally Sponsored Schemes. This may be scrupulously adhered to.

5. **Encouraging additional revenue, internal resource generation and cost reduction**

5.1 With a view to encouraging greater effort at garnering revenues to the Government, schemes would be evolved by the revenue generating/earning/ collecting Ministries/Departments on the principle of an amount equal to 1% of the incremental revenue being earmarked as incentive provision in the next year's budget for enhancing the organizational efficiency, infrastructure and wherewithal. Each department willing to participate will work out the details of relevant schemes based on this principle of enhanced provisions for augmenting operational efficiency arising out of the incremental revenues earned beyond the budget targets, and submit for the approval of the competent authority and the Ministry of Finance(Department of Expenditure) by December 31, 2006. Similarly, schemes would also be considered for achieving economy in expenditure against an identified benchmark.

5.2 In view of the large scale borrowing by Food Corporation of India, Department of Food shall, with the help of Ministry of Finance, make every endeavour to reduce interest cost either by borrowing at competitive rates or accessing credit through alternative mechanisms.

5.3 Department of Food shall further take up with all the States concerned the necessary measures so that procurement of food is completely exempt from local taxes and levies.

6. **Compliance**

Secretaries of the Ministries / Departments being the Chief Accounting Authorities as per Rule 64 of GFR shall be fully charged with the responsibility of ensuring compliance of the measures outlined at paras 2 to 5 above and send to the Department of Expenditure a monitoring report regarding the impact of steps taken in respect of economy measures, the rationalization of expenditure and augmentation of revenues.

Financial Advisers shall assist respective Departments in securing compliance to these measures and also submit overall report to the Minister-in-charge and to the Ministry of Finance on a quarterly basis regarding various actions that need to be taken on these measures.

AKishore
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Finance Secretary

All Secretaries to the Government of India

Copy to the:-

Cabinet Secretary,
Secretary to the Prime Minister,
Member Secretary, Planning Commission,
Financial Advisers