No. 7(1) E.Coord/2008
Ministry of Finance
Department of Expenditure

New Delhi, the 5th June, 2008.

OFFICE MEMORANDUM

Subject: Expenditure Management - Economy Measures and Rationalization of Expenditure

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1. Background

With a view to containing expenditure, especially non-developmental expenditure, and thereby ensuring adequate resources for meeting the objectives of development, social sector, infrastructure sector and other priority schemes, Ministry of Finance has, from time to time, issued guidelines on 'Austerity Measures' to be observed by the Ministries/ Departments of the Government. Such measures are intended at promoting fiscal discipline, without restricting the operational efficiency of the Government. The last such instructions were issued vide OM No.7(3)/E.Coord/2007 on 17th September, 2007.

2. In the context of the continuing rise in global crude oil and commodity prices, there is tremendous pressure on Government's resources. Hence, there is an urgent need for economy and rationalization of expenditure. With that objective, the following guidelines are issued and they will apply with immediate effect:-

2.1 Formulation of schemes and their implementation

The Finance Minister in his Budget speech 2008-09 had stated that the year 2008-09, being the second year of the Plan, should be a year of consolidation; of securing the ongoing programmes on firm financial foundations; of close monitoring of implementation and enforcing accountability; and of measuring the outcomes in terms of the targets achieved as well as their quality. With this objective in view, and in the interest of better monitoring of existing schemes, it has been decided that no new schemes and programmes, except those that are part of the Budget announcements 2008-09, shall be introduced in the current financial year.

Further, as far as existing schemes are concerned, the following instructions will be applicable:-

(i) Additional expenditure over and above the prescribed approved ceiling for individual schemes shall not be permitted. In case a Ministry/Department wishes to amend a scheme that will result in expenditure beyond the approved outlay or seek additional allocation for an existing scheme, it must indicate matching savings from some other schemes/projects under the relevant `Demand' under its administrative control.

(ii) Since a large number of existing schemes are for a specified period, manpower proposals for Plan schemes should be formulated taking into account the provisions contained in GFRs 2005 regarding outsourcing of services, so that a permanent liability is not created.

(iii) Strict monitoring and fixing of accountability must be done for delays in the implementation of schemes and projects that lead to major cost overruns and enhanced revised estimates.

2.2 Cut in Non-Plan expenditure

For the year 2008-09, every Ministry/Department shall effect a mandatory **10% cut** in non-Plan expenditure under the following heads:-

a) Overtime Allowance (except in the case of industrial establishments where OTA is granted due to statutory obligations)
b) Domestic and Foreign Travel expenses
c) Publications
d) Professional Services
e) Advertising and Publicity
f) Office expenses
g) POL
h) Other administrative expenses

The remaining portions of non-plan expenditure, excluding interest payment, repayment of debt, Defence capital, salaries, pension and the Finance Commission grants to the States, will be subjected to a mandatory **5% cut**. 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 the implementation of this cut on a quarterly basis and report to the administrative Secretary and the Minister as well as the Department of Expenditure.

Further, no increases in the budgetary allocations under the heads of non-plan expenditure, particularly where cuts are now being imposed, will be allowed at RE stage, except under very extraordinary and compelling circumstances.

2.3 **Economy Measures**

All Government offices under the Central Government shall make every effort to avoid ostentatious and unnecessary expenditure. Day-to-day functioning shall be managed with utmost economy in operating expenses which shall be confined to the minimum essential in areas such as maintenance of buildings, office equipment, transport, communication, conservancy, stationery, furniture, hospitality and furnishings at the offices/offices at residences, etc. The instructions contained in the O.M. on expenditure management dated 17th September, 2007 in regard to publicity, purchase of vehicles, usage of telephones, ban on creation of plan and plan posts, transfer policy, and use of information technology will continue to be applicable. The following further measures for fiscal prudence and economy will also come into force with immediate effect:-

2.3.1 **Seminars and Conferences**

Utmost economy must be observed in organizing Conferences/Seminars/ Workshops, etc. The prescribed expenditure ceilings for holding such events should be enforced and a 10% cut on the budgetary allocation for seminars and conferences shall be effected. Only such Conferences/ Seminars/ Workshops which are absolutely necessary may be held. Holding of exhibitions/seminars/conferences abroad is strongly discouraged, except in the case of exhibitions for trade promotion. The practice of holding meetings and conferences at five star hotels must be discontinued forthwith.

2.3.2 **Domestic and Foreign Travel**

Instructions have already been issued by this Ministry in regard to Air Travel vide O.M. No. 19024/1/E.IV/2005 dated 24th March, 2006 according to which travel by airlines other than National carriers has been permitted so as to take advantage of the increasing competition and air travel schemes offering discounts. Ministries/Departments are advised to adhere to these instructions strictly in order to curtail the expenditure on air travel. These guidelines will also be followed for travel overseas.

It is also observed that Ministries/Departments tend to utilize a disproportionate amount of their travel budget in the first part of the year. Thereafter, during the second half, they seek additional amounts through re-appropriation, claiming that there are certain urgent meetings which they must necessarily attend. It has, therefore, been decided that Ministries/Departments shall lay down quarterly or half-yearly ceilings, based on the annual budget under these heads, which they may not exceed during the quarter or half-year in question. This will enable Ministries/Departments to prioritize and phase out their expenditure during the whole of the year.

The other instructions issued in regard to foreign travel contained in the O.M. dated 17 September, 2007 will continue to be applicable.

2.4 **Advances for Schemes/Projects**

A large number of entities such as 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 reiterated that all advance payments to implementing/production agencies for any scheme/project/acquisition shall be limited to 10% of the approved financial outlay in the current fiscal year. Subsequent payments must 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 are not included within the ambit of this restriction.

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

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

3.2 Ministries/Departments shall 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 budgetary support, the actual disbursements shall 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.

3.3 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 requirement may be scrupulously enforced.

3.4 The following specific steps may be adopted:

(a) The unspent balances available with the States and implementing agencies must be taken into account before further releases are made.

(d) No further transfers shall be made to a Reserve Fund until unspent balances in the Fund have been utilized.

(e) The sanction for payment must clearly specify either that the payee has no utilization certificates as 'due for rendition' under the Rules under the scheme in question or that the payment has been authorized by Department of Expenditure.

(f) For any deviation from the above, the case should be referred to the Department of Expenditure.

(g) The Chief Controller of Accounts must ensure compliance with the above as part of pre-payment scrutiny.

4. **Balanced Pace of expenditure**

4.1 Rush of expenditure towards the end of the financial year continues to be an area of concern. As per extant instructions, not more than one-third (33%) of the Budget Estimates may be spent in the last quarter of the financial year. Besides, the stipulation that during the month of March, 2008 the expenditure should be limited to 15% of the Budget Estimates is reiterated.

Instructions on cash management systems issued vide F.No.21(1)-PD/2005 dated 27th December, 2006 by Budget Division (DEA) may be scrupulously complied with.

4.2 It is also considered desirable that in the last month of the year payments may be made only for the goods and services actually procured and for reimbursement of expenditure already incurred. Hence, no amount should be released in advance (in the last month) with the exception of the following:

(i) Advance payments to contractors under terms of duly executed contracts so that Government would not renege on its legal or contractual obligations.

(ii) Any loans or advances to Government servants etc. or private individuals as a measure of relief and rehabilitation as per service conditions or on compassionate grounds.

(iii) Any other exceptional case with the approval of the Financial Adviser. However, a list of such cases may be sent by the FA to the Department of Expenditure by 30th April of the following year for information.

5. **Re-appropriation within approved Heads**

Prior approval of Department of Expenditure is required for re-appropriation under a sub-head by a sum of Rs.5 crore or more.

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 shall carry out a monthly review with particular reference to the cuts imposed on non-plan expenditure. They shall also send to the Department of Expenditure a

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monitoring report regarding the impact of steps taken in respect of economy measures. Financial Advisers shall assist respective Departments in securing compliance with these measures and also submit an overall report to the Minister-in-charge and to the Ministry of Finance on a quarterly basis regarding various actions taken on these measures/guidelines. In order to ensure effective monitoring of the implementation of these economy instructions, a meeting with the Secretaries of defaulting Departments would be held under the Chairmanship of the Cabinet Secretary every quarter.

S. Nath

(Sushama Nath)
Secretary (Expenditure)

All Secretaries to the Government of India
Copy to the:-
Cabinet Secretary,
Principal Secretary to the Prime Minister,
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Financial Advisers