

GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Finance (W&P) Department - Work contract management and associated financial management – Strengthening the implementation frame work in Engineering Departments – Need for strict adherence to A.P.D.S.S., A.P.P.W.D. Code and G.O.Ms.No.94 of I&CAD (PW-COD) Department, dated 1.7.2003 – Instructions – Issued.

FINANCE (WORKS & PROJECTS-F7) DEPARTMENT

G.O.Ms.No. 1

Dated:25-02-2012

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ORDER:-

A significant portion of State plan and non-plan budget is spent on works. Such works include Irrigation Projects, buildings, roads, reservoirs and drinking water schemes. During Eleventh Plan period (2007-12) an amount of Rs.66,000 Crores will be spent on works. Rs.48,100 Crores has already been spent upto March, 2011 and an amount of Rs.17,854.00 Crores is estimated to be spent during this financial year. The prime objective of this large capital investment is to create productive capital assets within a predetermined cost and time frame. Such capital assets will then drive the economic growth and improve living standards of the people in the state. However, due to the delays/ deficiencies in implementation as well as poor project management, the state government faces cost and time over runs. Collateral benefits like enhanced percapita income, increased tax revenue and corresponding increased outlays for developmental programmes are not accruing to the Government to the extent originally envisaged.

2. The Chief Secretary chaired a meeting on 9.12.2011 to review available options for resolving the above issues. All the Special Chief Secretaries/Principal Secretaries/Secretaries of the Departments dealing with works, as well as representatives from Finance Department attended. Based upon the detailed discussions during the meeting as well as the suggestions received therein, the following instructions are issued, namely:-

- (1) Making predictable fund releases for payment to contractors: Finance Department should ensure predictable funds flow to all departments. This will enable the Engineering departments to prioritise their works and plan their cash management.
- (2) Prioritising Works: All Departments should immediately review the list of all the sanctioned works and prioritize and identify those which can be completed during 2011-12 and 2012-13. These works should be identified for completion / delivery of benefits quarter-wise and included in the outcome budget to be prepared by each department for the ensuing budget session of the Legislature. The contracts of remaining works which are not programmed for completion upto 31.3.2013 should be reviewed with reference to the terms of contract for taking appropriate action.
- (3) Poorly performing works: All poorly performing works should be divided into three categories as under, namely:-
 - (a) All works yet to be entrusted to an agency though two years have elapsed from the date of Administrative Sanction.

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- (b) Works entrusted to agencies at least two years ago and expenditure incurred so far is less than 25%, and
- (c) Works where expenditure is above 25% but no expenditure booked in the past two years.

A view has to be taken on continuation of these works or otherwise depending upon the sustainability of the project, departmental priorities, the opportunity cost of the expenditure not yet incurred and the terms of the agreement. The departments should follow the general thumb rule that for capital works and maintenance works the work load should not be more than 200% and 150% respectively of the budget provision which will ensure adequate allocation of budget provision for works in progress and their prompt completion.

- (4) Works not commenced: All the works sanctioned in the last two years and yet to be entrusted should be taken up strictly as per G.O.Ms.No.94 of I&CAD Department, dated 1.7.2003,
- (5) Ensuring uniformity of approach across different Departments: Different practices and interpretation of the existing codes and instructions in various Engineering Departments over the entire gamut of project implementation from arriving at the Standard Schedule of Rates, preparation of estimates, sanction of estimates, obtaining administrative sanctions, tender entrustment procedures, and Extension Of Time (EOT) have resulted in confusing signals being given to contractors. Varying approaches across the departments are observed for dealing with different aspects of contract management including giving Extension Of Time for contract completion, determining the essentiality of Quality Control Certificate for making payment of bills and treatment of cost escalation. Bad practices are driving out good ones. Therefore, it is necessary that all engineering departments adopt similar approaches to contract management consistent with existing government instructions.
- (6) Adhering to the Implementation Framework: Consolidating on experience in the past, Engineering Departments have built up an effective implementation framework of standard operating procedures in the form of codes. Unfortunately, these instructions are not being implemented, leading to poor project implementation. For eg. G.O.Ms.No.94, I &CAD Dept., dt.01-07-2003 mandates a two step sanction procedure. The second and final sanction should be given only after all clearances are received and designs/estimates are ready. Such extant instructions must be adhered to. Only adoption of such an approach will ensure that projects are completed on time and committed funds are not blocked due to delayed clearances. Effective contract management and associated financial management should be ensured by strict adherence to Andhra Pradesh Detailed Standard Specifications (A.P.D.S.S.), Andhra Pradesh Public Works Department (A.P.P.W.D.) Code and G.O.Ms.No.94 of I&CAD (PW-COD) Department, dated 1.7.2003. In this connection, the following instructions /guidelines should be scrupulously followed by all engineering departments, namely:-
 - (a) Estimates should be prepared only after detailed survey, investigation and finalization of design. Further lump sum provisions should not be included in estimates without a strong justification;

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- (b) Two-stage administrative sanction should invariably be given in all applicable cases. This will ensure that proposals for revised Administrative Sanctions with significant increases over the original estimate are minimized;
 - (c) Works should be executed only upto the limit granted by administrative sanctions. No excess work should be undertaken without sanction of the competent authority;
 - (d) Additional works which are to be independently executed should not be entrusted to the existing agency. Nomination of any kind should not be permitted;
 - (e) Savings resulting from award of tenders below estimates should not be utilized for executing additional works. These savings should accrue to the Government, and,
 - (f) Works should not be sanctioned beyond 200%/150% of the capital/maintenance budget allocated to the Department to ensure that all works are completed during the contract period.
- (7) Notification of Nodal Department: Irrigation & Command Area Development Department (I & CAD) being the largest and oldest of the engineering departments is hereby declared the nodal department to take a overarching view on all cross cutting engineering related issues after consulting all the concerned departments.
- (8) Three Issues: Three important issues where the Government needs to immediately take a comprehensive and holistic view applicable to all engineering departments as well as engineering parastatals like Hyderabad Metro Water Supply and Sewerage Board, Andhra Pradesh Police Housing Corporation and Andhra Pradesh Health and Medical Infrastructure Development Corporation are listed below.
- (9) Treatment of Price adjustment: It is observed that Departments are adopting diverse interpretations of the existing G.Os relating to treatment of price adjustment from 0 to 5%. After careful consideration, it has been decided that hence forth all the Departments should operate variation in rates only to the extent where it is above 5% over the estimated rates. Thus if the price excess is 10%, payment will be made only to the extent of 5% (10%-5%) since the contractor factors into his original bid his risk of absorbing the first 5% increase.
- (10) A dominant view is that the following approach should be adopted uniformly across all departments in the matter of treatment of price adjustment.
- (a) Should be applicable only for items for which administered prices are in place.
 - (b) Related to Works estimated at more than Rs.2.00 Crores.
 - (c) Related to Works having completion period of more than 18 Months.
 - (d) The revision of rates should be on a quarterly basis instead of monthly.
 - (e) Difference in rates over the estimated rates to be limited either to the invoice rate or to Board of Chief Engineers approved rate whichever is less, and,

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- (f) Tender premium should not be operated on the variation in revised rates by the Board of Chief Engineers with reference to estimated rates.

The above view should be examined in detail to take necessary steps to revise the relevant GOs/instructions of all the Engineering Departments.

- (11) Work Contract Insurance Premium: The Government is paying significant amounts towards work contract insurance premium. The risks covered are broadly for Material Damage and Third Party Liability. The benefits accruing to the Government do not appear to be consistent with the premium paid. A cost benefit analysis needs to be made to determine whether the Government should be self-insure these projects or continue to insure them against the above risks.
- (12) Standard Bid Documents: An instance has come to notice of the Government where the bid documents for a very large project contained a number of deficiencies and inaccuracies and contradictory statements. This document provided for reimbursement for escalation for all items without prior Government approval. Such documents weaken the Government's fiscal position making it liable to claims made against them. It is noted that there are no standard bid documents which are applied uniformly by all departments which fully protect the Government's interest. There is a need to prepare such standard bid documents for works above a critical value, where bid documents are not already mandated (like in the case of projects financed by external funding agencies). The Government have directed that a set of standard bid documents should be prepared for use of all departments for projects above a threshold value. Such standard bid documents could, if necessary be subsequently modified to suit the need of individual projects in different departments with prior Government approval.

3. The I&CAD Department as nodal Department should examine the issues identified in Para 2, sub paras (10), (11) and (12) above, consult all the relevant departments including Finance Department and issue comprehensive orders applicable across all the Engineering Departments addressing each of the above issues. The orders in respect of the three issues identified above may be issued by 31st March, 2012.

4. All the Special Chief Secretaries/Principal Secretaries/Secretaries dealing with the Engineering Departments are requested to ensure strict implementation of the above instructions.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

PANKAJ DWIVEDI
CHIEF SECRETARY TO GOVERNMENT

To
All the Departments in Secretariat.

Copy to:-

All the Prl. Secretaries / Secretaries in Finance Department.

All the District Collectors in the State.

SF/SC.

//FORWARDED :: BY ORDER//

SECTION OFFICER