F. No.1(26)-E.II (A)/2002
Ministry of Finance
Department of Expenditure
E.II(A) Branch
*****

New Delhi, the 21st December, 02

OFFICE MEMORANDUM

Sub: Public Investment/Expenditure-Guidelines for appraisal and approval.

The undersigned is directed to invite attention of all Ministries./Departments. to this Ministry's O.M. No. 1(3)/PF II/2001 dtd.18.2.02 and O.M. of even No. dtd. 13.5.02, under which revised guidelines/financial limits for appraisal and approval of public investment/expenditure were prescribed. On the basis of the contents of the aforesaid O.M., the existing Govt. of India's Decision 4(A) below Rule 18 of Delegation of Financial Powers Rules 1978 has been substituted (copy enclosed).

2. Hindi version of this O.M. is attached.

Rubina Ali
(RUBINA ALI)
UNDER SECRETARY TO GOVT. OF INDIA

To

All the Ministries/Departments of the Government of India, etc. etc.

Copy forwarded to the Comptroller & Auditor General of India (with usual number of spare copies), U.P.S.C., etc. as per standard endorsement list.

Rubina Ali
(RUBINA ALI)
UNDER SECRETARY TO THE GOVT. OF INDIA.

AMENDMENT TO THE DELEGATION OF FINANCIAL POWERS RULES,1978

Rule 18 Govt. of India's decision (4) (A)

Substitute the following for the existing Government of India's decision (4) (A) below Rule 18 of the Delegation of Financial Powers Rules, 1978 :-

"**GOVERNMENT OF INDIA's DECISION (4) (A) : Appraisal and Approval of Plan Schemes/Projects :-** Notwithstanding the limit of Rs.5 crore laid down in rule to sanction expenditure on schemes, a Department of Central Government having Integrated Financial Advice System may exercise power to sanction expenditure on Plan Scheme costing less than Rs.100 crore (Rupees hundred crores only), provided the scheme has been accepted by the Ministry of Finance at the pre-budget stage. The enhanced powers will, however, be exercised in the way mentioned below :-

2. Appraisal of Plan schemes/projects:-

	Financial limits of Plan scheme/project	Appraisal Forum
(a)	Upto Rs.5 crores	Ministry/Department concerned, in normal course.
(b)	Above Rs. 5 crores but less than Rs.25 crores.	Standing Finance Committee of the Department concerned under the Chairmanship of Secretary with Financial Adviser and Joint Secretary/Director of the concerned Division as members with provision for inviting representatives of the Planning Commission, D/o Expenditure and any other Department that Secretary or Financial Adviser may suggest.
(c)	Rs. 25 crores and above but less than Rs.100 crores	Departmental Expenditure Finance Committee (EFC). Departmental EFC will be chaired by Secretary of the Administrative Department. It will include the Financial Adviser, as the Member Secretary, and the representatives of Planning Commission and D/o Expenditure as members.
(d)	Rs.100 crores and above but less than Rs.200 crores.	Main Expenditure Finance Committee (EFC). Main EFC will consist of Secretary (Expenditure) who will chair the meeting, Secretary (Planning Commission) and Secretary of the Administrative Department. FA will be the Secretary of this EFC.
(e)	Rs.200 crores and beyond.	Public Investment Board (PIB)/Main EFC chaired by Secretary (Expenditure). Projects/schemes where financial returns are quantifiable will be considered by PIB, others by the EFC.

(i) It is clarified that SFC/EFC/PIB will be the appraisal forum for any scheme/project. Their recommendations will require approval of competent authority as indicated in para 3 below.

(ii) In respect of Scientific Ministries/Departments, the appraisal forum (EFC) will continue to be chaired by the concerned Administrative Secretary irrespective of the outlay.

(iii) Navratna and Miniratna PSUs have enhanced powers for taking investment decisions as per guidelines issued by the Department of Public Enterprises. This delegation will be continued.

(iv) For schemes/projects involving setting up of new Autonomous Organizations, EFC will be chaired by Secretary (Expenditure) irrespective of their outlays or nature of the Ministry/Department.

(v) Specific approval of Department of Expenditure for creation of new posts in relaxation of standing economy orders will be necessary irrespective of the recommendations of EFC/PIB.

(vi) At present all projects being posed to PIB are considered in the pre-PIB meeting. Pre-PIB process in respect of projects with outlay upto Rs.500 crores has been dispensed with and the proposals will be considered by PIB directly.

3. **Authority for approval**

(a) Original Cost Estimates

Project/scheme Outlay	Approval Authority
Less than Rs.50 crores	Minister in-charge of Administrative Ministry.
Rs.50 crores and above but less than Rs.100 crores	Minister of Administrative Ministry and the Finance Minister
Rs. 100 crores and above	Cabinet/CCEA
Proposals for new autonomous organisations irrespective of outlay	Cabinet/CCEA

(b) Revised Cost Estimates:

(b)(1) RCE cases less than Rs.100 crores:

(i) RCE cases with outlay of less than Rs.100 crores arising due to change in statutory levies, exchange rate variations and price escalation within the approved project time cycle and the cases involving further cost increase upto 20% can be approved by the authority as per para 3(a) above in consultation with the Planning Commission.

(ii) RCE cases involving increase of more than 20% after excluding the increase due to change in statutory levies, exchange rate variations and price escalation within the approved project time cycle will require appraisal at the forum as per para 2 above and approval as per para 3(a) above.

(b) (2) RCE cases of Rs.100 crores and above:

(i) Revised Cost Estimate (RCE) which arises entirely due to change in statutory levies, exchange rate variations and price escalation within the originally approved project time cycle will be approved by the administrative Ministry/Department concerned in consultation with the Planning Commission.

(ii) The First RCE , which is upto 10% of the originally approved cost estimates (after excluding the increase within the originally approved project time cycle due to three factors mentioned in (i) above) will be approved by the Administrative Ministry in consultation with the Planning Commission.

(iii) First RCE, which exceeds 10% but are upto 20% of the originally approved cost estimates (after excluding increase within originally approved project time cycle due to three factors mentioned in (i) above) shall be appraised by the Planning Commission and will be approved by the Administrative Minister and the Finance Minister.

(iv) First RCE which exceeds 20% of the originally approved cost estimates (after excluding increase within originally approved project time cycle due to three factors mentioned in (i) above) due to reasons such as time overrun, change in scope, under-estimation, etc. shall be posed to EFC/PIB for appraisal and thereafter to CCEA for approval.

(v) Second or subsequent RCE less than 5 % of the latest approved cost (First or previous RCE) (after excluding increase due to changes in statutory levies, exchange rate variation and price escalation within the existing approved project time cycle) will be appraised by the Planning Commission and decided with the approval of the Administrative Minister.

(vi) Second or subsequent RCE involving increase of 5% or more of the latest approved cost (first or previous RCE) (after excluding increase due to changes in statutory levies, exchange rate variation and price escalation within the approved project time cycle) will require appraisal by EFC/PIB and approval of the CCEA.

(b)(3): Criterion for appraisal forum and level of authority for approval of RCE will be cost overrun and not time overrun.

(b)(4): The existing procedure prescribes that RCE cases should be decided by the same authority, which had approved the original proposal notwithstanding any subsequent delegation of powers. This applies to RCE cases of the Ministries as well as Navaratna and Miniratna CPSUs also even though they have powers, subject to certain conditions, to decide new investments. It is now decided that powers for deciding RCE cases are delegated to the authorities as per the provisions in para 3 (b) (1) and 3 (b) (2) above. The powers for deciding RCE cases of Navaratna and Miniratna PSEs, however are delegated to their Board of Directors in the same manner as powers for fresh approvals.

(b)(5): Where the revised/firmed up cost estimates of scheme/project exceeds the limit of competent authority who approved the original cost of the scheme, the approval of higher competent authority will be obtained.

(b)(6): While processing the RCE cases the contents of Planning Commission's D.O. No.O-14015/2/98-PAMD dated 19.8.1998 regarding consideration of cost & time overruns and fixation of responsibility by the Standing Committee may be kept in mind.

NOTE:- "Statutory levies" mean State and Central Taxes, including import and export duties as notified by Government of India, and paid by the project authorities, but excludes water, electricity charges and POL price increases.

4. Expenditure on pre-investment activities etc.

(a) The delegation of powers for sanctioning pre-investment activity like preparation of Detailed Feasibility/Project Reports will be as follows:

Expenditure/Financial limit	Appraisal/approval authority
Upto Rs.2 crores for preparation of DFR and pre-investment activities (including detailed study for preparation of Feasibility Report but excluding land acquisition/infrastructure facilities) subject to availability of budget/plan funds.	Secretary, Ministry/Department concerned.
Proposals of PSU upto Rs.10 crores for preparation of DFR and pre-investment activities excluding land acquisition/infrastructure facilities, if not funded from Budget and PSU is profit making.	Ministry / Department concerned.
All other cases	Appraisal by Committee of PIB (CPIB), and approval by the authority as per para 3(a) above

(b) For projects of Ministries of Coal and Road Transport & Highways expenditure on pre-investment activities beyond Rs.20 crores only will require consideration by Committee of PIB.

(c) The delegation of powers to Ministry of Power to sanction estimates for pre-construction works and for development of infrastructure facilities in respect of Hydro Electric Project will be governed by the Ministry of Power letter No.16/31/2000-DO(NHPC) dated 8.6.2001.

(d) To avoid delay in implementation of project it has been decided to allow initiation of procedure for land acquisition at the Committee of PIB stage. The initiation of land acquisition will be examined by the Committee on a case to case basis. It is, however, to be noted that normally any payment towards compensation etc., will be made only after CCEA approves the project. The Committee of PIB memo should clearly indicate (i) the area of land required for acquisition and the estimated cost of land are indicated by District/State Authorities, (ii) the urgency for initiating land acquisition may be indicated.

5. COSTING OF THE PROJECT/SCHEME :-

(a) The cost of the proposal will be inclusive of all components under which expenditure is required to be incurred (like revenue, capital and loans etc.). At present, the costing of the project is done at constant prices. It has now been decided to make it obligatory for the Department to compute the project cost both on constant prices and completion cost basis so that IRR/ERR can be calculated for both scenarios.

(b) The completion cost may be worked out by taking into account the average rate of inflation in the following manner :-

(i) Labour component of the project cost may be updated using the average (of 12 months) of consumer price index for industrial workers.

(ii) For all other components of cost, except labour, the average (of 12 months) of wholesale price index for all commodities may be used.

6. The delegation of financial powers contained in this order will be exercised only where necessary/requisite funds are available in the Annual Plan and the Five Year Plan outlay as per phasing of the project/scheme. The powers will further continue to be governed by procedural and other instructions issued by Government from time to time like general economy instructions etc. This order supersedes this Department's OM No.1(5)-PF II/96 dated 6.8.1997 only to the extent that some of those provisions are modified by this order. This order will not supersede any specific relaxation granted to a Ministry/Department by the Cabinet/CCEA.

(Ministry of Finance(Exp)'s O.M. No. 1(3)/PFII/2001 dtd. 18.2.02 and 13.5.02 and O.M. No. 1(26)/EII(A)/2002 dtd.)