

New Delhi, the 17th September, 2007.

OFFICE MEMORANDUM

Subject: Expenditure Management - Economy Measures and Rationalization of Expenditure

1. Background

With a view to containing non-developmental expenditure and thereby releasing additional resources for meeting the objectives of priority schemes, 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 the operational efficiency of the Government. The last such instructions were issued vide OM No.7(3)/E.Coord/2006 on July 22, 2006.

2.1 5% mandatory cut on Non-Plan expenditure

For the year 2007-08, 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 monitor and review the implementation of this cut and report to the administrative Secretary and the Minister and the Department of Expenditure periodically.

2.2 Economy Measures

Various Government offices under 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 equipments, transport, communication, conservancy, stationery, furniture, hospitality and furnishings at the

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offices/offices at residences, etc.

2.2.1 Publicity

The Ministries/Departments should regulate their advertisements and publicity campaigns to provide effective coverage and communication of public interest issues with utmost economy, so as to maximize effectiveness of expenditure. The adoption of a particular medium of communication may be carefully planned with a view to optimally utilizing advertising space or time for dissemination of information on Government programmes, where considered necessary.

2.3 Vehicles

No new vehicles shall be purchased even for the replacement of condemned vehicles. The requirement of vehicles shall be met through hiring on a short/medium term basis, except in the Armed Forces etc. and Internal Security apparatus 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 either be 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 on a case-to-case basis.

2.4 Telephone

The norms for usage of telephone at offices, residence and cell phones are already prescribed. All offices in Government of India shall adhere to these norms and excess expenditure above the prescribed limits 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

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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 the creation of posts should continue to be enforced strictly. Any proposal for creation of Plan/non-Plan posts, considered unavoidable shall continue to be referred to the Ministry of Finance (Department of Expenditure) for approval. In such cases, creation of post should invariably be accompanied by the 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, including 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. Posts that have remained vacant for more than a year shall not be revived except under very rare and unavoidable circumstances, after seeking clearance of the Department of Expenditure.

2.7 Foreign Travel

There is a need to prune 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 based on functional necessity and extant instructions are strictly followed. The following instructions with respect to foreign travel would need to be strictly adhered to:

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- (i) No proposal for participation in **study tour** / workshop / conference / seminar / presentation of papers abroad at Government cost shall be entertained, except those proposals which are fully 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 four (4) official visits abroad in a year.** In certain Ministries, the nature of work demands a larger number of visits, therefore, a calendar of visits for the entire year would be prepared as far as possible, and visits should be prioritized. **For the proposal relating to the visits exceeding four by an officer, detailed justification would need to be furnished and such visit would be allowed only in exceptional cases depending on functional need.**
- (iii) The number of 'goodwill visits' is to be severely restricted except under extraordinary circumstances. Such restriction will, in any event 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.
- (v) **Foreign visits should be so regulated as to ensure that each Ministry remains within the allocated budget for the same. Re-appropriation proposals on this account would not be approved.**

2.8 Transfer Policy

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 the Ministry of External Affairs, shall review the policies with a

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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 encouraged to ensure better utilization of resources available with the Government and improved delivery of public services. The Cabinet Secretariat is already monitoring the progress in this area. Ministries/Departments which have not so far prepared roadmaps of systems development in this regard shall immediately do so, keeping present and future user requirements in view. The pace of transition to e-procurement should be stepped up (mandatory in respect of purchases affected under DGS&D rate contract). This would 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 production agencies for any scheme/project/acquisition shall be limited up to 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 While formulating new schemes for the Eleventh Five Year Plan, better service levels for the targeted beneficiaries, need for improvements in service

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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.

3.2 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 the 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.

3.3 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.

3.4 Each Ministry/Department would be expected to keep an account of the savings resulting from the above-mentioned measures being 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.

3.5 All Ministries/ Departments should ensure that any scheme proposed by them is financially viable and carries an internal rate of return not less than the rate prescribed. Wherever such returns are not quantifiable, the overall socio-economic cost benefit analysis of the scheme should be explicitly indicated. Only those schemes should be taken up in which a positive cost benefit ratio is clearly manifest.

3.6 Strict monitoring and fixing of accountability for delays in the implementation

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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.

4.4 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 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 any scheme of the Ministry/Department, or that the payment has been authorized by D/o Expenditure.**
- (f) For any deviation from the above, the case should be referred**

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to the D/o Expenditure.

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

5. **Balanced Pace of expenditure**

5.1 **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.** It is considered necessary to fine tune this further for controlling expenditure in the last month of the year. Accordingly, the **stipulation that during the month of March, 2008 the expenditure should be limited to 15% of the Budget Estimates, is re-iterated.**

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

5.2 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, 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 for information.

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6. Re-appropriation within approved Heads

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

7. 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.


(Sanjiv Misra)
Secretary (Expenditure)

All Secretaries to the Government of India

Copy to the:-

Cabinet Secretary,

Secretary to the Prime Minister,

Member-Secretary, Planning Commission,
Financial Advisers

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Sl. No.	Year	% Cut in NPE	When applied
1.	1999-2000	10%	05.08.1999
2.	2000-2001	10%	24.09.2000
3.	2001-2002	Reiterated (OM of 24.09.2000 referred)	10.10.2001
4.	2002-2003	Referred to – (OM 24.09.2000 and 10.10.2001)	01.01.2003
5.	2003-2004	- No OM -	
6.	2004-2005	10%	24.09.2004
7.	2005-2006	Reiterated	23.11.2005
8.	2006-2007	5%	22.07.2006