

New Delhi, November 23 , 2005

OFFICE MEMORANDUM

Sub: Budget/Expenditure Management: Economy measures, rationalization of expenditure, and measures for augmentation of revenues.

Government have decided to introduce certain measures related to the captioned subject. In partial supersession of this Ministry's OM No.7(5)/E-Coord/2004 dated September 24, 2004 on the subject cited above, the following modified measures for fiscal prudence and economy are introduced which shall be strictly observed with immediate effect: -

A. Economy in expenditure

1. The need for avoiding ostentatious expenditure is emphasized upon. Government offices should be managed with every economy in operating expenses such as maintenance of buildings and office equipments, lighting, conservancy, stationary and postage etc. Austerity must be reflected in furnishing of offices/offices at residences also. Expenditure on office expenses, foreign travel, overtime allowance/honorarium, hiring of vehicles, telephone charges, petrol, oil and lubricants, and seminars/conferences will, therefore, be restricted in 2005-06 to average of actual expenditure incurred in 2002-03, 2003-04 and 2004-05 through appropriate economy measures. No re-appropriation of funds to augment these heads of expenditure would be allowed during the current financial year. The expenditure limit prescribed for these purposes shall be strictly enforced.

2. Foreign travel should be restricted to unavoidable official engagements, and Cabinet Secretariat instructions dated 14.9.2005 on the subject particularly the norms of number and purpose of visits, strictly complied with. Travel abroad of spouses at official expense, where required for protocol purposes, will be kept to the most minimum and strictly in accordance with the requirement, with suitable guidelines to be issued by Ministry of Defence/Ministry of Home Affairs in this regard. There shall, however, be a total ban on foreign travel for Study Tours, Seminars, Workshops etc., funded by the Government of India except for annual and other formal meetings of bilateral/multilateral bodies. Size of official delegations, where foreign travel is essential, shall be restricted to the bare minimum.

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3. The air travel, both domestic and overseas, on official account would now be permissible on airlines other than Air India/Indian Airlines also, provided the criteria for selecting the alternative airline for official travel are based on better and more competitive prices being offered by the other airlines. Various incentive schemes and concessional fares offered by Air India/Indian Airlines will also be fully utilised to ensure utmost economy in air travel. This would apply both to officials within India and to officials posted abroad. MEA will also make consequential changes in Rules, in consultation with DOPT and the Department of Expenditure. General guidelines for domestic/overseas air travel would also be modified accordingly by DOPT and Department of Expenditure .

4. While officials are entitled to various classes of Air Travel depending on seniority etc., it is hoped that utmost economy would be observed while exercising the choice, and bookings in the First Class should be eschewed unless considered necessary for protocol purposes. In particular, in delegations led by Ministers, irrespective of entitlement, no member of the delegation should choose to travel by a class higher than the one chosen by the Minister.

5. To curtail the expenditure on telephones, Ministries/Departments would now also be able to avail of services of providers other than MTNL/BSNL, provided the criteria for selecting the alternative service provider are based on better and more competitive rates being offered by the latter.

6. Due economy should be observed in organizing Conferences/Seminars/Workshops etc., with these being restricted to only those which are absolutely essential. Existing guidelines for holding such events, and prescribed expenditure ceilings, should be strictly enforced. Where possible and appropriate, such events/activities, to the extent deemed essential, be organized under Public Private Partnership with the partner contributing substantially to the expenditure.

7. Purchase of new vehicles is banned until further orders. Exceptions will be allowed only in unavoidable cases, including for meeting the operational requirements of Defence Forces and Central Para Military Forces, with prior concurrence of the Department of Expenditure, Ministry of Finance.

8. There shall be a ban on creation of new posts in all Ministries/Departments/Autonomous Institutions till further orders. Any unavoidable proposals for the creation of posts, including Groups `B`, `C` and `D` posts, will continue to be referred to the Ministry of Finance (Department of Expenditure) for approval. The proposals would necessarily have to be based on 'new organisation' and accompanied by

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matching savings from existing related establishment. Outsourcing of routine services such as cleaning, maintenance, moving papers/dak etc., may be encouraged.

9. Every Ministry/Department shall undertake a review of all the posts lying vacant for more than six months in the Ministry/Department and in the Attached and Subordinate Offices, etc., in consultation with the Ministry of Finance (Department of Expenditure) so as to identify posts which can be abolished. These reviews must be completed by March 31, 2006 and details of vacant posts in the respective Ministries and those identified for abolition intimated to the Department of Expenditure immediately thereafter. Till the review is completed no posts lying vacant for more than six months should be filled up except with the prior approval of the Ministry of Finance (Department of Expenditure).

10. Implementation of existing instructions of DoP&T OM No.2/8/2001-PIC dated 16.5.2001 concerning 10% cut in posts and abolition of posts lying vacant for more than one year will be ensured.

11. In respect of provisions regarding deployment of surplus staff, all efforts will be made for regular posting of the employees transferred to the Surplus Cell within a period of six months.

12. 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 longer tenures at posting, thereby reducing the expenses on allowances and transfers.

13. 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 are already monitoring the progress in this behalf. Departments will immediately complete preparing roadmaps of systems' development in this regard, keeping present and future user requirements in view. Besides, improving quality and efficiency of public services, this should also bring down the unit cost of delivery of public services. Each department will identify and shortlist specific areas of cost control by December 31, 2005. Services/Consultancy from the office of the Chief Adviser (Cost) under the Department of Expenditure would be available to the Ministries/Departments wishing to take the assistance in undertaking the exercise in this regard.

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

14. 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. In respect of all grants released prior to April 1, 2004, two months' notice may be given to the concerned entities to furnish the required utilization certificates, failing which the amount will be deducted from future releases and credited to government revenue as "refund of unused grants".

15. Ministries/Departments will not transfer funds under any Plan scheme in relaxation of conditionalities attached to such transfers (such as matching funding). Where a scheme contemplates a prior determination of each State's entitlement of Central Budget 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.

16. The State Governments will, henceforth, furnish monthly return of Plan expenditure – Central, Centrally Sponsored or State Plan – to respective Ministries/Departments alongwith a report on amounts outstanding in their Public Account in respect of Central and Centrally Sponsored Schemes.

C. Encouraging additional revenue and internal resource generation

17. With a view to encouraging greater effort at garnering revenues in 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 organisational 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, 2005. Similarly, schemes would also be considered for achieving economy in expenditure against an identified benchmark.

18. With a view to reducing dependence of autonomous bodies on budgetary support and set them on a course of greater self-reliance, the general-purpose deficit grants in 2005-06 will be reduced to 95% of actual amount of average of such grants given in 2002-03, 2003-04 and 2004-05. In 2006-07, these will be further reduced to the level of 90%. This reduction will not apply for grants given for a specific project.

D. Returns on investment by Government and non-tax receipts.

19. All profit-making Public Sector Enterprises (PSEs), which are essentially commercial enterprises, subject to specific guidelines issued from time to time, will declare a minimum dividend on equity of 20 percent or a minimum dividend pay out of 20% of post-tax profits, whichever is higher, subject to availability of disposable profits. In respect of Oil, Petroleum, Chemical and other infrastructure sectors this amount would be 30%. Besides, profit making companies with large cash surpluses and without firm plans for reinvestment shall declare special dividends. PSEs having large cash/free reserves and sustainable profitability will issue bonus shares. Companies with high market price of shares will consider stock splits.

20. Profit making Joint Venture companies would also normally give a minimum dividend of 20% or 30% on equity depending on the sector as mentioned in the previous para.

21. Other non-tax receipts, including applicable user charges, shall be collected fully without fail, and also reviewed to aim at recovering at least the cost of the service. Each Ministry/Department will review user charges, licence fees, service charges, fees charged for products sold by them, documents, forms of various kinds and the like, applicable to all organizations under them.

22. Timely repayment of loans provided by the Government to the PSEs and due payment of fees/charges on Government Guarantees will be ensured through effective monitoring by Ministries/Departments.

E. Budget formulation and implementation

23. All on-going programmes and schemes, both Plan and non-Plan, will be carefully reviewed, scrutinized and evaluated to determine their continued relevance. This exercise shall be taken up immediately and completed by December 31, 2005. Planning Commission have already initiated the process in respect of the Plan Schemes.

24. Budget Estimates and Revised Estimates shall be prepared with reference to the commitments made in the Outcome Budget and fiscal discipline enforced in implementation of programmes/projects to ensure 'value for money'.

25. Deviations of expenditure from the prescribed budgetary ceilings shall not be permitted. It must also be ensured that no fresh financial commitments are made on items which are not provided for in the budget approved by the Parliament. The administrative Ministries/Departments will be fully accountable for unauthorized expenditure over and above the appropriations.

26. The instances of incurring or committing expenditure in a particular year and postponing the actual payment of bills to the subsequent financial year are improper, and must be discontinued forthwith.

27. Budget formulation should lay greater emphasis on explicit recognition of the revenue constraints and a realistic projection of the budgetary allocations required for various projects/schemes and there must be strict and rigid adherence to budgetary ceilings. All procedures laid down for approving and for incurring expenditure on schemes both Plan and Non-Plan will be followed scrupulously.

28. Each Ministry/Department would be expected to keep an account of the financial yields of the above mentioned measures implemented in the Ministry/Department. Financial Advisers will monitor the progress in this regard and will bring the progress/bottlenecks to the note of the Secretaries concerned on monthly basis. The results will also find mention in their monthly D.O. report to Secretary (Expenditure).

(Adarsh Kishore)
Secretary to the Government of India

To

1. All Secretaries to the Government of India (By name)
2. All FAs (By Name)
3. All Heads of Public Sector Enterprises.