

**The Odisha State Police Housing & Welfare Corporation Ltd.
Bhubaneswar-22**

By E-mail/Website

No.357/CON/OPHWC

Dated 9.8.2017

To

All Project Managers(Engg)/
Joint Managers of 9 Divisions,
OSPH&WC.

Sub:- Observation of AG Audit in 2016-17 about cost escalations, infructuous expenditures and resultant stalling of projects.

I have been categorically alerting you all against any infructuous expenditures and delay in completion of the projects in previous years. The Circular of Finance Department vide letter No.45492/F dated 26.9.2005 is enclosed herewith which specifies about Efficient use of scarce resources - Completion of projects without cost and time over run.

AG Audit had repeatedly envisaged on these guidelines of Finance Department as some of the projects were not completed in previous years due to non-adherence to aforesaid guidelines vide Point No. 3, 4, 6 & 9 of aforesaid Circular. Since this order had been communicated by Government in 2005, you were supposed to have followed these instructions meticulously and should have avoided any adverse AG Audit remarks on this point. The Circular is reiterated again for your guidance which must be followed in letter and spirit and kept in Guard File. For any violations, specific responsibility will be fixed on Divisional Heads, henceforth.



Chairman-cum-Managing Director

Encl:- As above.

Memo No.358/CON/OPHWC

Dated 9.8.2017

Copy to the Chief Engineer(Civil), OSPH&WC for information and necessary action.



Chairman-cum-Managing Director

FINANCE DEPARTMENT

No. 45492 (50)/F., Dt. 26.09.2005 WF-11-46/05

From Dr. U. Sarat Chandran Principal Secretary to Government

To Principal Secretaries / Commissioner-cum-Secretaries/ Secretaries/
Special Secretaries to all Departments of Government.

Sub: FRBM Act - Efficient use of Scarce Resources - Completion of projects without cost and time overrun.

Sir,

Several instances have come to notice relating to Engineering Departments where projects are taken up at an initial cost estimate basing on a specific design and structural parameters etc., but in the course of execution the costs are being substantially scaled up. It is clearly evident that this type of cost revision in majority of the projects is due to incorrect and inferior design and estimates at the initial stage. Once a project has been designed and estimates prepared, the project cost should be frozen and there should not be any escalation. Increase in the cost of execution of a project not only results in infructuous and wasteful expenditure but tends to vitiate the tender process as initially the tender has been accepted at a certain cost, but subsequently the same executant gets higher amount due to escalation in cost of the project on account of various factors.

2. As per Para 3.7. 1(a) of the OPWD Code Vol. I, one of the prerequisites for commencement of work is properly formulated detailed design and estimate which is technically and Administratively Approved. But in practice, it is seen that proposals for revised Administrative Approval are being received in this Department on the ground that there has been change in the design. The change in design frequently resorted to results in both cost escalation and time overrun. Very often, a project which was supposed to be completed within a specific time frame is kept lingering causing enormous loss to Government.

3. The Fiscal Responsibility & Budget Management Act, 2005 entails several responsibilities on individual Departments of the Government. The Government resources are to be used in ways that give best value for money and assets created effectively put to use to derive the maximum benefit. The allocation of funds is to be prioritized in a manner that would ensure

completion of ongoing projects as per the time schedule. The Government are required to submit a statement at the time presentation of Annual Budget indicating a list of ongoing projects based on Zero Base investment Review along with the targeted date of completion and reason for deviation, if any. Hence, all Engineering Departments will have to ensure that a project which is taken up is completed within the time schedule and without any cost overrun. Finance Department will not entertain any proposal for revised Administrative Approval on the ground of change in design unless it can be established that the change in design is occasioned on account of factors which were not visualized when the project was designed initially. In order to avoid this, Administrative Department should prepare the design and estimates at the initial project proposal stage very carefully and meticulously. No project should be posed for funding and Administrative Approval accorded on the basis of a rough estimate.

4. In case of ongoing project, the expenditure should be limited to the cost estimate administratively approved and provision of funds. No liability should be created without administrative approval and budget provision. In cases where there is likelihood of expenditure exceeding the approved cost estimate as per the administrative approval order (which should only be in very exceptional cases where some technical parameters could not be visualized when the original estimates were framed); prior approval of the funding agency and competent authority should be obtained for the enhanced cost in the form of a revised administrative approval order. While seeking revised administrative approval, the exceptional reasons for cost escalation should be clearly established.

5. It is also noticed that in several cases, the contractor entrusted with the work abandons it without completion. After a considerable lapse of time, steps are taken for re-tendering and for according revised Administrative approval by which the cost of the Project has escalated. However, no penal action is being taken against the original contractor who abandons the work. It is, therefore, impressed on the Engineering Departments that besides taking action for imposition of penalty under the codal provisions, the contractor should be blacklisted and all concerned should be intimated so that no further work is entrusted to him either under State Government or Government of India or PSUs, Railways etc.

6. As mentioned in Para-2 above, one of the factors causing time and cost overrun is absence of a carefully drawn up detail drawing, design and

estimates before commencement of the work. Change in design during the course of the work affects the project cost and the implementation schedule. It is noticed that due to want of clearances. from different agencies viz. Union Ministry of Environment & Forests, Forest & Revenue Authorities of the State Government regarding Environmental Clearance, Forest Clearance and Land Acquisition, inordinate delay is caused in execution of the projects. In order to prevent projects being taken up without carefully prepared design, estimates and without obtaining all clearances, it is imperative that the tender is floated only after the initial pre-project activities are completed. Administrative Department should ensure that initial drawing and design should be done carefully to meet all the technical requirements. Any deviation from the initial drawing and design will be the personal responsibility of the concerned Engineer who finalized the drawing and the Engineer-in-Charge of the execution of the work would also be held accountable for quality of the work as per the drawing and design. The clearances from the concerned agencies should be obtained on the basis of in-principle approval of the project and upon finalization of funding arrangement, detailed drawing, design and estimates framed on the basis of latest Schedule of Rates, administrative approval should be given. Then only should be implementing agencies go in for tendering.

7. The process of tendering should also be improved by adopting the best practices of other State and Government of India so that, works / projects can be executed at competitive cost by contractors having proven technical and financial track record. The schedule of implementation should be carefully planned specifying milestones for completion of different components of the projects. The standard format for bid documents and agreement should be carefully worded to avoid litigation, which is one of the reasons for time and cost overrun. A sound system of contract management is a pre-requisite for timely completion of projects.

8. Project implementation is proving to be a weak area in several Departments. There is need to put in place a project planning and monitoring mechanism; so that; projects are completed according to a realistic time frame. It is therefore, necessary to employ Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) which are two closely related techniques for monitoring the progress of large projects. A key part of PERT / CPM is calculating the critical path. That is, identifying the subset of the activities that must be performed exactly as planned in order for the project to finish ontime. The basic steps under PERT/CPM for

project planning and implementation involves (i) Definition of the project (ii) Determining Precedence Relationships among the activities or in other words sequencing of activities (iii) Estimation of time needed to complete each activity (iv) Drawing a Network connecting all activities and label it with time estimates (v) Compute the critical path through the Network and (vi) Use the Network to plan, schedule, monitor and control the project. Computer software for project implementation and monitoring may be used wherever needed. The Project implementing authorities should also furnish their requirement of funds as per the CPM/ PERT charts and incur expenditure accordingly for timely completion of the projects. Strict personal responsibility should be placed on supervisory and executing authorities for timely completion of each activity of the project without which escalation of cost and time extension will continue to be a common feature in programme implementation.

9. Regular Project Monitoring should be undertaken at the level of the Departmental Secretaries on monthly basis in which the milestones of all ongoing projects should be reviewed and bottleneck for timely implementation be identified and removed. I would, therefore, request you to adopt a Project Management System on the above lines in your Department so that the scarce resource of the State Government could be put to efficient use and the intended benefits of the projects / programmes accrue to the community at large in time. In case, it is felt that changes / amendments are required to be made in the relevant Codes/ Rules to achieve these objectives, proposals for such amendments should be moved immediately.

Yours faithfully,
Sd/- Principal Secretary to Government