

D.O. LETTER NO. F. 1 (8)/PF-II/80, DATED 31.5.1980 FROM THE SECRETARY, MINISTRY OF FINANCE (DEPTT. OF EXPENDITURE) ADDRESSED TO THE SECRETARY, MINISTRY OF SHIPPING AND TRANSPORT, NEW DELHI

The increasing number of cases in which the cost estimates of projects have had to be significantly revised upwards for various reasons has been adversely commented upon in the meetings of the Informal Consultative Committee and in other forums. The Finance Minister has also expressed unhappiness over this development and has emphasized the need for a more thorough appraisal of projects before approval is accorded. I am writing this letter to you to seek your cooperation in a realistic assessment of the costs of projects referred to EFC and PIB so that cases requiring large cost revision become only exceptions and not the rule.

2. A study of cases relating to revised cost estimates approved by PIB shows that escalations in costs arise due to (i) rise in the cost of materials/equipment and subsequent increase in duties and taxes and (ii) inclusion of new items of work not provided for in the original estimates and in some cases even in the subsequently approved revised estimates (iii) inadequate provisions or omissions in the initial estimates and (iv) changes in the scope of the project. Leaving out (i) as arising out of conditions beyond the control of the Ministries; there is no reason why excesses due to the other factors cannot be effectively eliminated by a careful, realistic and systematic assessment of the cost estimates included in the original proposal itself.
3. The need for improving the quality of feasibility reports, on which investment decisions are taken, has been enjoined in a number of circulars issued by the Finance Ministry after 1967. Guidelines for the preparation of feasibility reports for the industrial projects have been issued by the Planning Commission which were circulated vide Ministry of Finance (Department of Expenditure) O.M. No. 8 (20)/PF-II/75, dated 23.8.1975. You would agree that it is very important to prepare a sound feasibility report, by engaging competent consultants where necessary.

4. After a project is sanctioned on the basis of a feasibility report, the Department will have to firm up the cost estimates within a year of the PIB's approval on the basis of a detailed Project Report prepared after appointment of Consultants, completion of detailed engineering and invitation of tenders for civil works, plant and machinery etc. In case the firmed up estimates are in excess of original estimates by 20%, the firmed up estimates will have to be brought up before PIB/EFC for fresh consideration while in other cases, the Ministries would be competent to approve the revised cost estimates. In this connection, a reference is invited to our letter dated 23.11.1978.
 5. If these instructions designed to improve control over costs are followed, the firmed up time and cost estimates of a project would be available within a year. The Ministries will also be in a better position to monitor the implementation and fix responsibility for the large avoidable cost and time over-runs. It will be appreciated that adherence to these procedures will promote effective control of costs of projects as described above. I shall be grateful if you could kindly ensure compliance with the prescribed procedures by the project authorities of your Ministry.
-