

Office Of the Principal Controller of Defence Accounts(BR)
SEEMA SADAK BHAWAN RING ROAD, NARIANA DELHI CANTT.-110010

No. W. Cell/1127/DGBR/Misc Corr

Dated:- 25/11/2014

To

1. The CDA (BR) Guwahati
2. The JCDA (BR) Chandigarh
3. The PAO GREF Pune
4. Accounts Office (All Projects / TFs as per standard list)

C/o- 56 / 99 APO

Sub: - Forwarding of Standard Operation Procedure: 2015-16.

Ref: - HQrs DGBR letter No. 30204/DGBR/Corres/25/Coord East
(T) dated 18/11/2014.

A copy of HQrs DGBR letter cited under reference regarding Standard Operation Procedure: 2015-16 on account of Payment of escalation on contracts: Revision of sanction (Appx 'A') and Payment of Risk and cost amount on contract: Revision of sanction (Appx 'B') is enclosed herewith for your information please.

Please acknowledge receipt.

Soboox
ACDA (Works Cell)

Copy to :

1. ✓	The Officer- In- Charge EDP Section (Local)	For uploading in the PCDA (BR) website please.
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Sandip
25/11
ACDA (Works Cell)

2/19

RECEIVED

20 WK

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AAITS



Headquarters
Dte General Border Roads
Seema Sadak Bhawan
Ring Road, Delhi Cantt
New Delhi -110 010

30204/DGBR/Corres/25/Coord East(T)

Nov 2014

HQ CE (P)
Pin 931
C/o APO


STANDARD OPERATION PROCEDURE: 2015-16

1. The under mentioned Standard Operation Procedure: 2015-16 are submitted herewith for your info and further necessary action please.

- (a) Payment of escalation on contracts: Revision of sanction. - Appx 'A'
- (b) Payment of Risk and cost amount on contract: Revision of sanction. - Appx 'B'

*As (w/c) pl circulate
it to all sub offic.*

*Sandhu
24/11*


(Jainendra Kumar)
EE(Civ)
Jt. Director(RAE)
For DGBR

Encl: As above (12 Sheets)

Copy to:

- 1. The PCDA(BR)
Seema Sadak Bhawan
Ring Road, Delhi Cantt
New Delhi -110 010
- 2. IFA(BR)
Seema Sadak Bhawan
Ring Road, Delhi Cantt
New Delhi -110 010

Internal

DDG(West), DDG(J&K), DDG(Arunachal), TP(Plg), D&S Sec, and E8 Sec

STANDARD OPERATION PROCEDURE 2015-16

**PAYMENT OF ESCALATION ON CONTRACTS:
REVISION OF SANCTION**

GENERAL

1. After sanction of work or issue of Administrative Approval by Competent Authority, Technical sanction is to be issued by Project as per Para 593 of BR Regulations in accordance with the Administrative Approval with regard to scope of work, resources etc.
2. Technical sanctions are issued restricting to the amount of AA. The permissible tolerance limit over the AA, for a particular job, can be used on case to case basis and not as a routine for all jobs.

PRESENT PROBLEM

3. Works are to be executed either through departmental resources or resorting to contract as the case may be for any job. There are cases where executives have to make payments to the contractors where AA provisions exceed AA + Tolerance limit due to applicable escalations. The practice in BRO was to get RAE sanctioned whenever the expenditure or likely expenditure to exceed AA + Tolerance limit (10%). At times completion of works get delayed due to time taken in obtaining revised sanctions.

STRATEGY

4. There are two types of payments involved in any contracts, which lead the expenditure beyond the scope of original CA amount leading expenditure to increase beyond tolerance limit viz escalation on account of price variation adjustment and Risk & Cost amount. This SOP deals with payment of escalation in any contract. A separate SOP has been issued to deal with Risk & Cost cases.

Contd...P/2



5. No RAE is sanctioned immediately before hand in MES. MES deals with such cases under Para 32 h of DWP 2007. Para 32 (h) of Defence Works Procedure 2007 stipulates as:-

“No RAA will be essential if increase in cost beyond the tolerance limit is solely due to payment of statutory escalations scheduled as part of the contract agreement for the originally stipulated time of completion of the works. On completion of the works, the final completion cost will reflect all approved revisions of cost estimates and escalations granted under this Para”.

DECISION

6. The case was referred to CGDA by IFA(BR). CGDA vide letter No AT/VI/6134/Payments of Esca. Charges dated 20.06.2014 has clarified that immediate sanction of RAE is not required on these account. The work can continue by including expenditure out of work head and RAE/ Corrigendum be got sanctioned after completion of work.

HQ DGBR earlier instructed projects that no RAE is required in case the revision is solely due to statuary payments vide letter No.31502/DGBR/Gen/Thurs/RAE Section dated 14 Mar 2013 based on clarification by IFA (BR) on RAEs for Bridge works through execution contract that such cases should be dealt with in the provisions of Para 32(h) of DWP 2007 partial modification to above CGDA, has also clarified that in such cases RAA/corrigendum will be issued only on completion of job. The following procedure will be followed for progressing the works un-interruptedly.

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PROCEDURE

Payment on account of escalation/price variation adjustment on contracts

7. Office of the CGDA clarified the subject issue vide their letter No.AT/VI/6134/Payment of Escla.Charges dated 20 Jun 2014. According to above all such cases be processed as follows:-

(i) Variations due to escalation coming into force of any fresh law or statutory rule are within the ambit of the term "Statutory escalation" used in Para 32(h) of DWP 2007.

(ii) No revised Admin Approval would be required for payment of statutory escalations immediately.

(iii) For increase in the cost of work due to application of the escalation clause as per the terms & conditions of contract for the changes in prices of key inputs such as labour, material and fuel, a corrigendum (if no change in original scope is there) or a revised admin approval (in cases of change in original scope is there) is required if escalation exceeds the tolerance limit, thus RAA/corrigendum would be required before the final bill is paid.

(iv) RAR can be paid to contractor without waiting for sanction of RAE.

8. There is a need to fix time frame for sanction of RAE/Corrigendum as above as the payment of final claim of the contractor would be pending for want of sanction of the RAE/corrigendum. The claims of an agency cannot be kept in abeyance for long. The cases for corrigendum of RAEs (as the case may be) within all relevant documents be initiated by projects immediately as soon as the work is completed and final bill is submitted by contractor as his claim or claim of the contractor is finalized with respect to escalations etc. A time frame of three months is reasonable for initiation of RAE / Corrigendum by Project and its sanction.

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9 All such cases should be monitored by CE (P) at Project, DDGs at the Dte and IFA(BR) at their respective offices till finality of sanction/ approval. If due to any reason, cases of corrigendum and RAEs are not being approved within three months at Dte, provisional AIP be communicated to Project to make payments to contractors for their final bill. So that in all such cases payment to the contractors will not be delayed after submission of their final bills.

10. Time bound actions are required to be taken at all level to adhere the above time frame of three months which include processing of corrigendum/ RAE at TF level, scrutiny by Project, submission to Dte, scrutiny at Dte level, IFA level and sanction / approval of CFA. Following time line is suggested to be adhered:-

TF	:	10 days in preparation/ initiation of RAE/ corrigendum and submission to Project.
Project	:	15 days in scrutiny/ submission to Dte including transit time in reaching the documents to Dte.
Dte	:	15 days in scrutiny including time required for any clarification required from Project.
IFA(BR)	:	15 days in scrutiny including any time required for clarification from Dte/Project.
Total	:	55 days

11. A cushion of 35 days is catered for unexpected delays which not to be extended in any case. The above time frame is maximum time which any of above offices may take including transit delays. Such cases are required to be taken through special drive.

12. By releasing payment to the contractor during the course of works, the expenditure on the job may exceed the tolerance limit. No work or payment to contractor would be stopped on this account. Remarks would be made against such excess as "payment against statutory expenditure (escalation)" to distinguish such jobs from other jobs where expenditure should not exceed the tolerance limit.

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13. CE projects will ensure that CR Part A and B will be forwarded to Dte within one month of making payments of final Bill to the contractors.

14. Though No claim certificate is being submitted by the contractor along with final Bill, It should be ensured that contractor also submits undertaking that 'No interest will be claimed for the period of three months after submission of final Bill. Such condition can be incorporated in tender documents.

15. For all purposes such expenditure on account of escalation will be considered for completion cost of the project and reflected in Remarks column of the MER.

16. No deviations should be made from this SOP, unless prior approval of DGBR is obtained.

Conclusion

17. The above procedure to be followed in true spirit so that the works continue unhindered and completed in time and payments to the contractors can be made within time. With this SOP litigations and arbitration cases can be reduced.

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STANDARD OPERATING PROCEDURE 2015-16

PAYMENT OF RISK AND COST AMOUNT ON CONTRACTS
REVISION OF SANCTION

GENERAL

1. After sanction of work or issue of Administrative Approval by Competent Authority, Technical sanction is to be issued by Project as per Para 593 of BR Regulations in accordance with the Administrative Approval with regard to scope of work, resources etc.
2. Technical sanctions are issued restricting to the amount of AA. The permissible tolerance limit over AA, for a particular job is used on case to case basis and not as a routine for all jobs.

PRESENT PROBLEM

3. In case of failure of contractors, the contracts are cancelled and the balance work are executed at the risk and cost of defaulting contractor. Such risk and cost contracts are generally on higher side to the original contract due to escalation in prices. In such cases executives have to make payments to the contractors where AA provisions exceed due to Risk and cost of any contract. At times completion of works is delayed due to time taken in obtaining revised sanctions. This Board of officers ordered to suggest procedure for dealing such cases earlier recommended to revive code head G (Suspense Head) on the pattern being operated in MES. But CGDA office did not agree to this. They had suggested that similar suspense head cannot be operated for Risk and cost amount only.

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STRATEGY

4. There are two types of payments involved in any contracts, which lead to expenditure beyond the scope of original CA amount beyond tolerance limit viz escalation and Risk & Cost amount. This SOP deals with payment of Risk and cost amount to be paid in any contract. This SOP for escalation cases has been issued separately.

DECISION

5. The case was referred to CGDA by IFA(BR). CGDA vide letter No A/II/107/BRO/MON/2014-2014 dated 26.06.2014 clarified as under:-

Quote

Para 2 As regards functionalizing a suspense head as desired by DGBR and also the initializing of sub head similar to 'G' MES advance provision, as proposed by PCDA (BR) the same cannot be agreed to due to the following reasons:-

- (a) The code head in existence is not a suspense head.
- (b) Suspense heads are only operated wherein the code head under which the booking has to be made is not available. In the instant case the situation is not so, as the issue is regarding identification of a particular amount of expenditure belonging to Risk and Cost expenditure with respect to BRO Projects.
- (c) Further, BRO undertakes a number of Road and Bridge works. Some of these works are being funded by MORTH,GS Funds, Agency works (MEA works, MHA works etc.) and deposit works. Besides this, works like Road works, Road maintenance Minor works etc.fall under the Revenue heads of BRO and other major works fall under capital heads executed by BRO.

In view of the position explained above, it would not be feasible to allocate a single sub head similar to sub head 'G' MES Advance as applicable on the MES side.

Contd...P/3

Further, it may also be pertinent to mention here that for identification of amount on account of risk and cost in respect of MAP projects a prefix to code head 510/00 (sub head 'G' MES advance) was allotted. DGADS has objected to the operation of this prefix category code with respect to MAP as the same is being operated under a revenue head whereas the expenditure pertains to capital head.

Para 3 However, in order to identify the expenditure incurred on account of "Risk and Cost" under various code heads in BRO, it would be appropriate to allocate a category code which may be prefixed to the code head under which the contract expenditure is being booked. This would only identify the booking on account of Risk and Cost under the relevant Code Head and will have no relevance to the Sub Head 'G' MES Advance applicable on MES side as booking under head 510/00 are to be brought down to nil at the end of Financial Year in terms of Rule 279 and 281 of RMES which would not be the case with respect to BRO. It may be reiterated that the category code will not be used to book any amount other than amount on account of 'Risk and Cost' remaining irrecoverable from concerned contractors pertaining to a particular 'Risk and Cost Contract'

Unquote

PROCEDURE

CGDA vide letter No. IFA/557 dated 20 Jun 2014 has suggested the procedure to be followed to deal with such cases in accordance to the Instruction No 46 and same reproduced below.

Quote

INSTRUCTION ORDER NO 46 DATED 03 JULY 2014

Sub : Procedure to be followed while processing RAE/Corrigendum/Proposals for acceptance of new contract on Risk & Cost Basis in respect of Risk and Cost contracts

Ref. CGDA letter No. IFA/557 dated 20 Jun 2014

Contd...P/4



The following procedure shall be followed while processing RAEs/Corrigendum's/Proposals for acceptance of new contract on account of 'Risk and cost' contracts. All officers and staff members are directed to adhere to the procedure in addition to any earlier instruction/orders issued on the subject and compliance of the same be placed on the case file by AAOs/SOs(A) duly marked after having checked all the points mentioned in the drill.

(A) Upon receipt of any 'Risk and Cost' related RAEs/Corrigendum/Proposals for acceptance of new Contract on 'Risk and Cost' basis the following details/documents should be ensured for examination & processing of the case.

(i) Quantum of work done upto date of default.

(ii) BOO to assess the cost of work done by the defaulting contractor along with the work done sheet.

(Auth : Para 21.8 (b) (i) & 21.8 (b) (aa) of MES Contract Manual)

(iii) Final warning letter issued to the defaulting contractor about departmental right to proceed on 'Risk and Cost' basis.

(Auth : Para 21.8 (a) (ac) of MES Contract manual).

(iv) No. and date of letter in which the contract is cancelled and under what clause of IAFW 2249.

(v) Payment made to the defaulting contractor on account payment (RAR) along with dates of payment duly vetted by AO (P)

(Auth : Para 21.8 (b) (ad) of MES Contract Manual)

(vi) Dues held with BRO of the defaulting contractor duly vetted by AO (P)

(Auth : Para 21.8 (b) (ad) of MES Contracts Manual).

(vii) Details of security deposit etc held with BRO duly vetted by AO (P)

(Auth : Para 21.8 (b) (ad) of Contract Manual)

(viii) Details of any other running contracts of defaulter contractor.

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(ix) Whether arbitrator has been appointed or not, if not the reasons may be placed on file.

(Auth : Para 21.8 (b) (ad)(iii) of MES Contract Manual)

(x) Full details of recoverable amount consequent on 'Risk and Cost' contract notified to the defaulting contractor and notices issued to him to deposit the same into Govt, treasury duly vetted by AO (P).

(Auth : Para 21.8 (b) (ad) of MES Contract Manual).

(xi) Action taken till date for recovering the 'Risk and Cost' amount.

(xii) Copy of complete CA documents.

(Auth : Para 21.8(b) (ad) of MES Contract Manual).

(xiii) 'Risk and Cost' tender framed must be a true replica of the original contract with reference to terms and conditions.

(Auth : Para 21.8 (b) (iii) of MES Contract manual).

(xiv) Period of completion for left over should commensurate with the period of completion originally given in the contract.

(Auth Para 221.8(b)(v) of MES Contract Manual).

(xv) V/E/Ps and stores left over by the defaulting contractor, taken in to charge and action taken for disposal.

(Auth : Para 21.8(b) (aa) of MES Contract manual).

(xvi) Action taken on overpayment and other irregularities, if any.

(B) After ensuring that all necessary documentation is available on file, RAEs/Corrigendum's on account of 'Risk and Cost' Contract will be processed as per procedure laid down for processing RAEs / Corrigendum's.

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Unquote

6. Time bound actions are required to be taken at all level to adhere the above time frame of three months which include processing of corrigendum/ RAE at TF level, scrutiny by Project, submission to Dte, scrutiny at Dte level, IFA level and sanction / approval of CFA. Following time line is suggested to be adhered:-

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8. By releasing payment to the contractor during the course of works, the expenditure on the job may exceed the tolerance limit. No work or payment to contractor would be stopped on this account. Remarks would be made against such excess as "**payment against statutory expenditure (escalation)**" to distinguish such jobs from other jobs where expenditure should not exceed the tolerance limit.

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9. CE projects will ensure that CR Part A and B is forwarded to Dte within one month of making payments of final Bill to the contractors.

10. Though No claim certificate is being submitted by the contractor along with final Bill, It should be ensured that contractor also submits undertaking that 'No interest will be claimed for the period of three months after submission of final Bill . Such condition can be incorporated in tender documents.

11. Any deviations from this SOP should be referred to the Dte and can be made only after prior approval of DGBR.

CONCLUSION

12. The above procedure is to be followed in true spirit so that the works continue unhindered and completed in time and payments to the contractors can be made within specified timeframe. With this SOP, litigations and arbitration cases can be reduced.

