

Office of the CGDA, West Block-V, R.K.Puram, New Delhi-66
Pr. IFA Wing

Instruction No. 18 of 2007

No.PIFA/Gen Corr/2004/IFA COD Agra

Dated : 5th Oct. 07

To

All PCsDA/CsDA/IFAs

Sub : Assessment of reasonable price.

The guidelines for assessment of price reasonableness by the CNC are given in Para 5.8 and chapter 13 of DPM 2006. Para 13.8 specifically provides for the factors to be considered while comparing the quoted rates with the LPP. None of these provisions stipulates or envisage application of a flat annual rate of escalation over the LPP as a routine.

2. It has been intimated by IFA COD Agra that the reasonable price is being estimated by the COD authorities in all cases by applying a 5% escalation per year on the LPP quoting as authority GOI letter No.6(I)/97/D(O-I) dated 8.4.1997 and No. A/89591/FP/I/693/2002/D(GS-I) dated 22.4.2002 and para 130(b) of the DGOS Technical Instruction No. 040.

3. On examination of para 4 and 10.2(e) of the MOD letter dated 8.4.1997, ibid, it is revealed that the provision therein for allowing an increase of 5% per annum is only for working out the indicative budget for the provisioning and Priority Procurement Plan on three year roll on basis and for determining the CFA for expenditure sanction. Similarly, para 130(b) of the DGOS Technical Instruction No. 040 relates to Review and placement of demands and working out of the estimated price to be entered on the Provision Review Form. MOD letter dated 22.4.2002 is on delegation of financial powers and again not concerned with working out the reasonable price.

4. In view of above, the procedure of applying a 5% escalation per year on the LPP by COD authorities, in working out the estimated procurement price is **not correct**. The procurement procedure to be followed by the COD authorities has to be in accordance with DPM- 2006.

5. The matter was also taken up with MoD (Fin.) who have interalia, confirmed that the detailed guidelines given in DPM-2006 for fixing of reasonable rates/prices have undoubtedly to be followed.

6. In view of above, all IFAs are advised to review the practice being followed in this regard in their area and ensure that prescribed procedure as per DPM-2006 is followed.

7. Please acknowledge receipt.

Pr. IFA has seen.

sd/-
(Anuradha Prasad)
Jt. CGDA (IFA)

Copy to :

1. Jt. CGDA (AT-I)
2. Jt. CGDA (AT-II)
3. Jt. CGDA (AT-III)

} For kind information.

sd/-
(Anuradha Prasad)
Jt. CGDA (IFA)