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MINISTRY OF FINANCE AND MASS MEDIA

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 எனது இல. } PFD/PMD/CM/2018/01
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 திகதி } 05/02/2019
 Date }

Public Finance Circular No: 01/2019

All Secretaries to the Ministries
 Chief Secretaries of Provincial Councils
 Heads of Government Departments/
 Local Government Agencies / District Secretaries
 State Corporations and Statutory Boards
 Chairmen of Government Owned Companies

Guidelines Applicable to Ministries and Government Agencies to adopt a Uniform Mechanism to review the Total Cost Estimates (Prior Review) and Contract Variations (Post Review) of the Development Projects

1. Background

It has been observed that contracts awards in excess of the approved cost estimates and variation to contracts during the project implementation stage have become as common characteristics of most development projects. Taking into consideration the significant impact in managing the government's budget as a result, the Cabinet of Ministers has decided to device a review mechanism to address these situations. Accordingly, a "Cost Estimate Review Committee" (CERC) is established under the Ministry of National Policies and Economic Affairs, resettlement & Rehabilitation, Northern Province Development, Vocational Training & skills Development and Youth Affairs.

2. Functions of the CERC

CERC shall ensure the compliance with the following requirements to pursue the respective organizations to produce a more realistic Total Cost Estimate (TCE) and to manage the contract variations in a prudent manner whilst complying with the regulatory requirements.

2.1 Whether the Total Cost Estimate (TCE) prepared by the Procuring Entity (PE) is realistic in all aspects such as the scope, design, quantities, applicable rates and mark-ups, associated costs in relation to the procurement preparedness activities, post contract award activities and appropriate contingencies to cover risks and uncertainties associated with the project scope (Prior Review).

2.2 Whether the contract cost variations occurred during the implementation stage, over and above the available contingency provisions, are justifiable in all aspects, but not limited to the matters which could not be foreseen at the design stage. (Post review)

3. Process to be followed in relation to preparation of Total Cost Estimates

3.1 It is the responsibility of the Procurement Entity (PEs) to ensure that if feasible, projects are designed taking into consideration of all foreseeable aspects including technological advancements, legal requirements etc. whereas the corresponding TCEs are prepared accurately and completely.

3.2 The Total Cost Estimate (TCE) prepared in terms of Guideline 4.3 of Government Procurement Guidelines -2006 by the PE should be forwarded to the CERC along with the documents listed below.

- a) Dully filled format as per Annexure "A" hereto
- b) Certificate of the consultant with regard to the accuracy and completeness of the project design and corresponding BOQs
- c) Approval obtained as per the Regulations 35 and 36 of the Government Financial Regulations of 1992 from the respective authority to implement the project.

3.3 Once the TCE is endorsed by the CERC, the Line Ministry shall proceed with the procurement process. Procurement process should not be commenced prior to obtaining the concurrence of the CERC for the respective TCE.

3.4 If considerable time is taken to invite bids after the Total Cost Estimate (TCE) is endorsed by the CERC, the TCE should be updated taking in to account inflation, currency variations and any other factors or events after the concurrence is granted to avoid likely cost variations that would occur during the project implementation period.

4. Management of post contract variations

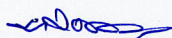
- 4.1 Contract variations exceeding the contingency provision shall not be encouraged as a matter of policy.
- 4.2 Procurement entities should take every effort to manage the scope changes and quantity variations within the contingency provision made available in the approved Total Cost Estimate. Such variations should be handled with the prior approval for the change orders from the appropriate authority, following the procedure laid down in Guidelines Reference 8.13.4 of Procurement Manual and Supplement 14 thereto.
- 4.3 Contract variations exceeding the contingency provision should be proceeded with the prior review and clearance by the CERC, following the procedure described below.

5. Post Contract Cost Variation

- 5.1 The contract agreement may contain provisions to issue variation orders by the engineer as and when necessary in order to ensure smooth functioning of the project activities. There must be a proper administrative arrangement with the engineer to report all such variations for the approval by the appropriate authority, without leaving room for unmanageable accumulated amounts of variations.
- 5.2 As per the guideline reference 8.13.4 of the Procurement Manual-2006, which had supplemented by Supplement 14 dated 03.10.2007, HD/PD may approve the change orders if the aggregate amount of such variations is within the 10% contingency provision as in approved Total Cost Estimate.
- 5.3 There are high value contracts where the 10% contingency provision allocated in the Total Cost Estimate of such contract is extraordinarily high for the HD/PD's authority as described in 5.2 above in approving the change orders. Due to the fact that, some change orders are effected under the hand of a single person's authority (HD/PD) whereas some change orders over and above the 10% of contingency provision should be handled by an appropriate procurement committee assisted by a Technical Evaluation Committee.

- 5.4 Therefore, in order to limit the single person's authority of approving the change orders, it is decided to setting a cap for the authority limit of the HD/PD to approve the aggregate change orders i.e Rs. 250 million for Government of Sri Lanka (GOSL) funded projects and Rs.500 million for foreign funded projects.
- 5.5 Accordingly, when it is apparent that the aggregate cost variation exceeds 10% of the contract award price (without contingencies and VAT) or more than Rs.250 million for GOSL funded projects and Rs.500 million for foreign funded projects in relation to procurements under the authority limit of Cabinet Appointed Procurement Committees, before proceeding with such variations the line Ministries should submit a request along with the duly filled Annex "B" herewith to the CERC for its observations and recommendations for the way forward.
- 5.6 Once the respective line Ministry receives the recommendations from the CERC on the cost variation, action should be taken to revise the TCE in accordance with the FR 72.
- 5.7 No Variation Order exceeding the contingency provisions should be issued prior to obtaining the approval by the respective authorities as per FR 72 for the revision of the respective TCE.
6. All other contract variations should be handled following the instructions given in Supplement 14 dated 03.10.2007 which had illustrated the Guidelines Reference 8.13.4 of the Procurement Manual-2006 (Goods and Works).

Any clarification on any issues relating to this Circular may be obtained from the Director General of the Department of Public Finance (Tel.0112484614/ 011284805)



R.H.S. Samaratunga
Secretary to the Treasury

- Copies to:
1. Secretary to the President
 2. Secretary to the Prime Minister
 3. Secretary to the Cabinet of Ministers
 4. Auditor General

Chairman
 Cost Estimate Review Committee (CERC)
 Ministry of National Policies, Economic Affairs,
 Resettlement & Rehabilitation, Northern Province Development,
 Vocational Training & Skills Development and Youth Affairs
 Miloda Building
 Colombo 1.

Reconciliation of Total Cost Estimate (prior to inviting bids)

Name of the Procuring Entity:

Line Ministry :

Name of the project :

1.	Scope of the project	
2.	Expected benefits/ outcome (In brief) Eg: providing drinking water for 10 Grama Niladari divisions in xxx Divisional Secretariat	
3.	Whether the project has obtained the principle approval from the National Planning Department in terms of FR 35 (Yes/No)	
4.	Whether the project is listed in the Public Investment Programme (PIP) accordingly (Yes/No)	
5.	In case of foreign financing project, whether the project negotiations be completed and agreement signed or confirmed (Yes/No)	
6.	Whether the project has obtained the final approval as per FR 36 (Yes/No)	
7.	Status of project readiness activities i) Soil investigations ii) Environmental Impact Assessment iii) Social Impact Assessment iv) Land acquisition	
8	Whether the appropriate professionals have involved in the design of the project	
9	Whether the appropriate professionals have involved in the preparation of Total Cost Estimate	
10	Whether the fair risk allocation is included in the Total Cost Estimate eg: uncontrollable external events	

11	Summary of the Total Cost Estimate		
		Rs.	Rs.
i.	Direct Construction Cost (DCC)		
ii.	Sum of all bill items in the BOQ	xxxx	
iii.	Physical contingencies (10% of BOQ items)	xx	
iv.	Price contingencies	xx	xxxxxx
v.	TCE of main contract		xxx
vi.	Cost of feasibility studies, investigations and other related costs (say 1% of DCC)		xxx
vii.	Preliminary design and detailed design costs (say 2.5% to 3.5% of DCC)		xxx
viii.	Supervision Cost (1% of DCC)		xx
ix.	Project management cost (less than 1% of DCC)		xxx
x.	Other applicable costs		
xi.	Mark-up		
	Total project cost		xxxxxxx

12 Time frame of project and the budget:

13. Basis for fixing rates in BOQ :

Prepared by:

Checked by:

Certified by:

Observations of the Secretary of the Line Ministry:

Date:

Signature of the Secretary

Chairman

Cost Estimate Review Committee (CERC)

Ministry of National Policies, Economic Affairs,
Resettlement & Rehabilitation, Northern Province Development,
Vocational Training & Skills Development and Youth Affairs
Miloda Building
Colombo 1.

Reconciliation of Contract Cost Variations (Post Review)

Name of the Procurement:

1.	Name of the Procuring Entity				
2.	Line Ministry				
3.	Name of the project				
4.	Value of the original Total Cost Estimate of the project and the date				
5.	Source of Funding	Domestic Funds Rs.	Foreign Funds (Value in Rupees)		
6.	Original contract price (without contingencies) and date of award				
7.	The schedule date of the contract completion				
8.	Contingency provisions provided in the original cost estimate	Amount (Rs)	As a Percentage (1%)		
	8.1 Physical contingencies				
	8.2 Price contingencies				
9.	Allocated budgetary provisions and total expenditure incurred to date	Year	2016	2017	2018
		Amount (Rs)			
		Expenditure (Rs)			

10	Variations issued upto now	Amount (Rs)	As percentage of initial contract price (%)																														
	10.1 Physical variations																																
	10.2 Price variations																																
11	Reasons for current variation/variations (mark relevant reasons)																																
	Reasons	Relevant/Not relevant	Amount of variations (Rs)																														
i	Change of the scope		xxx																														
ii	Quantity errors in bill of quantities		xxx																														
iii	Increase of prices		xxx																														
iv	Increase of the overhead cost		xxx																														
v	Other reasons		xxx																														
vi	Sub total		xxx																														
vii	Variations issued up to now (as per 10 above)		xx																														
viii	Overall variation (vi + vii)		xxx																														
12	Overall variation as a percentage																																
	12.1 Overall variation as a percentage of the total contract sum		xxx																														
	12.2 Overall variation as a percentage of the original total cost estimate		xxx																														
13	Detailed description		Annexure																														
	13.1 Reasons for not foreseen at the design stage		1																														
	13.2 Reasons for not being accommodated the cost through contingency provisions		2																														
	13.3 Variations calculating sheet as per the ICTAD Price Adjustment Formula or Price Adjustment Methodology included in the contract agreement		3																														
	13.4 Increase of cost and other related matters due to extension of the contract period		4																														
	13.5 Comparative Statement		5																														
	<table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="3">Original Estimate</th> <th colspan="3">Revised Estimate</th> <th rowspan="2">Savings or Excess of Budgetary Provisions (Rs.)</th> </tr> <tr> <th>Quantity</th> <th>Rate (Rs.)</th> <th>Amount (Rs.)</th> <th>Quantity</th> <th>Rate (Rs.)</th> <th>Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Item	Original Estimate			Revised Estimate			Savings or Excess of Budgetary Provisions (Rs.)	Quantity	Rate (Rs.)	Amount (Rs.)	Quantity	Rate (Rs.)	Amount (Rs.)																	
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	Quantity	Rate (Rs.)	Amount (Rs.)	Quantity	Rate (Rs.)	Amount (Rs.)																											

13.6	Details of previous approvals for revision of TCE (if any) as per 11 (vii) above i. approval date ii. amount iii. reasons for revisions: Technical reasons/Change of Scope/Calculation errors/Price escalations /Others	6	
13.7	Other reasons	7	
14	Anticipated time frame to obtain additional provisions required for variation	Year	
		Amount (Rs)	
15	Report of the Technical Evaluation Committee pertaining to new cost (Revised cost estimate) – Annexure - 9		
Observations of the Secretary of the Line Ministry:			
<div style="display: flex; justify-content: space-between; align-items: flex-end; padding: 10px;"> Date: Signature of the Secretary </div>			