



**PLANNING AND ECONOMIC AFFAIRS (BPE) DEPARTMENT**

**No. 18911/BPE/86/Plg., Trivandrum, dated  
11<sup>th</sup> February 1988**

**CIRCULAR**

*Sub.-* Purchase of Capital Equipments by Public Sector under-takings.

The Public Accounts Committee has brought to the notice of Government that; some of the Public Sector Undertakings are not taking adequate precautions while purchasing capital equipments with the result that certain units had to suffer losses and has therefore desired that Government should issue detailed guidelines in this regard. Government are pleased to issue the following guidelines for the strict compliance by Public Sector Undertakings:-

**1. Invitation of Tenders**

Once the indent for the purchase of Capital Equipment has been received from any department of a Public Sector Undertaking and the same has been approved for purchase by the Competent Authority by way of expenditure sanctions, quotations for the same shall be obtained by advertisement of tenders in "Indian Trade Journal". The competent authority shall fix the limit of capital investment beyond which tenders shall be invited through tenders.

For purchase through limited tenders, the Public Sector Undertaking shall maintain list of approved suppliers. If the list is too long, enquiry may be restricted to only few suppliers on the basis of their past performance, but the purchase officer within whose power the purchase lies, should obtain the approval of the next higher authority about the number and the name of tenderers in such cases. In the case of single offer, the purchase should be treated on single tender basis and decision taken on its merits.

**2. Evaluation of Tenders**

Before award of contracts, the financial soundness and the technical capability of the tenderers should be studied in depth to assess their capacity of performance of the contract. This may be done by asking them to submit a list of the companies to whom they have supplied similar equipments and then checking up with such users about the performance of the machinery.

In the case of key items of plant, plant visits to such installations may be made by the officials of the Public Sector Undertaking. The technical support of the tenderer by way of best personnel and other infrastructural facilities may also be examined in the cases of items to be fabricated by the tenderers. As far as possible the Public Sector Undertaking should prefer reputed makes of proven performance. A capital equipment of reputed make and proven performance will minimise the gestation period and delay in the commencement of production. Where a capital equipment is of an innovative nature with no past record of proven performance, then as far as possible, the equipment should be procured from reliable sources. In any case the purchase contract should specifically provide for warranty on equipment (construction material, workmanship etc.), performance guarantee and also liquidated damages for delays in supply.

If the contract is given to a Private Body in preference to a Public Sector Undertaking which has also quoted for the tender detailed reasons therefor should be recorded and reviewed by the Management.

**3. Placement of Orders**

Orders shall be placed directly with the supplier concerned rather than through the distributor to avoid payment of commission to the distributor. Direct placement of orders will also avoid incidence of double taxation.

Penalty Clause shall be included in the contract to avoid delay in the delivery of the equipment and the consequential loss to the company by way of increased overhead charges and loss of production. Special care will have to be given regarding the wording of the penalty clause. The quantum of penalty shall be decided in each case on the merits of the case.

**4. Payment Terms**

Initial advance against order	10-15 percent of the contract value
Progressive payments subject inspection by company persons	80-90 percent of the contract value
Retention money to be paid after successful testing and commissioning of the plant	20-10 percent of the contract value

Bank guarantees have to be obtained from the tenderers for the amount of initial advance in all cases and amount of retention money in case the tenderer objects to the Public Sector Undertaking retaining the final payment.

If the tenderer is a Public Sector Undertaking, no guarantee need be insisted for the advance amount. Reputed Suppliers may not agree for furnishing of guarantee for the advance amount and in such a case, it shall be decided on the merits of the case.

The Public Sector Undertaking shall make pre-delivery inspection before sanction of progressive payments; the payment voucher shall be supported by an Inspection Note by the officers of the Public Sector Undertaking.

As regards payment of the retention money, the company i.e., Public Sector Undertaking shall ensure that the plant is complete in all respects to yield the required output. A certificate of successful Testing and Commissioning of the Plant shall be made before sanction of payment of retention amount.

## **5. General**

The Public Sector Undertaking shall make proper arrangements for insurance during transit, erection and commissioning and regular operation of the Capital Equipment. Similarly safe transport shall also be ensured.

Performance guarantee shall be obtained in every case to cover the period upto the date of regular production. Here again, the wording of the clause is important.

These guidelines are in addition to the existing guidelines regarding sanctioning of capital projects, purchase of equipment etc.

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