

भारतीय राष्ट्रीय राजमार्ग प्राधिकरण

(सड़क परिवहन और राजमार्ग मंत्रालय)

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POLICY MATTERS – ADMINISTRATION/FINANCE (08/2002)

(Decision taken on Finance Division File No.NHA/F&A/2002/178)

Sub: Guidelines for payments to contractors

With a view to bring in uniformity in scrutinizing the proposals received from the Contractors for acceptance of BGs/release of funds, it has been decided to uniformly follow the following guidelines prescribed as under-

These guidelines are generally based on the standard clauses of the contracts between NHA and the Civil Works Contractors. These guidelines shall be read in conjunction with provisions of the contract under which the payment is sought and shall be uniformly followed for processing all the cases for acceptance of BGs/release of payments to the contractors, etc.

1. Scrutiny of BGs for Performance Security

Subject to compliance of various conditions laid down in the contract, the following compliance may be seen-

- 1.1 Examine that the Letter of Acceptance [LoA] has been issued by the concerned Division for a contract price.
- 1.2 Examine that the contractor has submitted the performance security BG within 28 days [or any other date stated in the contract] of receipt of LoA. If not, relaxation by the Competent Authority may be sought.
- 1.3 Examine the following issues in respect of the BG-
 - 1.3.1 BG should be as per the format prescribed in the contract.
 - 1.3.2 BG should be for the requisite amount [say 10% of the contract] & in the requisite currency as stated in the contract.
 - 1.3.3 BG should be valid for the period prescribed [Generally, period for issue of notice + period of commencement from issue of notice + project completion period + defect liability period, if required as per contract + 28 days, if required as per contract].
 - 1.3.4 BG should have been issued in the name of the contractor [in case of JV, the BG should be in the name of the JV].
 - 1.3.5 BG should be unconditional and should have been issued by a bank as specified in the contract [generally, by SBI or its subsidiaries or any Indian nationalized bank or IDBI or ICICI or ICICI Bank or by a foreign bank through a correspondent bank in India. BG on any other bank should have been expressly accepted by NHA].
 - 1.3.6 Confirmation from the bank has been obtained.
 - 1.3.7 More than one BG can be accepted only subject to any other specific condition laid down in the contract being complied with.

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2. Payment of Mobilization Advance

Subject to compliance of various conditions laid down in the contract, the following compliance may be seen-

- 2.1 Examine that the contract has been signed.
- 2.2 Examine that the performance security BG has been submitted in accordance with relevant clause of the contract and the conditions as laid down at para 1.3 above have been complied with.
- 2.3 Examine that the letter for commencement of works has been issued. If not, relaxation by the Competent Authority may be sought.
- 2.4 Examine that the mobilization advance has been claimed within the period as specified in the contract, if any [*generally, within 84 days of the issuance of LoA*]. If not, relaxation by the Competent Authority may be sought.
- 2.5 Examine that the Engineer [*or any body authorized by the Competent Authority to act as 'Engineer'*], if so required under the contract, has recommended the claim of the contractor for advance, else relaxation by the Competent Authority may be sought.
- 2.6 Examine the following issues in respect of the BG-
 - 2.6.1 BG should be as per the format prescribed in the contract.
 - 2.6.2 BG should be for the requisite amount [*generally 10% of the contract*] & in the requisite currency as stated in the contract.
 - 2.6.3 BG should be valid until the advance amount has been repaid or until completion of the contract or any other period, as may be prescribed under the relevant clause of the contract [*generally clause 60.7 (d)*].
 - 2.6.4 BG should have been issued in the name of the contractor [in case of JV, the BG should be in the name of the JV].
 - 2.6.5 BG should be unconditional and should have been issued by a bank as specified in the contract [*generally, by SBI or its subsidiaries or any Indian nationalized bank or IDBI or ICICI or ICICI Bank or by a foreign bank through a correspondent bank in India. BG on any other bank should have been expressly accepted by NHAI*].
 - 2.6.6 Confirmation from the bank should have been obtained.
 - 2.6.7 More than one BG can be accepted subject to provisions contained in the relevant clause of the contract [*generally clause 60.7 (c)*].
- 2.7 Examine that the contractor has submitted an invoice claiming the advance.
- 2.8 Examine that the contractor has taken out adequate insurance coverage in accordance with the relevant clauses of the contract [*generally clauses 21.1 and 21.2*]. If not, concerned Division or Project Director or the 'Engineer' to the project may be requested to verify such insurances and examine the adequacy of such coverage (including both value & period of cover) in terms of the contract.
- 2.9 The amount claimed by the contractor may be released, in the proportions of the currencies as specified in the contract, subject to the maximum amount stated in the contract and the amount of BG furnished.

3. Payment of Equipment Advance

Subject to compliance of various conditions laid down in the contract, the following compliance may be seen-

- 3.1 Examine that the contract has been signed.
- 3.2 Examine that the performance security BG has been submitted in accordance with the relevant clause of the contract [*generally clause 10.1*] and the conditions as laid down at para 1.3 above have been complied with.
- 3.3 Examine that the letter for commencement of works has been issued. If not, relaxation by the Competent Authority may be sought.
- 3.4 Examine that the contractor has made the request for payment of advance. No advance against plant & equipments may be granted after a period specified in the contract, if any [*generally some contracts specify a period of 8 months from the date of commencement*] or beyond the number of maximum installments specified in the contract, if any, unless recommended by the Engineer along with justification and approved by the Competent Authority.
- 3.5 The contract requires that the advance may be released subject to the condition that such plant & equipments are considered by the Engineer to be necessary for the works, the plant & equipments have been brought to site and they are in working order. Examine that the Engineer has specifically recommended for payment of equipment advance covering the aforesaid aspects as required under the contract. However, in case of new equipments, the advance may be considered for release even if the equipments are at installation stage.
- 3.6 Examine the following issues in respect of the plant & equipments-
 - 3.6.1 The claim is supported by legible copies of the invoices of the equipments. In case of old equipments, if the copies of the invoices are not available, a certificate from a Chartered Accountant or any other acceptable evidence duly indicating the purchase price, year/date of purchase, depreciated value, etc., may be considered.
 - 3.6.2 Since the advance is to be released subject to the condition that such plant & equipments are considered by the Engineer to be necessary for the works, advance may be released / paid on the basis of the certification of the Engineer against an equipment whether owned, hired, under hire purchase arrangement / financed. However, Engineer may ensure that the conditions stipulated in the relevant clause in the contract [*generally clause 54.5 of the contract*], if required under the contract, have been complied with. The invoices may be examined only with respect to purchase price, year/date of purchase, depreciated value, etc.
 - 3.6.3 Where the invoice indicates the value in any foreign currency, the basis for conversion either in the form of a copy of the corresponding bill of entry or in the form of a bank certificate may be obtained.
 - 3.6.4 All the equipments purchased after the issuance of LoA may be considered as new equipments. In the case of old equipments, the eligible advance may be released on the basis of the depreciated value determined and recommended/certified by the 'Engineer'. The 'Engineer' may, if considered necessary by him, recommend payment of advance against depreciated value of the equipments on the basis of a certificate of a Chartered Accountant.
 - 3.6.5 Generally, the contracts provide that no advance may be granted on any piece of the plant & equipment with a value less than the amount specified in the contract [*the term value shall be deemed to be the purchase price in case of new plant & equipments and depreciated value in case of old plant & equipments*].

The Competent Authority has, however, approved that if the 'Engineer' has recommended for grant of advance against an equipment valuing less than the amount specified in the contract, the same may also be considered for release.

- 3.6.6 Sometimes, the contract prescribes [*generally as an information*] for minimum plant & equipment [*including maximum age*] to be deployed by the contractor for the work. However, if the 'Engineer' has recommended for grant of advance against any equipment other than those prescribed anywhere in the contract [*including older than the maximum age prescribed*], subject to fulfilling the conditions prescribed in para 3.5, the same may also be considered for release.
- 3.6.7 In case a certificate has been issued by NHAI/MoRT&H for availing exemption from custom duty or central excise, no advance may be permitted on such duty component.

3.7 Examine the following issues in respect of the BG-

- 3.7.1 BG should be as per the format prescribed in the contract.
 - 3.7.2 BG should be for the requisite amount [*say 5% or 10% of the contract*] & in the requisite currency as stated in the contract.
 - 3.7.3 BG should be valid until the advance amount has been repaid or until completion of the contract or any other period, as may be prescribed under the relevant clause of the contract [*generally clause 60.7 (d)*].
 - 3.7.4 BG should have been issued in the name of the contractor [in case of JV, the BG should be in the name of the JV].
 - 3.7.5 BG should be unconditional and should have been issued by a bank as specified in the contract [*generally, by SBI or its subsidiaries or any Indian nationalized bank or IDBI or ICICI or ICICI Bank or by a foreign bank through a correspondent bank in India. BG on any other bank should have been expressly accepted by NHAI*].
 - 3.7.6 Confirmation from the bank should have been obtained.
 - 3.7.7 More than one BG can be accepted subject to provisions contained in the relevant clause of the contract [*generally clause 60.7 (c)*].
- 3.8 Examine that the contractor has submitted an invoice claiming the advance.
- 3.9 Examine that the contractor has taken out adequate insurance coverage in accordance with the relevant clauses of the contract [*generally clauses 21.1 and 21.2 of the contract*], more specifically the insurance in respect of the plant & equipments. If not, concerned Division or Project Director or the 'Engineer' to the project may be requested to verify such insurances and examine the adequacy of such coverage (including both value & period of cover) in terms of the contract.
- 3.10 The amount claimed by the contractor may be released, in the proportions of the currencies as specified in the contract, subject to the maximum amount stated in the contract and the amount of BG furnished.

4. Payment against Monthly IPCs

- 4.1 Competent Authority has approved for release to the contractor up to a maximum of 75% of the net payment as certified by the Engineer, based on the monthly

statement submitted by the contractor as stated in the relevant clause of the contract [*generally clause 60.1*], within a maximum of 2 working days of receipt of such a certificate from the Engineer.

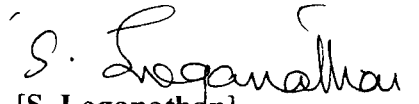
- 4.2 The Engineer shall then submit the complete IPC in accordance with the relevant clause of the contract [*generally clause 60.2*] [*also as stated in para 4.4 below*] as early as possible considering that a reasonable time shall be taken by NHAI to process the payment proposal and considering the time specified in the contract for the balance amount payable to the contractor.
- 4.3 It has already been decided that all the payments against IPCs shall be released from PIUs. The measurement books [MB] shall be maintained and check measured by the 'Engineer'. In addition, the measurement books [MB] and all other technical reports shall also be scrutinized by the Technical Officer/Project Director in PIU. The concerned Technical Officer at PIU shall scrutinize the IPC and forward the same along with the recommendations to the DDO for payment. The DDO shall, subject to the compliance of various conditions laid down in the contract, scrutinize the proposal covering the following aspects for the following compliances.
- 4.4 Examine that the Engineer/Contractor has submitted the following documents duly signed by the authorized representative of the consultant for monthly payments, covering broadly the following aspects -
 - 4.4.1 Certificate/monthly statement.
 - 4.4.2 Bill-wise summary in accordance with the relevant clause of the contract [*generally clause 60.1*] covering provision as per contract, quantity executed, etc.
 - 4.4.3 An account of material brought to site supported with vouchers, material consumed, etc.
 - 4.4.4 Summary of price adjustment, etc.
 - 4.4.5 Details of variations, etc.
 - 4.4.6 A final summery sheet showing the amounts due on various accounts, recoveries and deductions, etc.
- 4.5 Examine the following issues-
 - 4.5.1 IPCs must be submitted strictly on a monthly basis instead of clubbing the work done in 2-3 months.
 - 4.5.2 The work should have been executed during the validity period of the contract.
 - 4.5.3 That in case of execution of extra quantities or extra items, approval of the Engineer/Competent Authority has been accorded as per the guidelines for approval of variations issued by HO. The extra quantity/item as approved by the Engineer/Competent Authority must be properly reflected in the detailed statement enclosed with IPC.
 - 4.5.4 That the price escalation is admitted on the value of the work done during the month based on the current indices available or provisional indices [*generally cover under clause 70.3 F*] and the linking factor prescribed by HO.

- 4.5.5 That the payment of advance for material brought to the site and the adjustment of advance for material incorporated in the works has been recommended by the Engineer strictly in accordance with the relevant clause of the contract [*generally clause 60.3*].
 - 4.5.6 Retention is made at the rates [*and subject to the ceiling*] specified in the contract. Where the limit is prescribed in terms of 'final' contract price, such price shall include the price escalation admitted and the approved variations.
 - 4.5.7 Recovery of the advance is made in accordance with the relevant clause of the contract [*generally clause 60.7(d)*].
 - 4.5.8 Deduction of taxes at source [Income Tax, Sales Tax (Works Contract Tax), Royalty, if any] has been made. In case of deduction of tax at concessional rates, original letters issued by the Income Tax Department should be kept on record. Generally, a confirmation from the Income Tax Department should also be obtained.
 - 4.5.9 Recovery towards liquidated damages is made, if applicable. Unless the recovery has been deferred or the Competent Authority has granted EoT, recovery should be made from the IPC or out of any other sums payable to the contractor after the scheduled completion time.
 - 4.5.10 Recovery based on the CTE's observations or as awarded by the Arbitrator has been made.
 - 4.5.11 Both gross and net amounts payable have been determined in accordance with the relevant clause of the contract [*generally clause 60.1*] and have been expressed in the currencies in which the payments are to be made in accordance with the contract.
 - 4.5.12 No payment should be admissible if the net amount of the IPC, after all retentions and deductions, is less than the minimum amount of IPC as may be specified in the contract. However, vide office order no.11014/21/2002/Admn.II dated 5/6/2002, the condition of minimum value of IPC has been relaxed only during the initial stages of the contract i.e., till the time the progress payments reach a level of 20% of the initial contract value. Thereafter, the prescribed IPC threshold as per the contract shall be strictly adhered to.
- 4.6 The amount shall be paid after all arithmetical corrections. Engineer may, however, be intimated by the Technical Division in respect of any discrepancy. Any amount withheld or disallowed shall also be intimated to the Engineer and the Contractor along with the reasons for the same.
 - 4.7 No payment as specified in para 4.1 should be made unless the previous IPC has been duly settled.
 - 4.8 No two payments should be against an IPC for a month [except as specified under para 4.1 and 4.6].
 - 4.9 Examine that the contractor has taken out adequate insurance coverage in accordance with the relevant clauses of the contract [*generally clause 21.1 and 21.2*], more specifically the insurance in respect of the plant & equipments. If not, concerned Division or Project Director or the 'Engineer' to the project may be requested to verify such insurances and examine the adequacy of such coverage in terms of the contract.

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- 4.10 Examine that the contractor has supplied copies of invoices or other documents to the Engineer to demonstrate that the advance payment has been utilized only to pay for equipment, plant and mobilization expenses required specifically for the execution of the works.
- 4.11 It may be ensured that other conditions stipulated in the contract, but not covered above, are also duly complied with.
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This issues with the approval of Chairman.


[S. Loganathan]
General Manager [Admn.]

To

All Members/CGMs/CVO
All GMs/DGMs/Managers
All PIUs/CMUs

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PS to Chairman
Librarian/Hindi Officer