

No.635/FD/F3/2022  
Government of Puducherry  
Finance Department  
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Puducherry, dt.01/09/2022

**OFFICE MEMORANDUM**

**Sub:** Revised Notification of Discount Rate for Life Cycle Cost Based Procurement of Works/ Goods/Services.

**Ref:** I.D. Note /O.M. No. 635/FD/F3/2021-22, dated 22/11/2021 of the Finance Department, Puducherry.

1. Attention is invited to Rule 136(iii) of the GFR, 2017, wherein it has been advised that the Life Cycle Costing(**LCC**) principle may be considered in the procurement and other decisions relating to projects/works, and other proposals involving a time-dispersed series of payments and/or revenue recoveries/earnings. Attention is also invited to the Finance Department I.D. Note/O.M. cited under reference, wherein all Departments/ Autonomous Bodies have been advised that in the procurement of capital goods, which have a useful life of greater than or equal to five years, the bids received for the product shall be evaluated on the LCC-basis. The LCC captures not just the upfront capital cost but also the cost of Annual Maintenance Contract (**AMC**)/Spares, etc. A discount rate of 7% was prescribed therein for discounting all the costs to be incurred over the whole life cycle of the product to assess their net present value(**NPV**). The discount rate is also required to assess the NPV of time-dispersed receipts by the Government of Puducherry, say in case the Government land/building is leased to a private party.

2. The interest rates in an economy, however, keep varying, and a fixed discount rate, such as the extant rate of 7%, may soon become anachronistic with time, as has happened in the current situation when interest rates have suddenly risen for various reasons, including external geo-political situation.

3. As part of financial sector reforms, RBI has deregulated the Bank interest rates, and hence depending on the efficiency of Banking operations, the interest rates vary significantly from Bank to Bank. Hence, relying on interest rate of any one Bank for setting up of a reliable benchmark for the discount rates is not feasible any more. A sound and reasonable basis for assessment of discount rate would be the *opportunity cost of funds for the UT Government* from time-dispersed payments/ receipts. The most transparent benchmark in

this regard is the market cost of borrowing of funds<sup>1</sup> by the Government of Puducherry. However, the Government of Puducherry is an episodic borrower<sup>2</sup> and the last market cost of its borrowing may not be reflective of the current market rates, which vary with the bimonthly repo rates announced by the RBI. Hence, a correlated interest rate benchmark that is linked to latest market borrowing cost is required.

4. The most common benchmark rate for Government market borrowing in India is the 10-year Government of India security (**G-Sec**) used by the Centre to borrow as per a pre-notified calendar. The GOI borrowing is undertaken almost all round the year. The State borrowing security(**State Development Loan**) rate from open market at same time and same tenor of 10-year is typically 50 bps above the 10-year G-Sec.

5. Hence, the Departments/Autonomous Bodies shall henceforth adopt a **discount rate equal to the 10-year G-Sec rate/ yield, as on the last date of receipt of the bids/tenders, plus 0.5%**, for calculating the NPV in all LCC-based procurements of works/goods/services. The latest 10-year G-Sec rate can be gauged from a simple web search. However, in case of any doubt the tendering authority could seek the latest 10-year G-Sec rate from the Finance Department, Government of Puducherry.

//By Order//

  
01.09.2022

(Arjun Ramakrishnan)  
Under Secretary (Finance)

All Secretariat Departments  
All HODs/Heads of Autonomous Bodies  
All SAOs/JAOs

Copy to:

The P.S. to the Chief Secretary

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<sup>1</sup>The UT Puducherry has been running a perpetually deficit budget, and borrows from the market as per the borrowing limits authorised by the Ministry of Finance. In case of a delayed payment by the Government, it can defer its borrowing to a later date and in case of delayed receipts, it has to accelerate its borrowing.

<sup>2</sup>Puducherry does not follow a pre-notified calendar of borrowing and decides to borrow episodically based on its cash position, and the expenditure needs.