

No.635/FD/F3/2021-22
GOVERNMENT OF PUDUCHERRY
FINANCE DEPARTMENT

Puducherry, dt. 22/11/2021

I.D. NOTE/MEMORANDUM

Sub: Life Cycle Cost Approach of procurement – Instructions – Issued.

It is brought to the notice of all concerned that in instances where a proprietary good is purchased, the Government Department has to necessarily depend on the proprietor / Original Equipment Manufacturer for the maintenance of the good/equipment and supply of spares for that good. Hence, there is an opportunity for the bidders to quote relatively low rates to emerge as the L1 bidder but thereafter charge high cost for maintenance and spares. This proves financially costly to the Government in the long-run and undermines the basic principle of L1 as mandated by the GFR.

2. In order to discourage such unfair practices and to ensure that every procurement indeed adheres to the principles of cost competitiveness and is transparent, all Departments/ PSUs/ Autonomous Bodies are hereby advised that in the procurement of capital goods, which have a long life of greater than or equal to five years, the bids shall be evaluated on the basis of the Life Cycle cost of the product, i.e. the cost to the Government over the full useful life of the product including procurement, installation, operation, maintenance, spares and repairs. Hence, while procuring such goods, the L1 should be identified based on not just the upfront capital cost but the cost of annual maintenance and expected spares and consumables over the useful life time of the good. The useful life will be declared in the bid document and all these costs would be taken year-wise from the bidders at stage of tender/inviting quotations and converted to Net Present Value at discount rate of 7% (the approximate borrowing cost of 10 year SDL). The bidder would be bound by tender documents to supply spares/consumables and undertake maintenance at indicated rates.

3. This issues with the approval of the Hon'ble Lt. Governor vide ID No.3770/FC/FD/F4/A1/2021-22 dt.22/10/2021.

//By Order//



(ARJUN RAMAKRISHNAN)
Under Secretary(Finance)

To
All Secretariat Departments
All Heads of Departments/Head of Offices
All PSUs/Autonomous Bodies.