

**F.No. 12011/9/2007(NREGA)**  
**Government of India**  
**Ministry of Rural Development**  
**Department of Rural Development**  
**(NREGA Division)**

Krishi Bhawan, New Delhi  
Dated 5<sup>th</sup> September 2007

**C I R C U L A R**

**Subject: Release of funds based on the Labour Budget under NREGA**

Chapter IV, para 14, sub section (6) of the NREG Act says that *the District Programme Coordinator shall prepare in the month of December every year a labour budget for the next financial year containing the details of anticipated demand for unskilled manual work in the district and the plan for engagement of labourers in the works covered under the Scheme.* This has also been reiterated vide para 3.1.4 of the NREGA guidelines. Since fund release is not allocation based under NREGA but based on a demand for employment, the Labour Budget also enables the State Governments to intimate to the Government of India the estimated demand of the district in advance so as to facilitate release of funds.

2. States have been directed to formulate Labour Budgets so that the release of funds may be considered based on the Labour Budget submitted by the districts through the State Governments. The estimates made in the labour budget are critical because fund release by the Ministry will be based on a scrutiny of the Labour Budget estimates and their co-relationship with past and current trends and the logic stated for future projections of demand and expenditure. The following factors have to be considered in formulating the Labour Budgets:

2.1 The Labour Budget by the districts should be submitted by **January** each year for the next financial year to the Government of India. State Secretaries should ensure timely submission of Labour Budgets for all the NREGA districts in their States. Due care has to

be taken for making projections of expected Households who can demand work based on past and current trends and all existing empirical data to arrive at logical and realistic estimates. Projections should not be shown as achievements.

2.2 Guidelines for preparation of Labour Budget should be followed for filling up the format for Labour Budget given at *Annexure B-12 (Part-II)* of the Guidelines. In particular it may be noted that in the Labour Budget format it is stated that “*Cumulative total in column 13 refer to total number of households provided employment in the year. If a household is provided employment in any month and in a subsequent month also, it is to be counted once only.*” The total number of Households expected to demand work shown in column 13 of the prescribed format should be the total number of all the 12 months and is supposed to project a picture of total number of households expected to demand work in that particular financial year.

2.3 Central Funds will be released to the districts based on an examination of the Labour Budget. A reasonable estimate of labour demand would normally have the following characteristics. (a) Estimate of Labour demand should normally be close to actual achievements of the previous year in terms of households demand, days of employment demanded, and cost of per person day. (b) If a sharp rise in the employment demand is estimated, the reasons for it should be clearly explained. A proper justification of it should be clearly presented by the district in a narrative form along with the Labour Budget. (c) Estimated demand should be realistic so that it is subsequently corroborated / validated by actual trends of demand in the months for which the estimates have been made. (d) If the actual monthly achievements do not corroborate (they may be less or higher than the estimates) this difference must be reviewed at the district level and analysed. The district may reformulate its estimates after a working season to make the estimates more in tune with implementation trends.

3. In case the estimates of Labour demand are found to be reasonable, the Ministry would release the Central share of the projected financial requirement alongwith administrative cost in two instalments. The first instalment will comprise 50% of the total

annual projection in the Labour Budget including administrative cost. The actual amount released will depend on the fund available with the district. If a district applies for second instalment, it should have spent 60% of the funds available (including opening balance). Expenditure does not include mere transfer of funds to the line departments or other implementing agencies. It include funds disbursed to beneficiaries in creation of mandays and actual utilization (payment made) on material component and administrative cost. The proposal in the prescribed format should be accompanied with Utilisation Certificate for the previous year. If the proposal is received after 30<sup>th</sup> September, Audit Report of the previous year would also be required in addition to Utilisation Certificate besides other documents as per para 7.3 of the Operational Guidelines. The projections in the Labour Budget should be corroborated by the trends reported in the MPR. If it does, the balance central share as per the Labour Budget will be released by the Ministry.

4. Based on the projections and actual implementation the efforts will be to release the Central share in not more than two instalments. This will be calculated in the following manner:

#### 4.1 First instalment

a) The eligibility of the district for the first instalment will be calculated based on the projected demand in the Labour Budget of the number of households for the financial year under reference i.e the year for which release of fund is being considered.

b) The projected demand from Households in a reference year indicated in the Labour Budget would then be multiplied with average wage paid during the previous year.

c) In order to get central liability against material component, the actual average cost of material per personday of previous year will be multiplied with projected demand from

the number of households shown in the labour budget during the financial year under reference. 75% of this would be central liability against material component.

d) The derivative of b) & c) above would then be multiplied with average number of days of employment provided in that district during the previous year to arrive at central liability against labour and material component during the year under reference. If the Labour budget provides acceptable justification for higher number of average days projecting as compared with the previous year, it would be considered by the Ministry. If there is a higher projection of number of average days to be provided without acceptable justification then average days during the previous year in the district or the national average whichever is higher will be taken into account.

e) Since entire administrative cost subject to 4% of total utilization in the district is central liability, it will be calculated on the utilization of previous year.

f) The amount so arrived at d) and e) above would be added to arrive at total central liability and 50% of this would be the district's entitlement as first instalment.

g) The actual amount to be released as first instalment would be 50% amount so arrived at para f) above minus opening balance as on 1<sup>st</sup> April of the year under reference.

#### **4.2 Incremental (second) instalment**

The entitlement of the district for the incremental/second instalment would be the balance funds as per projections made in the Labour Budget as calculated for first instalment described as above. By the time of receiving proposal for second instalment, the trends (average wage, average material cost, average days of employment provided till then during the current year based on which likely increase/decrease as compared to last year etc.) of almost 4-5 months would be available. At the time of first instalment, the calculation of eligibility, as has been clarified at para 4.1 above, will be made but second instalment would be calculated based on the trends of 4-5 months of the current

year that is expected to be available by that time. The number of Households demanded work and engaged on job would also be available in the proposal and the MPR as well that would also be examined and verified with the projection in the Labour Budget. Any variation of figures in these three documents should be explicitly clarified in the proposal. Accordingly, the balance central share as second instalment will be released after making above adjustments.

#### 4.3 Third or subsequent instalment


If the district requires additional assistance later based on actual demand/turnout which inspite of projections shown in the Labour Budget based on all careful assessment exceeds projections made therein, the district will submit proposal as required for second instalment with logical and acceptable justification on variation.

Therefore utmost care needs to taken while preparing Labour Budgets by the districts which not only facilitates proper planning but effective fund management and distribution as well. In the absence of realistic/ correct projections in the Labour Budget it becomes difficult to assess the likely scale of employment demand. Under such circumstances, the fund release get to be based on past trends of actual demand and average days of employment provided to the States.

5. In case Labour Budget is not received, or not received on time, or is not justifiable or deficient, fund release will be based only on existing and past trends in which case the advantage of receiving Central assistance in two instalments based on an annual projection may not accrue.

6. The release of Central funds under NREGA is not unconditional. The NREGA operational guidelines lay down the procedures for financial proposals and the same has been brought to the notice of the States time and again. The States are advised to note the conditions that are *non-negotiable* for fund release. These are as under:

- a) No funds shall be released on simple request by the State Government without accompanying financial proposal of the district.
- b) NREGA is demand-based. The application for funds has to be made by the district in accordance with the prescribed financial procedure. Demand for funds has to come from the districts. There is no automatic release of funds by the Ministry to the States/districts. The role of the State Government is to examine and recommend financial proposals that the district formulates. The State Government cannot submit a financial proposal without the demand for funds being first raised by the district.
- c) Utilisation Certificates up till March 2007 including opening balance as on 1<sup>st</sup> April of the current financial year have to be submitted.
- d) Details of expenditure incurred from 1<sup>st</sup> April of the current year have to be mentioned in the prescribed financial format and be consistent with information in the Monthly Progress Report (MPR) of the same period.
- e) District proposals will have to come through the State Government with its recommendation.
7. State Governments may issue necessary instructions to all District Programme Coordinators (DPCs) to observe and follow the above guidelines in their districts. This may be reviewed regularly at State level particularly at the time of recommending release proposals of the districts to the Ministry.

  
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