

**AVOIDABLE EXPENDITURE ON
PROCUREMENT OF CHANNEL AIR BOXES:
BANARAS LOCOMOTIVE WORKS**

MINISTRY OF RAILWAYS (RAILWAY BOARD)

**PUBLIC ACCOUNTS COMMITTEE
(2023-24)**

NINETIETH REPORT

SEVENTEENTH LOK SABHA



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

PAC NO. 2320

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Presented to Lok Sabha on:

Laid in Rajya Sabha on:

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 2024 /Magha, 1945 (Saka)

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2023-24)

Shri Adhir Ranjan Chowdhury

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Chairperson

MEMBERS

LOK SABHA

2. Shri Thalikkottai Rajuthevar Baalu
3. Shri Subhash Chandra Baheria
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Vishnu Dayal Ram
7. Shri Pratap Chandra Sarangi
8. Shri Rahul Ramesh Shewale
9. Shri Gowdar Mallikarjunappa Siddeshwara
10. Shri Brijendra Singh
11. Shri Rajiv Ranjan Singh *alias* Lalan Singh
12. Dr. Satya Pal Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabbhaneni
15. Shri Ram Kripal Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohil
17. Dr. K. Laxman
18. Shri Derek O' Brien*
19. Shri Tiruchi Siva
20. Dr. M. Thambidurai
21. Shri Ghanshyam Tiwari
22. Dr. Sudhanshu Trivedi

SECRETARIAT

1. Dr.Sanjeev Sharma - Joint Secretary
2. Smt.Bharti Sanjeev Tuteja - Director
3. Shri Girdhari Lal - Deputy Secretary
4. Shri Ashikho Alemo - Executive Officer

* Elected w.e.f. 19.08.2023 consequent upon retirement of Shri Sukhendu Sekhar Ray, MP on 18.08.2023.

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24) having been authorised by the Committee, do present this Ninetieth Report (Seventeenth Lok Sabha) on "Avoidable expenditure on procurement of Channel Air Boxes: Banaras Locomotive Works" based on Para 4.5 of C&AG Report No.25 of 2022 relating to the Ministry of Railways (Railway Board)

2. The C&AG Report No. 25 of 2022 was laid on the Table of the House on 21.12.2022

3. The Public Accounts Committee (2023-2024), selected the aforesaid subject for detailed examination and took oral evidence of the representatives of the Ministry of Railways (Railway Board) on the subject matter on 21 November, 2023. Based on the oral evidence and written replies, the Committee examined the subject in detail.

4. Public Accounts Committee (2023-2024) considered and adopted the Draft Report on the aforementioned subject at their Sitting held on 17.01.2024. The Minutes of the Sittings are appended to the Report.

6. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type and form Part- II of the Report.

7. The Committee would like to express their thanks to the representatives of the Ministry of Railways (Railway Board) for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

8. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the Office of the Comptroller and Auditor General of India.

NEW DELHI:
17th January, 2024
27 Pausha 1945 (Saka)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee

REPORT

PART I

I. INTRODUCTORY

This Report is based on the subject, "Avoidable expenditure on procurement of Channel Air Boxes: Banaras Locomotive Works" based on Para 4.5 of C&AG Report No.25 of 2022.

2. The Committee learnt that in view of increasing electrification of routes, Railway Board decided (May 2016) to manufacture electric locos at Banaras Locomotive Works (BLW) Varanasi. Accordingly, manufacture of electric locomotives was started in BLW from February 2017. From 2019-20, the production of Diesel Locomotives at BLW was completely stopped.

3. BLW placed a Purchase Order (May 2016) on a foreign supplier for supply of 660 number of Channel Air Boxes for manufacturing of Diesel Locomotives at a cost of \$ 2,375 per unit. The delivery was to be completed by February 2017. As per Para 2.26 of the tender agreement, it shall be lawful for the purchaser, to reject the stores or any part, if such stores or part/portion of consignment thereof is not in all respect in conformity with the terms and conditions of the contract.

4. When asked about the rationale behind the procurement of 660 Channel Air Boxes meant for diesel locomotives, beyond the scheduled period of delivery, and despite the Ministry's policy for complete electrification, the Ministry, through a written submission stated as under:

"Purchase order for subject item Channel Air boxes was issued on 12th May'2016 for 660 units. The delivery was to be completed by Feb'2017. The material was initially rejected due to expiration of delivery period. However later on delivery period extension was granted with 36% lower rates vide modification advice dated 07.07.2018 (CP/280). Decision for extension of delivery period was based on the requirement assessed for the item as per JPO dated 01.06.2018 (CP/281). In this

JPO, besides the Railway Board issued production plan for Diesel loco production for 2018-19, requirement for manufacture of power pack & crank cases for maintenance of the fleet of HHP Diesel locos for the FY 2018-19, 19-20, 20-21 & 21-22 was also included. Though from 2019-20, no further plan for manufacturing of diesel locomotives for Indian Railways was issued, still there was continuous requirement of material for supply of spares including power packs and crank cases against sanctioned RSP as a support to Zonal Railways for maintenance of HHP diesel locomotives. BLW was nominated as centralized agency for supply of Power packs and crank cases sanctioned under bulk RSP which also require Channel air boxes @ 4 per unit. Railway Board vide letter dated 11.05.2016 (CP/287-288) approved manufacturing of Electric locomotives at BLW and directed to submit the action plan. No directions regarding discontinuation of Diesel loco production or dropping/short closing of sanctioned/allotted RSPs was mentioned in letter dated 11.05.2016.”

5. When asked whether responsibility had been fixed for the imprudent decision to procure the Channel Air Boxes meant for diesel locomotives, the Ministry through a post evidence reply stated as under:

“As explained, the procurement was done based on the requirement as assessed at that time and therefore no responsibility has been fixed. However stagger delivery schedule in purchase order is being ensured.”

6. Audit has brought out that against the delivery target of February 2017, the Channel Air Boxes reached BLW premises in August 2017. As the items were not received as per delivery schedule, BLW did not accept the materials and intimated the supplier that these items are lying in BLW premises at the risk and cost of the supplier.

7. The Committee further learnt that in February 2018, BLW Administration rejected the supplies due to non-delivery within the scheduled delivery period. The vendor facing rejection of items offered to charge the items at a lower rate of \$1,510.72 per unit i.e., at a discount of approx. 36 per cent. Subsequently, in July 2018, BLW reversed its decision of rejection of material and extended the delivery period upto August 2017. Therefore, a payment of ₹6.85 crore for procurement of 660 Channel Air Boxes was made (November 2018) to the supplier.

8. The Committee wanted to know the rationale behind the fact that when BLW initially rejected the supplies in February 2018 due to non-delivery within the scheduled period, why

did it reverse the decision in July 2018 and extended the delivery period and accepted the consignment of 660 Channel Air Boxes despite the change in policy towards the manufacture of electric locomotives particularly when 295 Channel Air Boxes already in stock. In this regard, the Ministry in reply informed:-

“Decision for extension of delivery period was based on the requirement for the item as per latest JPO dated 01.06.2018 (CP/281). This was included with the requirement for Channel Air Boxes for production of Diesel Locomotives and maintenance of the existing fleet of HHP Diesel Locomotives.”

9. When asked of the rationale behind procurement of the HHP crank case/power pack the Ministry, in their written submission clarified as under:

“It is clarified that the material will get consumed in regular maintenance of HHP Diesel Locomotives, which shall continue to run as it has been decided to maintain and use 2500 diesel locomotives for disaster management and for deployment at strategic locations. Channel air box will also be used in production of diesel locomotive for export purpose.”

10. The Committee have learnt from Audit that in July 2018, when BLW decided to accept the 660 Channel Air Boxes from the supplier at a lower rate, it had in stock 295 Channel Air Boxes. As of February 2022, a total stock of 796 units of Channel Air Boxes (including the freshly purchased 660 units) remained unutilized. Thus, the decision of BLW to accept the consignment despite the change in the policy and also ignoring the existing stock position was imprudent. Further, as the materials could not be utilised, BLW explored (January 2020) alternative utilization of the Channel Air Boxes and requested Research, Design and Standards Organization (RDSO), Lucknow to utilize these items elsewhere over the Indian Railways. However, RDSO, Lucknow stated (January 2020) that these items have limited use in bridges and structures and should be used either in mechanical works or sold as scrap.

11. The Committee observed that acceptance of 660 Channel Air Boxes beyond the scheduled delivery period, coupled with the prolonged unused status of these items for over three years, raises suspicions. In reply to a question over the fact that there might be an underlying motive involved in this entire process, the Ministry through a post evidence reply stated as under:

"No, Sir. There was no underlying motive involved in this entire process. The procurement was done based on the requirement as assessed at that time based on the utilization of channel air boxes for manufacturing of sanctioned RSP items (Power pack & crank cases) for maintenance of existing fleet of HHP Diesel Locomotives"

12. When asked of the actions taken by BLW to address the fact that, as of February 2022, a total stock of 796 units of Channel Air Boxes (including the freshly purchased 660 units) remained unutilized and if any alternative use for the stock has been explored, the Ministry, in their written reply stated as under:

"Marketing Division of BLW explored the market of HHP diesel locomotive for domestic and export purpose. BLW received 03 nos. orders from Obra Thermal Power Station. Offers given for HHP diesel locomotives to M/s RITES for locomotive fitted with HHP design engine manufactured at BLW."

13. In this regard, the Ministry further submitted:

"BLW approached RDSO to explore the alternate utilization of Channel air box. RDSO, vide letter no. CBS/DOW, dated 14.01.2020. (CP/286) responded that, this item is four times heavier than standard rolled section and its maximum length is also limited to 3.7 m, hence this type of material has limited used in structural design of bridge and structures."

14. The Ministry in their background note also stated as under:

"In the recent past, some foreign delegates from Zimbabwe, Mozambique & Bangladesh have visited BLW and it is expected that few orders of HHP Locomotives 16/12 cylinder may be placed on BLW. Besides, the marketing Division of BLW is exploring the market of HHP loco at national level. Since the fleet of the HHP loco is still resuming in the Railway hence the requirement of HHP crank case/Power pack is expected. Further, the existing stock may be used in expected future orders of HHP Crank Case."

15. When asked of the plan of the Ministry to implement the policy for complete electrification of the Indian Railways and the time frame for phasing out the diesel powered locomotives in the Indian Railways, the Ministry, in their written reply furnished as under:

"MoR has decided to maintain and use 2500 diesel locomotives for disaster management and for deployment at strategic locations even after complete

electrification. In accordance all diesel locomotives over and above 2500 nos. shall be phased out gradually as they are rendered surplus.”

16. On being enquired of the action taken by the Ministry to address the issues of mismanagement in procuring and utilization of stocks in Indian Railways, the Ministry, through a written submission stated as under:

“Following steps are also being taken by the Ministry of railways to address the issues raised in the audit report:

- i. Purchase orders are being issued with staggered delivery schedule.
- ii. Stock position of all ZRs/PUs is visible due to implementation of UDM (User depot module).
- iii. Bare minimum procurement is being done as per JPO of BLW.
- iv. Requirement is being reassessed both at the time of procurement and while considering the proposal for delivery extension for optimal inventory.

PART II

OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE

1. Gleaning through all the information and facts available with the Committee they note that in view of increasing electrification of routes, Railway Board decided (May 2016) to manufacture electric locos at Banaras Locomotive Works (BLW) Varanasi. Accordingly, manufacture of electric locomotives was started in BLW from February 2017. From 2019-20, the production of Diesel Locomotives at BLW was completely stopped.

In the instant case the Committee find that BLW placed a Purchase Order (May 2016) on a foreign supplier for supply of 660 number of Channel Air Boxes for manufacturing of Diesel Locomotives at a cost of \$ 2,375 per unit. The delivery was to be completed by February 2017. As per Para 2.26 of the tender agreement, the Committee learn that it shall be lawful for the purchaser, to reject the stores or any part, if such stores or part/portion of consignment thereof is not in conformity in all respects regarding the terms and conditions of the contract. Audit scrutiny however revealed that against the delivery target of February 2017, the Channel Air Boxes reached BLW premises in August 2017. As the items were not received as per delivery schedule, BLW did not accept the materials and intimated the supplier that these items are lying in BLW premises at the risk and cost of the supplier. In February 2018, BLW Administration rejected the supplies due to non-delivery within the scheduled delivery period. The vendor facing rejection of items offered to charge the items at a lower rate of \$1,510.72 per unit i.e., at a discount of approx. 36 per cent. Subsequently, in July 2018, BLW reversed its decision of rejection of material and extended the delivery period upto August 2017. Therefore, a payment of ₹6.85 crore for procurement of 660 Channel Air Boxes was made (November 2018) to the supplier. Explaining the rationale behind the procurement of 660 Channel Air Boxes meant for diesel locomotives, subsequently to the scheduled period of delivery despite the Ministry's policy for complete electrification, the Ministry stated that Purchase order for subject item Channel Air boxes was issued on 12th May, 2016 for 660 units. The delivery was to be completed by Feb'2017. The material was initially rejected due to expiry of

delivery period. However, later on delivery period extension was granted with 36% lower rates vide modification advice dated 07.07.2018 (CP/280). Decision for extension of delivery period was based on the requirement assessed for the item as per JPO (Joint Procedure Order) dated 01.06.2018 (CP/281). In this JPO, besides the Railway Board issuing production plan for Diesel loco production for 2018-19, requirement for manufacture of power pack & crank cases for maintenance of the fleet of HHP (High Horse Power) Diesel locos for the FY 2018-19, 19-20, 20-21 & 21-22 was also included. Though from 2019-20, no further plan for manufacturing of diesel locomotives for Indian Railways was issued, still there was continuous requirement of material for supply of spares including power packs and crank cases against sanctioned RSP (Railway Salary Package) as a support to Zonal Railways for maintenance of HHP diesel locomotives. BLW was nominated as centralized agency for supply of Power packs and crank cases sanctioned under bulk RSP which also require Channel air boxes @ 4 per unit. Regarding the issue of fixing of responsibility for the decision to procure the Channel Air Boxes meant for diesel locomotives, the Ministry stated that the procurement was done based on the requirement as assessed at that time and therefore no responsibility has been fixed. However stagger delivery schedule in purchase order is being ensured. The Committee are not satisfied with the justification of the Ministry that the decision for extension of delivery period upto August 2017 was based on the requirement assessed for the item as per JPO dated 01.06.2018 (CP/281) wherein requirement for manufacture of power pack & crank cases for maintenance of the fleet of HHP Diesel locos for the FY 2018-19, 19-20, 20-21 & 21-22 was also included, besides a mention of the Railway Board's production plan for Diesel loco production for 2018-19 as BLW had placed the Purchase Order (May 2016) on a foreign supplier for supply of 660 number of Channel Air Boxes for manufacturing of Diesel Locomotives at a cost of \$ 2,375 per unit BLW much before the JPO dated 01.06.2018 (CP/281). The Committee are not able to comprehend the logic as to what prompted BLW to inordinately delay its decision of reversal of rejection of material till July 2018 while BLW Administration rejected the supplies due to non-delivery within the scheduled delivery period in February 2017.

To the amazement of the Committee, the JPO dated 01.06.2018 (CP/281) was issued just before reversal of its decision of rejection of material by BLW in July 2018. In view of the fact that till February 2022, 796 Channel Air Boxes remained unutilized,

the Committee find it reasonable to believe that decision for extension of delivery period upto August 2017 primarily benefited the vendor who would have faced huge losses if the consignment was rejected. Considering the fact that decision of reversal of rejection of Channel Air Boxes was initiated on the basis of an incomplete assessment, the Committee in no uncertain words recommend that the matter of fixing responsibility against the erring officials who made imprudent decisions that led to irregular payment of ₹6.85 crore for procurement of 660 Channel Air Boxes should be reviewed afresh and the Committee be apprised of the findings thereof.

2. Audit noticed that in July 2018, when BLW decided to accept the 660 Channel Air Boxes from the supplier at a lower rate, whereas it had in stock 295 Channel Air Boxes already. The Committee learned that as of February 2022, a total stock of 796 units of Channel Air Boxes (including the freshly purchased 660 units) remained unutilized. Audit observed that as the materials could not be utilised, BLW explored (January 2020) alternative utilization of the Channel Air Boxes and requested Research, Design and Standards Organization (RDSO), Lucknow to utilize these items elsewhere. However, RDSO, Lucknow stated (January 2020) that these items have limited use in bridges and structures and should be used either in mechanical works or sold as scrap. In this regard, justifying the decision of procurement of Channel Air Boxes for diesel locomotives, the Ministry stated that Marketing Division of BLW explored the market of HHP diesel locomotive for domestic and export purpose. BLW received 03 nos. orders from Obra Thermal Power Station. Offers were also given for HHP diesel locomotives to M/s RITES for locomotive fitted with HHP design engine manufactured at BLW. Further, the material will get consumed in regular maintenance of HHP Diesel Locomotives, which shall continue to run as it has been decided to maintain and use 2500 diesel locomotives for disaster management and for deployment at strategic locations. Channel air box will also be used in production of diesel locomotive for export purpose. As regards response of the RDSO, Lucknow regarding alternate utilization of Channel air box, the Ministry submitted that BLW had approached RDSO to explore the alternate utilization of Channel air box. RDSO, *vide* letter no. CBS/DOW, dated 14.01.2020. (CP/286) responded that this item is four times heavier than standard rolled section and its maximum length is also limited to 3.7 m, hence this type of material has limited used in structural design of bridge and structures. In light of the fact that in July 2018, when BLW decided to accept the 660

Channel Air Boxes from the supplier at a lower rate, it had in stock 295 Channel Air Boxes as such exploring alternative utilization of a total stock of 796 units of Channel Air Boxes (including the freshly purchased 660 units) by the BLW, gives credence to the belief of the Committee that the procurement of the Channel Air Boxes meant for diesel locomotives was done not based on the actual requirements as assessed at that time but it was an afterthought. The Committee, therefore, while observing the fact that acceptance of the consignment though at a discount of approx. 36 per cent by BLW despite the change in the policy and also ignoring the existing stock position was imprudent, recommend that a detailed proposal on planned utilization of a total stock of 796 units of Channel Air Boxes be shared with them at the earliest.

3. As regards the plan of the Ministry to implement the policy for complete electrification of the Indian Railways and the time frame for phasing out the diesel powered locomotives in the Indian Railways, the Ministry stated that MoR has decided to maintain and use 2500 diesel locomotives for disaster management and for deployment at strategic locations even after complete electrification. Accordingly, all diesel locomotives over and above 2500 nos. shall be phased out gradually as they are rendered surplus. Further, to address the issues of mismanagement in procuring and utilization of stocks in Indian Railways, the Ministry stated that the certain steps were been taken which include, i. Purchase orders are being issued with staggered delivery schedule. ii. Stock position of all ZRs/PUs is visible due to implementation of UDM (User depot module). iii. Bare minimum procurement is being done as per JPO of BLW and iv. Requirement is being reassessed both at the time of procurement and while considering the proposal for delivery extension for optimal inventory. While noting the various initiatives undertaken by the Ministry to address the issues of mismanagement in procuring and utilization of stocks in Indian Railways, the Committee are hopeful that the Ministry would evolve a monitoring mechanism to ensure their scrupulous compliance during the implementation of the policy for complete electrification of the Indian Railways as well.

NEW DELHI:
17th January, 2024
27 Pausha 1945 (Saka)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee