

SEVENTY-EIGHTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1981-82)

(SEVENTH LOK SABHA)

WORKING OF MILITARY FARMS

MINISTRY OF DEFENCE

Presented in Lok Sabha on:

Laid in Rajya Sabha on:

1 APR 1982
1982

**LOK SABHA SECRETARIAT
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COMMITTEE (7TH LOK SABHA) PRESENTED ON 1-4-1982.

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PART II*

Minutes of the Public Accounts Committee (1981-82) held on :
28-9-1981(AN)
3-3-1982(AN)

*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

PUBLIC ACCOUNTS COMMITTEE

(1981-82)

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(iv)

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1. Shri H. G. Paranjpe—*Joint Secretary*
2. Shri D. C. Pande—*Chief Financial Committee Officer*
3. Shri K. C. Rastogi—*Senior Financial Committee Officer*

INTRODUCTION

1. I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Seventy-eight Report on Paragraph 36 of the Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Defence Services) relating to working of Military Farms.

2. The Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Defence Services) was laid on the Table of the House on 28 April, 1981. The Committee examined the audit paragraph on the subject at their sitting held on 28 September, 1981. The Committee considered and finalised the Report at their sitting held on 3 March, 1982. Minutes of these sittings of the Committee form Part II* of the Report.

3. Considering the vastly changed situation in the milk sector since Independence as well as the re-location of troops, the Committee have asked the Ministry to examine seriously the possibility of handing over the Military Farms Organisation to the cooperatives of ex-Servicemen which may be set up on the pattern of the Anand Dairy.

4. The Committee have found that the financial results of working of the Military Farms do not represent the true picture in as much as the profits shown in the accounts are based on artificially inflated rates of free issues of milk to troops and hospitals which account for 95 per cent of the total issues. These also include large amounts of interest earned by the Military Farms on Government banking account. Further, bulk of the profits are earned by the farm Depots which only purchase milk from outside agencies for supply to troops and their families. The Committee have desired that the whole set up of Military Farms should be reviewed at a high level in the light of their findings.

5. For reference facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix II to the Report.

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

7. The Committee would also like to express their thanks to the Officers of the Ministry of Defence for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
March 8, 1982

Phalguna 17, 1903(S)

SATISH AGARWAL
Chairman
Public Accounts Committee

REPORT

Paragraph 36 of C & A G's Report Union Government (Defence Services), 1979-80 on which this Report is based, is reproduced in Appendix I

I. Historical Background

1.1. In the latter half of the 19th Century a large number of British troops and their families were inducted in India. The responsibility of providing rations to these people was vested with the Master General of Supplies. Milk and milk products which were important articles of diet for them were being arranged from local sources. The incidence of diseases among the British troops and their families was found to be high and this was attributed to poor quality of milk supplied by them. This situation forced the military establishment to start a dairy of its own in 1889 at Allahabad. The successful functioning of this farm led to the establishment of more farms in many other Cantonments.

1.2. Military Farms are today the only Government organisation in India in the field of animal husbandry and dairy farming where both production and processing of milk are carried out. At present, there are 82 Military Farms having 7,592 cattle located in 26 cattle-holding farms and 5 young stock farms spread over all parts of the country.

II. Organisational set up and functions

2.1. Military Farms are primarily responsible for supply of milk and milk products to the troops and dry fodder to Army animals. Their charter duties also provides for production of eggs, poultry and vegetables wherever economical.

2.2. Basically, Military Farms are cost effective, production oriented and commercially functioning organisation, maintaining profit and loss accounts. The department forms a part of the 'Q' services and comes under the direct control of the Quarter-Master General at Army. Headquarters. It is headed by a Brigadier designated as Director, of Military Farms at Army Hqrs. Director, Military Farms exercises financial and technical control over the Military Farms through Deputy Directors located at all the five Command Hqrs. namely, Pune, Calcutta, Simla, Lucknow and Udhampur.

2.3. Command-wise distribution of the permanent Military Farms other *ad hoc* military farms and depots is as under :

Command	No. of milk production farms	No. of young stock farms	No. of non-cattle-holding farms/depots	No. of hay/baling farms	Adhoc farms/depots
Southern	7	2	13	1	
Eastern	1	..	10	..	2
Western	5	1	2
Central	11	2	10	4	1
Northern	2	..	6	2	..
	*26	5	41	7	3

*Ad-hoc military farms at Pithoragarh is not included.

2.4. The Military Farms (excluding Non-cattle Holding Farms) are occupying a total of 13161.4 hect land. Out of this, 4138.1 hect. is under cultivation, 7692.1 hect. under grass land, 1216.8 hect. under roads/buildings and only 114.311 hect. is uncultivated as this is uncultivable.

III—Working Results

(a) Production of milk:

3.1. The number of milch cattle both in milk and dry, maintained at military farms during each of the years 1975-76 to 1981-82 is given below:

Year	Number of cattle		Total	Reduction in Num- ber of cattle
	Buffaloes	Cows		
1975-76	3,128	6,642	9,590	..
1976-77	2,210	6,645	8,855	735
1977-78	1,937	6,738	8,675	180
1978-79	1,889	6,578	8,467	208
1979-80	1,522	6,590	8,112	355
1980-81	1,305	6,617	7,922	190
1981-82	1,271	6,321	7,592	330

3.2. The Audit Para points out that the reduction in the number of milch cattle was in pursuance of the policy of gradual elimination of buffalo stock. The Military Farms carried out a detailed study of milking performances and cost of production of buffalo milk in 1966-67 and came to the conclusion that maintenance of buffaloes was uneconomical. The study team constituted by the Army Hqrs. in 1978 only repeated the earlier finding of 1966-67 that maintenance of buffaloes was uneconomical and accordingly recommended that they may be disposed of.

The Ministry of Defence, have in this connection stated:

“Military Farms having realised the hereditary limitations in bringing improvement in buffaloes took the decision in 1966 to reduce the buffalo herd and to increase the strength of the crossbred cows gradually. This policy has resulted in the reduction of buffaloes and increase in the cross bred cows. This can be seen from the following figures:

Year	Buffaloes	Cows
1966-67	6872	3654
1980-81	1305	6617

Military Farms now have a very selected nucleus herd of buffaloes. The average lactation yield of buffaloes which was 1600 kgs. in 1966-67 has reached 2082 kgs. in 1977-78. We are now left with 1305 buffaloes. This is a prized herd and it is not desirable to completely eliminate it in the larger national interest. The present lactation yield of buffaloes

is the highest in the country when compared with any organised herd of such a large strength. Buffaloes are still the mainstay of the farmers in the rural areas and Military Farms can contribute a lot by providing pedigree bulls produced from these buffaloes and supply to the National Dairy Development Board and State Governments for breeding to bring about the genetic improvement in buffaloes. Moreover, the yield of 2080 kgs. in buffaloes is considered economical and compares well with the average lactation yield of cross bred cows of 3500 kgs. when assessed on the basis of fat Percentage Buffalo milk contains on an average 6.5% butter fat as against cows milk containing only 4% butter fat. About 600 buffaloes are required for production of fresh concentrated milk for supply to troops in high altitude. Considering all these factors it was decided in Senior Military Farms Officers Conference held in March 1981 to maintain a high pedigree selected herd of 1500 buffaloes."

3.3. Asked about reasons for appointing another Study Team to go into the matter in 1978, the Ministry of Defence have stated :

"The Study Team appointed in 1978 was not specifically meant for studying the economics of buffalo milk production as compared to cow milk. This Study Team had been ordered by C.O.A.S. for streamlining the functioning of Military Farms and had commented on the same lines as per our findings of previous study of 1966-67 as mentioned above.

The study with regard to economic viability of buffaloes *vis-a-vis* cows was an internal exercise and was not entrusted to any particular Study Group. The files which led to this decision have since been weeded out."

3.4. The cattle performances in Military Farms over a period from 1974-75 to 1979-80 are given below:

Year	No. of animals per day	Milk production per day (Litres)	Production per cattle per day (Litres)
1974-75	10143	58019	5.7
1975-76	9590	62970	6.6
1976-77	8855	63499	7.2
1977-78	8675	62655	7.2
1978-79	8467	56789	6.7
1979-80	8112	58063	7.2
1980-81*	7922	57452	7.3

*Not Vetted in Audit.

It will be observed from the above that there has been progressive increase in the production of milk upto 1976-77. The reduction in overall average of milk yield during 1978-79 was due to the following reasons:

- (i) *Labour unrest*:—There was labour unrest in Western Command during 1977-78 in Military Farms, Ambala and Jullundur which had continued to affect upto 1978-79. It is a well known fact that even a slight change in the daily routine of the cattle management affects the performances. During the strike period, the animals were not milked by the Gowallas and the unskilled persons had to be engaged for milking of animals. This not only disturbed the timings of milking as also dislocated the schedule but of watering and feeding. The peak of the labour unrest was from July 77 to Nov. 77 which is the breeding season of buffaloes in particular and cows in general. This affected the heat cycle of animals and resulted in larger number of not-in-calf animals during 1978-79 and 1979-80. Consequently there was reduction in number of animals in milk. This affected the overall milk production very adversely.
- (ii) *Reorganisation of buffalo herd*:—With the implementation of the policy of reduction in buffalo herd, small herds were held at many farms. This posed breeding, rearing and administrative problems. To solve these problems buffalo herd was reorganised. Out of 26 cattle holding farms at present buffaloes are located in 5 farms only. To achieve the objective the buffaloes had to be transferred from one farm to another. This lead to change in agroclimatic conditions and also stress and strain during the journey period. The buffaloes took time to rehabilitate at new stations. The performances were adversely affected in 1978-79.
- (iii) *Decline infertility and increase in the percentage of dry animals*:
—The dislocation of the animals due to transfer and labour unrest affected the fertility of the herd. This resulted in increase in the dry percentage and decrease in the number of animals in milk resulting into less overall average of the milk production.

With improvement in labour relations and acclimatisation of animals transferred to other places the overall average in 1979-80 improved and came to the level of 1977-78."

3.5. Asked what action had been taken to increase production of milk in the Military Farms, the Ministry of Defence have stated:

"Military Farms are catering for the milk requirement of the troops in the stations and their satellite towns. Due to change in locations of the troops as a result of the 1947, 1962, 1965 and 1971 operations and the strategic requirements for the future, majority of the troops are now located in Northern, North Eastern and Rajasthan Sectors. It has not been possible to establish new cattle holding farms in these

strategic areas primarily due to non-availability of land and lack of capital funds. After 1947, no new cattle holding farms have been established. Only *ad-hoc* cattle holding farms at Panagarh, Pithoragarh and cattle section at Srinagar on *ad-hoc* basis have been sanctioned. The farms located in old cantonments maintain cattle to meet the milk demand of the troops. It is only during the lean production period when small quantity of milk is purchased to supplement the production. At 26 stations where cattle holding farms are functioning they are meeting 95% of requirement by their own production and purchase only 5% of the requirement. In Eastern Sector we have a small *ad hoc* farm. We are producing only 3.31 lakh litres of milk and the requirement of 69.60 lakh litres is met by purchases. In Northern Command out of total requirement of 86.53 lakh litres we are producing only 0.4 lakh litres. 95% milk requirement in these two Commands is met by purchased milk.

The following actions have been taken to increase the milk production:—

- (a) Grouping of selected economical buffalo herd. This will result in better management and breeding and higher milk production.
- (b) Forward crossing of 5/8 cross bred cows. The milk production increases with the increase of the exotic blood. The 5/8 cross bred cows contain 52 to 56% exotic blood. When these will be forward crossed with exotic bulls, the progeny will have 76% to 78% exotic blood. With the increase in exotic breed upto 78% the milk potential of a cross bred cow will increase. The progeny will start maturing in 1984-85 and the improvement will be visible after 1984-85.
- (c) To increase the strength of cross bred cows by 100% rearing of female calves produced from exotic sire have been ordered.
- (d) Technology of insemination with frozen semen has been introduced. This will allow the use of semen of high pedigree bulls and will improve the genetic potential of the progeny.
- (e) Very detailed instructions in respect of cattle management have been issued which cover feeding, breeding, culling, rearing and control of farms sta.

Depending upon the availability of land, establishment of cattle holding farms in Eastern Command is under active consideration of the Government.”

3.6. The Committee desired to know how liaison was maintained by the Directorate of Military Farms with the National Dairy Development Board and the State Governments in the matter of improving the breed of cattle and augmenting milk production. The Ministry of Defence have stated:

“A close liaison is maintained by the Dte. of Military Farms with Civil Sector as under:

- (a) By attending the seminars and workshops arranged by the National Dairy Development Board, the National Dairy

Research Institute, Karnal, the Indian Council of Agricultural Research and other organisations connected with dairying.

- (b) Military Farms Officers are Members of various Committees of ISI and ICAR.
- (c) Participation in All India Cattle shows where MF Officers are also Members of cattle judging team.
- (d) By direct communication with various institutions in sharing the experience in the field of dairying.
- (e) Collaboration with National Institutes in progeny testing programmes and semen exchange programme.
- (f) By offering surplus male and female stock to State Animal Husbandry Departments.
- (g) By making the data available for study on various aspects of modern organised dairy farming."

(b) *Capacity utilisation vis-a-vis demand satisfaction*

3.7. The following table shows the total production of raw milk in the Military farms and the quantity purchased from trade during each of the years 1975-76 to 1980-81:

Year	(in kilolitres)		
	Home production	Purchased from trade	Total
1975-76	22,983	21,755	44,739
1976-77	23,159	22,389	45,548
1977-78	22,869	23,602	45,471
1978-79	20,728	23,471	44,199
1979-80	21,194	23,753	44,947
1980-81	20,970	25,331	46,301

3.8. An analysis of ~~percentage of~~ satisfaction of the demand for fresh milk to troops/hospitals during the years 1977-78 and 1978-79 given in the Audit paragraph reveals that as against 42.2% and 40.6% of the total demand during 1977-78 and 1978-79 having been met through home production, the demand met through local purchase was of the order of 57.8% in 1977-78 and 59.4% in 1978-79. This includes local purchase of milk even in the cattle holding farms to the extent of 8.1% in 1977-78 and 8.4% in 1978-79. It is thus seen that the cattle holding military farms are meeting only 2/5th of the total milk demand.

3.9. During evidence the Committee, therefore, enquired about the reasons for not being able to improve upon this situation.

The representative of the Ministry of Defence stated:

“Military farms were set up many years ago, based on the strength of troops at that time. Since then, the force level has increased considerably. At present considerable forces are located in Northern and Eastern India, where military farms do not exist. Most of our military farms are located in Western, Central and Southern Commands. In these areas (North and East) land is not available for establishing new farms and therefore, bulk of the milk is purchased. By and large, in stations having Military Farms 80—85%, and somewhere 90% milk is produced and given to troops. We can possibly increase that. But in the flush season we will have a surplus and an economic market is not available at that time. Consequently, this variation is kept. Bulk purchases are done in those areas where the military farms do not exist and it is not possible to open new farms. We have been trying to get land in Assam, North Bengal etc., but upto now we have not succeeded. Similarly, land is not available in Jammu and Kashmir for this purpose.”

3.10. The Secretary, Ministry of Defence added:

“I said in the beginning that the existing farms are a legacy of the past. No new farms except those three which I have mentioned have been created after 1947. The deployment of troops has undergone a change in between. We have not taken a view that we should go in for 100 per cent production of milk in the military farms. What you say is quite right that if it can be done it should be done. But no group has yet gone into this question to decide whether we should have 100 per cent market operations, which is one view, or we should have 100 per cent production in the military farms. This question has not been gone into.”

3.11. Referring to the impression given to a Study Group of the Public Accounts Committee which has visited Military Farm, Meerut in October, 1981 that the Farm was operating at about 50 to 60 per cent of its installed capacity, the Committee enquired about the position regarding the overall capacity utilisation in the Military Farms, how it could be increased and what was the extent to which the Department was in a position to meet the requirements of the Armed Forces within the present resources. The Director, Military Farms stated:

“At Meerut, our production is related to the demand of the local Station. If the demand is ‘X’, we produced normally that much quantity only. Now, with the various operational requirements, the strength of each station is not constant. Therefore, we keep that much stock normally which is sufficient to meet the requirements of the Station, during the winter months to the full extent and a little short fall during the summer. In Meerut, due to varying requirements, we are at present only producing 50 to 60 per cent of the capacity which will be fully utilised. But there is scope to produce 40 to 50 per cent more in Meerut. In cattle farms where we have our own accommodation, etc. we can increase 20 to 25 per cent., but the question will come during the winter season, when we produce extra milk and we cannot consume the same, there will be problems,

But the point is unless we have a sufficient quantity of milk for our requirements, it will be very uneconomical and it will not be cost-effective to start higher production. That is the constraint. Otherwise, we can increase 20 to 25 per cent for all the cattle holding farms."

3.12. Regarding feasibility of supplying milk to nearby areas and cantonments which do not have their own farms, the Quarter Master General, Ministry of Defence stated in evidence:

"We tried to supply milk to Roorkee, for instance. But the cost of transporting it poses a problem. The cost of transport in open vehicles is fairly high. In summer months the milk gets spoiled. Perforce we had to discontinue this arrangement. Sometimes you have breakdown of vehicles engaged in the work. All these things create problems. So, we discontinued this practice."

3.13. Another representative of the Ministry of Defence stated:

"We examined this possibility with regard to our Meerut farm. In fact, one of the terms of the 1974 Study Group was to consider the possibility of having centralised dairies at bigger stations and supplying milk etc. to the nearby stations. In that connection, the Meerut Complex was studied and the possibility of supplying milk to Delhi, Roorkee and Dehra Dun as also to Hindon Air Force Station was examined. This scheme was studied time and again, but due to financial constraints, it could not see the light of day."

3.14. To a question how the requirements of Delhi cantonment were being met, the witness stated that they were purchasing milk from the Delhi Milk Scheme.

3.15. The Study Group of the PAC which has visited Meerut were also informed that a scheme for preparing milk powder at a central location from the surplus milk in the Military Farms had been submitted to Government some years back but the proposal did not materialise. The Committee wanted to know the reasons why the proposal could not be accepted and whether any further efforts had been made in this direction. The Ministry of Defence have stated:

"Military Farm, Meerut has the capacity to accommodate 1600 heads of cattle whereas the animals presently held are only 487 due to limited demand of milk in the station. During 1974, the possibility of setting up a milk powder plant at Military Farm Meerut was considered and M/s. Larson & Tubro were approached to submit the estimates. Since the cost of the plant was approximately Rs. 80 lakhs ex-works Bombay, the proposal could not be pursued on account of colossal capital expenditure involved.

The total capacity to hold the animals in all the Military Farms comes to 14000 heads of animals as against a total number of 7592 presently held."

3.16. Asked during evidence whether Government would plan a fresh to go in for such a plant, the Defence Secretary deposed:

"Certainly."

3.17 The Committee desired to know the daily requirements of liquid milk at major centres of consumption and other products like butter and whole milk powder. The Committee also enquired whether with a larger organisation in these centres. Military Farms could also meet the requirements of families of civilians in Defence services. In a note, the Ministry of Defence have stated:

“The major centres of consumption of milk and daily produce are as under:

- (a) Northern Command : Jammu
 (b) Western Command : Jullundur and Ambala
 (c) Central Command : Meerut and Lucknow
 (d) Southern Command : Bangalore, Pune and Secunderabad
 (e) Eastern Command : Tezpur/Missamari and Siliguri

*Statement showing daily present requirement of milk and milk products and the anticipated requirement is given below

Sl. No.	Name of the Centre/Farm	Trade per day			Anticipated trade if milk also supplied to Civilian employees		
		Milk	Butter	Whole Milk powder	Milk	Butter	Whole milk powder
		Litres	Kg.	Tonnes	Litres	Kg.	Tonnes
1.	Jammu	7500	20	250	9000	40	250
2.	Jullundur	3300	25	3	3500	30	3
3.	Ambala	7500	25	7	9000	30	7
4.	Meerut	3100	10	6	3500	15	6
5.	Lucknow	4000	15	6	4500	20	6
6.	Secunderabad	6900	35	8	8000	40	8
7.	Bangalore	6000	35	7	6500	35	7
8.	Pune	7100	65	10	8000	70	10
9.	Tezpur/Missamari	2800	3	200	3500	5	200
10.	Siliguri/Bengdubi	7500	15	250	9000	20	250

*Not Vetted in Audit.

Military Farms are in a position to meet the requirements of the troops and the families of the jawans and the officers and also the civilians in the Defence Services at these stations provided the facilities as mentioned against each farm are provided:

- (a) **MF Jammu**—At present only a dairy section is functioning. Military Farm is supplying about 7500 litres of milk per day by procuring it locally and processing it to the required specification. MF jammu also supplies 20 eg. of butter daily. It is anticipated that if the requirement of the families is also met the daily trade will be 9000 litres of milk and 40 kg. of butter per day. The present

arrangement of procurement through contractors is not considered satisfactory. The milk brought by the contractors is from far flung areas located in Punjab and Haryana. For the assured supply of milk production under hygienic conditions, it is desirable to have a cattle holding farm and to produce our own milk. We shall require to house about 1100 cattle with their followers and shall require 150 hectares of land. The approximate investment of the capital will be around Rs. 60 lakhs including the cost of land to be acquired. A scheme for establishment of cattleholding farm at Jammu was submitted to the Govt. which is still under consideration.

- (b) *Military Farms Jullunder, Ambala, Meerut and Lucknow*—No difficulty will be experienced in meeting the full requirement.
- (c) *MF Secunderabad*—This farm at present is supplying 6900 litres of milk and 35 Kg. of butter per day. If the requirements of the families are also included the daily trade will be about 8000 litres of milk and 40 kg. of butter. About 400 more cattle will have to be inducted at this farm. The cost for the accommodation will be about Rs. 7.2 lakhs.
- (d) *MF Bangalore*—This farm is supplying near-about 5900 litres of milk per day. If the requirement of families of civilians is also included the daily trade will be about 6500 litres of milk and 35 kg. of butter. 200 cattle will have to be inducted at this farm. The capital requirement to provide accommodation to cattle will be Rs. 3.6 lakhs.
- (e) *MF Pune*—At present the Military Farm is supplying 7100 litres of milk and 65 kg. of butter. It is anticipated that if the requirement of civilians employed in Defence is also met the farm will have to produce about 8000 litres of milk and 70 kg. of butter. The Kirkee/Pimpri/Manjri complex which are conveniently located can meet this requirement. The young stock farm Manjri in that event will have to be converted into a milk producing farm. No capital expenditure will be required for cattle accommodation but for the provision of irrigation a sum of Rs. 10 lakhs will be required.
- (f) *Military Farms Tezpur/Missamari*—The present trade is about 2800 litres of milk and about three kg. of butter. If the requirement of families is also met the Military Farms will have to provide 3500 litres of milk and 5 kg. of butter per day. At present reconstituted milk prepared out of skimmed milk powder/butter oil/white butter/ghee is being issued. This milk is not liked by the troops. This is a milk scarcity area and even the fresh cow/buff milk is not available. To produce 3500 litres of milk and 5 kg. of butter the farm will have to maintain 450 cattle. 80 acres of Defence land is available at Missamari. For the construction of cattle and residential accommodation and provisioning of new dairy building and Plant and Machinery a sum of about Rs. 40 lakhs is required.

- (g) Siliguri/Bengdubi—Siliguri/Bengdubi is main farm. Military Farm Depots Damdim, Gangtok, Hashimara, Kalimpong and Binaguri are functioning under it. The present trade is about 7500 litres of milk and 15 kg. of butter for the entire complex. If the requirement of families is also included the trade will be approximately 9000 litres of milk, and 20 Kg. butter daily. Siliguri is a milk deficit area. Contracts for supply of milk were concluded with HIMUL for Damdim, Hashimara, Kalimpong and Binaguri from 31 Oct. '81 to 30 Sep., '82. The milk scheme have backed out from their contractual obligation under the plea that they have to meet the demand of civil population. To maintain the supplies reconstituted milk prepared out of skimmed Milk powder and cream is being issued.

This is not considered a satisfactory arrangement. For this production of 9000 litres milk 1000 Cross-breed cows are required. Three hundred hectares of defence land is available. A sum of Rs. 30 lakhs will be required. There is no cattle-holding farm in this region. A scheme to have a pilot cattle farm of 80 cross-breed cows on *ad hoc* basis is under consideration with Government. The *ad hoc* farm will enable to study the production and reproduction behaviour of the cross-breed cows. A sum of Rs. 76000.00 will be required for the *ad hoc* farm.

If the capital mentioned above against each and every farm is made available the cattle holding farm can be established at Jammu, Tezpur and Missamari complex and also self sufficiency can be achieved for milk supply at Pune. As already brought out, the scheme for establishment of MF Jammu already under consideration by the Govt. The scheme for establishment of cattle-holding farm at Tezpur/Missamari complex is under preparation.

The Army at present is procuring about 800 tonnes of skimmed milk powder, 2700 tonnes whole milk powder and 350 tonnes of butter annually. We can produce about 1000 tonnes of SMP, 500 tonnes of butter or 1000 tonnes of whole milk powder and 125 tonnes of butter by establishing a milk products factory at Meerut and maintaining 4000 additional cross-breed cows at Meerut, Agra, Bareilly, Lucknow, Sitapur and Purkazi. The scheme will require a capital investment of 1.75 crores of rupees. Out of this 1.4 crores will be required for provisioning of dairy plant and machinery, milk tankers for the transportation of milk from these farms to Meerut. The cost of production of resultant products is expected to be as under :

Product	Cost per kg. Rs.
Butter	28
Whole Milk Powder	25
SMP (Skimmed Milk Powder)	21

The current market price of these items is as under :

Product	Price per kg. Rs.
Butter	31 to 33
Whole milk powder	30 to 35
SMP (Skimmed Milk Powder)	23 to 26

Taking the average saving of Rs. 2 per Kg. for butter and Rs. 3 per kg. of milk powder the total saving will come to Rs. 40 lakhs annually and the entire investment will be recovered within a period of 5 years.

(c) Pricing of milk

(i) Rates for milk supplied free to the troops—

3.18. Referring to the audit observation that the profit of the Military Farms arises mainly from inflated rates charged for milk supplied free to the troops, the Committee enquired whether the system of pricing had since been reviewed. In a note furnished in July 1981, the Ministry of Defence stated :

“We do not agree with the observations of the Comptroller and Auditor General of India that the profit earned by Military Farms arises mainly from inflated rates charged for milk supplied free to the troops. The procedure for fixation of free issue and sale rates of milk and milk products has been laid down in Army HQrs letter No. 71812/Q/MF-3/Q1(A) dated 28 Dec., 1965. According to this letter the sale rates are fixed on the basis of local milk scheme rates of the equivalent quality of milk. At stations where Milk Schemes do not function the basis is local market rate. The procedure followed was arrived at by prolonged and thread-bare deliberations between the Army Headquarters, Controller General of Defence Accounts, Director of Audit, Defence Services. Under this system the rates are fixed by a Station Board of Officers consisting of :—

- (a) Presiding Officer - Lt. Col.
- (b) Members
 - (i) Rep. of Army Service Corps,
 - (ii) Local Audit Officer,
 - (iii) Rep. of Military Farms.

These rates become applicable only after they are countersigned by Station/Sub-Area Commander. The major consumers of the free issue milk are represented by the representative of Army Service Corps and the Station/Sub-Area Commander. The Controller General of Defence Accounts is represented by the Local Audit Officer. Except the representative of Military Farms all other members are themselves customers. To keep the interest of the consumers in view, they verify the rates from the market thoroughly. At the Station where milk scheme rates from the basis for fixation of rates the farms are at a great disadvantage as all milk schemes are running under heavy losses and are subsidised by the State Exchequer.

As regards the fixation of sale rates as per quality of the milk supplied, it is a universal principle and is substantiated from the sale rates prevalent in Delhi:—

- (a) Sale rate of toned milk testing 3% BF and 8.5%
SNF supplied by Delhi Milk Scheme Rs. 1.80 per litre
- (b) Sale rate of reconstituted Homogenised milk of Mother Dairy testing 4.5% BF and 8.5% SNF Rs. 2.20 per litre

(c) Sale rate of cow milk supplied by Mother Dairy Rs. 2.70 per lit.

(d) Sale rate of buff milk supplied by Mother Dairy Rs. 3.20 per lit.

Military Farms milk is of better quality. The rates are fixed keeping in view of the quality of milk supplied by Military Farms. The System of pricing has been reviewed and orders with regard to the revised procedure are likely to be issued soon."

In a further note on the subject, the Ministry have informed the Committee that the revised procedure for the fixation of sale issue rates of milk and dairy produce have since been issued.....The main features of the new procedure are as under :—

- (a) The standard rate of the blended milk which used to be worked out at 7/10 per cent of the buff milk will now be worked out on the cost of buff milk and the actual quantity of skimmed milk powder used for the generation of blended milk.
- (b) In case of any station registering abnormal increase in the market rate of milk and other dairy products, rates over and above the limit of 20% of the market rate of corresponding period of the previous year will be fixed to protect the interest of State in respect of such stations only and if the situation warrants, revision boards will be held.
- (c) The actual pasteurisation and delivery charges as per latest audited figures will be levied. However, at the stations where the basis of the fixation of sale rates are the milk scheme rates including the pasteurisation and the delivery charges, no pasteurisation charges will be levied. As regards the delivery charges, these will be the actual audited figures less the expenditure on delivery incurred by the milk schemes. However, at the stations where the milk schemes do not furnish/maintain separate statistics of delivery charges, actual delivery charges as per latest audited account will be charged.
- (d) As regards payment customers they need not pay the delivery charges if the milk is collected from the Military Farms/Depots itself and not delivered at their doors.

3.20 In reply to a further question, the Ministry have informed the Committee that the matter had been under consideration since September, 1974.

3.21 Commenting further on the observations made in the Audit Para that the free issue rates of milk fixed under the existing pricing policy were high compared to the cost of production and average purchase rates, the Ministry of Defence have stated :

"It will be seen from the statement below that the profit (the difference between the issue rate and the cost of production/cost of procurement including pasteurisation charges) varies from 5.8% to 8.2%. While the actual percentage of profit that should be charged over and above the cost can be the subject matter of rationalisation, whether profit

should be charged at all particularly in respect of free issues of troops, is a matter of policy. If the Military Farms are expected to function on commercial lines, it might not be quite correct to argue that the issue rates of milk should be at actual cost incurred. The Director of Military Farms would legitimately argue that but for the existence of the Military Farms, Government would have incurred costs on the free issue of milk to troops at more or less the same level. Moreover, the debit for the free issue of milk to troops as well as the credit for the sales by Military Farms of such milk are both reflected in the Defence Services Estimates. It is not, as if, by fixing the sales rate of free issues on the basis of market rate, a third party is being benefited. As a policy, it is, therefore, to be decided whether Military Farms should be allowed to charge profit element in the prices for the free issue of milk to troops or not. However, it is admitted that in the present procedure of fixation of sales rate, there is a subjective element (Station Board procedure referred to above), which could be eliminated by rationalisation of the procedure for fixing the sales rate, for example, by laying down a definite percentage over the cost of production/cost of procurement including pasteurisation charges. This will, however, have to be limited to the free rates. Extension of principle of fixed percentage of profit over cost for payment issue rates will obviously lead to mal-practices, particularly where the rates in the market are higher than the rates at which milk is sold by Military Farms."

*Statistics related to types of milk produced/purchased and average sale rate.

(Figures in lakh litres)

Sl. No.	Type of milk	Financial Years			
		1975-76	1976-77	1977-78	1978-79
		Rs.	Rs.	Rs.	Rs.
1. Cow Milk					
(a)	Quantity produced	191.32	196.30	197.13	180.14
(b)	Cost of Production	1.72	1.69	1.84	1.91
(c)	Quantity purchased	56.33	60.17	69.52	73.52
(d)	Average rate of purchase	1.62	1.64	1.63	1.69
(e)	Average sale rate including pasteurisation and delivery at 22 paise per litre	2.37	2.38	2.41	2.48
2. Buff Milk					
(a)	Quantity produced	38.52	35.29	31.56	27.14
(b)	Cost of Production	2.55	2.73	2.85	3.04
(c)	Quantity purchased	161.22	163.54	166.51	161.19
(d)	Average rate of purchase	2.40	2.28	2.28	2.32
(e)	**Average sale rate	2.37	2.38	2.41	2.48
(f)	Average rate of purchased milk when brought on part with equivalent quantity of farm produced milk. Butter fat of farm produced milk is 72% as compared to 6.0% of purchased milk	2.88	2.73	2.73	2.78

*Approx. 97% of purchased buff milk has been used for preparation of standard/blended milk and only approx. 3% issued to payment customers.

**Not Vetted in Audit.

3.22 The Committee enquired about the average cost of production of buffalo milk in the military farms and how it compared with the rates charged by the Government Milk Schemes/private traders at the respective places. The information furnished by the Ministry of Defence is given below:

“No milk scheme supplies buff milk to its customers at stations where Military Farms produce buff milk. To our knowledge no milk scheme is supplying buff milk except the Mother Dairy in Delhi which sells full cream milk to its customers. It is understood that the Mother Dairy has also stopped selling of full cream buff milk for the last three months. Therefore, comparison of the cost of production of buff milk and sale rates of milk schemes cannot be made. As regards private traders the milk is a commodity where adulteration is very rampant by the private traders. Moreover, there are various grades of buffalo milk which are sold in the market. In view of the above, we can only furnish the figures of the cost of production and the market rate of the buff milk as ascertained by the Board of Officers which works out as under for the year 1979-80 :

Sl. No.	Name of Military Farm where buff milk produced by Military Farms	Production cost of buff milk per litre	Average BF test home produced buff milk	Rate charged by private traders per lit. of buff milk	Average BF test	Rate calculated for farm quality milk
		Rs.	%	Rs.	%	Rs.
1.	Deolali	3.64	6.9	3.25	6.0	3.74
2.	Pimpri/Kirkee	5.32	6.2	2.65	6.0	2.74
3.	B elgaum	2.35	7.0	N.A.	—	—
4.	Secunderabad	2.87	6.8	3.00	6.0	3.40
5.	Panag ar	3.72	6.8	2.80	6.0	3.17
6.	Ambala	3.52	6.5	2.50	6.0	2.71
7.	Firozpur	2.77	6.5	2.05	6.0	2.22
8.	Jabalpur	3.27	7.3	2.80	6.0	3.41
9.	Lucknow	2.67	6.6	2.54	6.0	2.79”

(ii) *Subsidy on issue of milk to paying consumers*

3.23 The quantity of milk issued to the customers on payment, the cost realised and the subsidy adjusted as credit in trading account during the last three years as furnished by the Ministry of Defence is given below :

	1977-78	1978-79	1979-80
	Rs.	Rs.	Rs.
(a) Milk issued to payment customers	31,82,172	29,60,606	24,78,133
(b) Cost realised Rs.	73,31,560	70,72,793	61,66,730
(c) Subsidy adjusted as credit in trading Accounts	6,62,620	5,36,323	4,01,693

From the above it will be observed that amount of subsidy has reduced progressively and over a period of three years it has declined by 40%.

3.24 The Committee enquired about the reasons for fixing low payment issue rates of buffalo milk in some of the areas. In a note, the Ministry have stated :

“It cannot be categorically said that the loss on payment issues is due to fixation of low payment issue rates of buffalo milk in some of the areas. There have been losses also on the sale of cow milk to payment customers at certain farms. The losses are due to less realisation by sale of buffalo-cow milk to payment customers than the cost of production of milk. The sale rates at Military Farms are fixed by a Station Board of Officers on the basis of the milk scheme rate or the local market rate prevalent at the Stations. Subsidy to payment customers is not a unique phenomenon in Military Farms. Subsidy to payment customers is given by all the State run milk schemes and they lose heavily on the sale of milk. National Commission on Agriculture in para 29.3.72 have observed that ‘in case of milk schemes, sponsored by the Government, the consumers’ price is mostly administered so that it is kept as low as possible and is often much lower than the prevailing market price. As a result, it is difficult to pay remunerative price to the producers and thereby induce more production and procurement. As the Government milk schemes suffer financial loss, the deficits are met from the State exchequer. The loss in case of Government milk schemes is running in some cases to Rs. 2 to Rs. 3 crores per annum.’ The Delhi Milk Scheme during the year 1979-80 suffered at loss of Rs. 1.5 crores. However, in the previous year the loss was about Rs. 8 crores.

It will be noticed from the figures given by the Comptroller and Auditor General of India that the quantity of milk issued to payment customers has been gradually declining, and the amount of subsidy adjusted as credit has also come down during the last 4 years. In 1975-76, 4048 kilo litres of milk was issued and the Military Farms adjusted Rs. 8.51 lakhs as subsidy to payment customers. In 1978-79, 2960 kilo litres of milk was issued to payment customers and only Rs. 5.31 lakhs were adjusted as subsidy.”

3.25 The Committee enquired whether Government had examined the question of revising these rates so as to cover the cost of production. In reply, the Ministry have stated:

“The basis of the fixation of sale issue rates as has been brought out earlier is the Government milk scheme rates or the local market rate. Cost of production is not the basis. Therefore, the question of recovery of the cost of production from the consumers does not arise.”

(iii) Losses on account of issue of butter

3.26 Explaining the reasons for losses on account of issue of butter, the Ministry have stated :

“The reason for losses on account of sale of butter is its high cost of production. This cost of production has not been realistically worked out. Butter is a by product when separation of milk is unavoidable for feeding to calves. The butter is not an item of ration to troops, but finds its place in the scale of hospital diet. As such Military Farms do not manufacture butter for sale to the payment customers.

Military Farms meet the milk ration requirement of troops by issue of cow milk, standard milk and blended milk. As a commercial organisation and also to minimise the expenditure on meeting the milk requirement of the troops, Military Farms have to choose the type of milk which is least costly to the State and is profitable. With the continuous rise in price of skimmed milk powder it has been found that the issue of standard milk is more economical as compared with the blended milk. In preparation of the standard milk some quantity of buff milk has to be separated and the separated milk so obtained is added to the remaining buff milk to bring it to the laid down specification of 3.7% butter fat. The cream so obtained after separation of buff milk has to be converted into butter.

In hospital diet only cows and standard milk are provided. Where cows milk is not available, standard milk has to be prepared and issued. The reason for higher cost of production of butter is that erroneously the cost of fresh skimmed milk has been fixed low by DDsMF Commands. This is evident from the table given below:

Table showing purchase cost and the cost fixed by DDsMF Commands for separated milk produced by Farms per litre

	1975-76	1976-77	1977-78	1978-79
	Rs.	Rs.	Rs.	Rs.
Purchase cost	0.89	1.01	0.95	0.96
Cost of farm produced separated milk	0.76	0.86	0.85	0.87

It will be observed that on an average the cost fixed by the separated milk produced by farms is 10 paise less than the purchase cost of the separated milk. This has led to the higher cost of production of cream and consequent rise in the cost of production of butter. The sale of butter should not be studied in isolation. It is a by product of the separation of milk required for feeding to the calves and also for the preparation of standard milk. If the whole operation of preparation of standard milk and butter and its sale is taken as one, it

results into the savings to the State. This can be seen from the following table :

Saving to the State by issue of standard milk in place of blended milk and disposal of the fat as butter

Year	Sale of standard milk in lakh litres	Cost of production of standard milk per litre	Cost of production of blended milk per litre	Saving due to sale of standard milk in lieu of blended milk in lakh Rs. $2 \times (4-3)$	Loss in sale of butter in lakhs	Net savings in lakhs Rs. (5-6)
1	2	3	4	5	6	7
1975-76	72.35	1.84	2.09	18.09	10.68	7.42
1976-77	94.69	1.37	2.10	21.78	8.15	13.63
1977-78	82.82	1.87	2.09	18.22	7.47	10.75
1978-79	168.53	1.93	2.13	33.70	6.01	27.69

Instructions have been issued to DDsMF Commands to fix the rate of separated milk realistically and on the basis of market rate.”

3.27 In order to reduce losses, the Army Headquarters had issued instructions in January, 1977 to restrict payment issues of butter. In reply to a question why such instructions were not issued earlier than January, 1977 although the Military Farms were incurring losses in trading in butter for the last many years, the Ministry of Defence have stated :

“There is saving to the State in issue of standard milk and the sale of butter when clubbed together. Therefore, it was not considered necessary to issue orders for restricting the sale of butter. Whatever quantity of butter is prepared as a result of the separation of milk for feeding to calves and for the preparation of standard milk for Military Hospital, has to be disposed off. Instructions to restrict the sale of butter were issued to put a stop to the sale of butter at stations where it was not a by product of the separation of milk for feeding to calves or preparation of standard milk.”

3.28 To a question. Why sale rates were fixed less than the cost of production of butter and what action had been taken to reduce losses on this account, the Ministry of Defence have replied:

“The cost of production has no relevance to the fixation of sale rates of milk, cream and butter. There are no losses if the preparation of the standard milk and the sale of butter are taken as one operation. This has been illustrated in table given above in Para 3.26. The whole procedure for the fixation of sale rates is under review and is in the final stages. It has been proposed that the sale rates of cream, butter and ghee will be the same as the sale rate of local milk scheme/cooperative dairy/sale rate of the products supplied by the standard firms.”

3.29 As military farms are stated to be a commercial organisation, the Committee wanted to know what machinery existed within the organisation to monitor the working of various farms and to ensure that full recoveries were made from the consumers of the farms products. In reply the Ministry of Defence have stated:

“As brought out earlier, the basis of fixation of sale issue rates of milk and its products is the local milk scheme rate. At stations where local milk schemes do not function, the basis is the local market rate. These local milk rates are ascertained by a Board of Officers as per procedure laid down in Army Hqrs. letter No. A/71812/Q/MF-3/Q1(A) dated 28 Dec., 65. The milk schemes are invariably running in losses i.e. their sale rates are fixed much lower than the cost of production and also the local market rates. When these rates form the basis of the fixation of sale issue rates at Military Farms, the Military Farms are at a disadvantage and this situation at some places leads to losses. The consumers are charged the rate fixed by the Station Board of Officers.

The profit and loss of the farms as well as the cost of production of milk and its products is worked out annually. The sale rates of these items are fixed in advance every six months by Station Board of Officers and Military Farms have no say. Therefore, it is not possible to make full recoveries from the consumers as per cost of production. The commercial undertakings both in private and public sectors do not earn profit on each and every item they produce. There may be certain items on which even the private enterprises may lose. The financial viability of an undertaking has to be judged by the overall profit and loss. Therefore, that the Military Farms have incurred losses in sale of butter, this may not be taken as a reflection of their efficiency. Further, the sale of butter should not be studied in isolation. It is a by-product of the separation of milk required for feeding to the calves and also for the preparation of milk. If the whole operation of preparation of standard milk and butter and its sale is taken as one, it results into saving to State.”

3.30 Asked why in case of butter, the principle of fixing the sale rate on the basis of sale rate of local milk scheme/local market rate was not being followed, the Ministry of Defence clarified :

“The Board of Officers while recommending the sale rates ascertain the local market rate or the milk scheme rate independently. In the market butter of various grades is being sold. Therefore, it can not be stated that sale rates fixed by the Board of Officers are not as per the local market rate. However, as brought out earlier, the Board is constituted mainly of the consumers and therefore, it cannot be absolutely ruled out that they do not keep their interest in view while fixing the sale rates. However, detailed instructions regarding fixation of sale rates of cream, butter and ghee are being issued shortly.”

3.31 The Expert Accounting Committee for Military Farms in its Report (November, 1962) had observed as follows :

“The Committee has gone into the problem of price structure of dairy produce, and is of definite opinion that the practice of fixing

of sale rates for free issues of milk has outlived its utility. No well-defined formula or procedure can be laid down for rational fixation of sale rates. The principle followed in pre-war period for fixing sale rates at levels that would just cover the working expenses, was understandable to some extent. But subsequently, this point was lost sight of. During the post-partition period the high sale rates of blended milk gave an unrealistic and wrong picture regarding the working efficiency of the Military Farms. Although the farms were making huge profits, no relief was given to the consumers in the shape of reduced rates. The cost of production of pure milk at the Military Farms was very high and out of all proportion to the local market rates. The Military Farms used the whole milk for production of reconstituted or blended milk through mixture of SH powder and water, whose cost was 40% less than the whole or pure milk. However, the sale rates adopted for pricing issues of the blended milk were much higher than even the local market rates for pure/whole milk. In some cases, the whole buff milk was just purchased from the local market and issued to troops after blending ; reducing its cost by 40%. The issues were, however, priced at pre-determined rates, which were generally higher than the local market rates of pure/whole milk. It can, therefore, be concluded that the profits shown by the Military Farms were mainly due to the issue of blended milk.....

The main purpose of fixing sale rates of dairy produce and preparing profit and loss accounts are to evaluate the working efficiency of the Military Farms. As already explained, the rates arbitrarily fixed on high side without close relation to market rate can inflate the profits. They are, therefore, hardly the correct criteria for assessment of the efficiency of the Military Farms."

3.32 The Expert Accounting Committee, therefore, recommended that the present system of fixing arbitrary sale rates of dairy produce for free issue should be abolished. The efficiency of the farms should be judged from the cost of production of milk and to this end a system of cost production accounting should be adopted.

3.33 The Study Group on streamlining of Military Farms set up had in its report (December 1978) observed *inter alia* :

"Though treated as 'Quasi Commercial' Organisation for the purposes of accounting and profitability, Military Farms are essentially a Service Organisation' meant to conduct a specific role for the Defence Services. The Commercial aspect thus could not be termed even a secondary objective of the Military Farms, the primary being of an 'Essential Service'. The fixation of sale rates has come under adverse criticism of both administrative and audit authorities.

The present system for preparation of accounts and the concept of 'Quasi-commercial' concern has given rise to elaborate system of accounts with stress on profitability. The system of accounts is very cumbersome. The stress on profitability has in turn given rise to unrealistic fixation of sale rates of milk and other products. In addition, credit on account of interest on Government Account 'C' (remittances for farms on sale proceeds during the year) is also taken

into account to prop up the profit though a minor amount on account of interest on capital provided by Government (Account 'A') is set off against this. During the last two years i.e. 1976-77 and 1977-78, against a net profit of Rs. 144.43 lakhs and Rs. 150.40 lakhs, a sum of Rs. 81.88 lakhs and Rs. 93.80 lakhs respectively are on account of interest of remittances by Military Farms.

The fixation of sale rates has no relation to the actual cost of production as the same is done with a view to showing profits in the farms as also to cover the losses of other sections.

It may be seen from the above that the profits are accumulated by taking credit in the accounts on account of interest on Govt. Account 'C' as also by fixation of free issues rates on unrealistic basis. The net effect of all this is that while the Defence Services are over-charged by fixation of free issues rates at higher rates and charging on Govt. Account 'C', the net profit is also debited to the Defence Budget If the suggestion to issue milk to the Defence Services at the production cost is accepted, the present system of accounting can also be simplified resulting in saving in manpower and obtaining a truer picture..... The RVC Reorganisation Committee 1958 and Expert Accounts Committee 1962 have also recommended dissolution of 'free issue rates'. The recommendations did not find favour with DFA(Q) as he thought that cost consciousness of the Military Farms as production oriented unit will be lost sight of and the production cost will increase. The Study Team does not share these views of the DFA(Q). In any case with the winding up of many cattle holding farms as projected, as also the recommendations to review their existence, if found uneconomical and inefficient, is a substantial argument for scrubbing and substituting the present system of accounting."

(d) *Financial Results of working*

3.34 Referring to the Audit observations that bulk of the net profit shown by the Military Farms is on account of interest receipts and that the increase in the net profit inclusive of interest (Rs. 13.10 lakhs) over these four years was due to increase in interest receipts (Rs. 39.70 lakhs), the Committee enquired what steps were being taken to improve the working results of the Military Farms. The Ministry of Defence have in reply stated as follows :

"It is not correct that the net profit is due to the interest receipts only. The Comptroller and Auditor General of India while assessing the profit has taken into account the interest earned by the Military Farms in banking account but have ignored the interest which Military Farms paid on fixed assets. The factual position is as under :

	1975-76	1976-77	1977-78	1978-79	1979-80*
	(Rs. in lakhs)				
(i) Govt. capital at close of the year	990.97	1006.73	1025.12	991.60	1048.62
(ii) Fixed assets	664.83	714.05	769.94	784.81	779.72
(iii) Net profit inclusive of interest on Govt. banking A/c. less interest paid by Military Farms on fixed assets	126.64	144.43	150.43	165.74	160.11
(iv) Interest paid by Military Farms on fixed assets	26.16	30.44	33.16	36.38	36.75
(v) Net profit inclusive of interest received on Govt. banking A/c. plus interest paid by Military Farms on Govt. capital Account	152.80	174.87	183.59	202.12	196.86
(vi) Interest earned on Govt. banking Account	69.83	81.80	93.80	109.53	128.62

*Not vetted in Audit.

The above table shows that the real increase in profits earned by Military Farms over a period of 4 years i.e. 1975-76 to 1978-79 is Rs. 49.32 lakhs against the increase in interest earned on Govt. banking account amounting to Rs. 39.70 lakhs. The Military Farms paid Rs. 10.22 lakhs more interest on fixed assets over a period of 4 years."

3.36 It is seen from the Appropriation Accounts 1979-80 that out of profit of Rs. 165.74 lakhs during 1978-79, Rs. 109.53 lakhs (66.10 per cent) represent credit on account of interest charged on Government Account 'C'. Out of the net profit of Rs. 160.11 lakhs during the year 1979-80, Rs. 128.62 lakhs (80.33 per cent) represent credit on account of interest charged on Government Account 'C'. The credit of interest on Government Account 'C' increased during 1979-80 by Rs. 19.09 lakhs (Rs. 128.62 lakhs—Rs. 109.53 lakhs) as compared to the preceding year, while the net profit during that year has gone down by Rs. 5.63 lakhs, which is indicative of the fact that the farms had continued to suffer more loss during that year.

The Secretary, Ministry of Defence had the following to state in this regard during evidence :

"I would just like to mention two things. In paragraph 2.3 of the Audit Para, Working results have been indicated. There it has been shown that the net profit excluding interest for the year 1978-79 was Rs. 56.21 lakhs. If you see paragraph 4 of page 109, this is subsidy on issue of milk to buying consumers. It is only 5 paise or 10 paise subsidy that is given. There, the figure given for the year 1978-79 is only Rs. 5.36 lakhs. If one were to deduct this amount, still there

would be a net profit of about Rs. 50 lakhs. Supposing we are following full commercial accounts, if we had held the money in the bank, we would have earned interest. This is the accounting system which has been set up. Even taking into account, the interest, there is still a net profit." There is an accounting system which has been laid down, and this goes back to 1965. There was an Accounting Committee to look into what the system should be. Instructions were issued. The system continues even now. Of course, difference of opinion can be there as to what should be the best method of accounting, what should be adopted. Whether it is to be treated as service organisation or commercial or quasi-commercial organisation. There are two types—one where the cattle is kept within the farms, another where milk is purchased from outside. The price is determined by local committees, within the parameters of their operations. Even if you eliminate the interest part, there is a profit element as thrown up in the accounts regarding the operation of the whole scheme. There can be difference of opinion on method of accounting."

3.28 In a further note explaining the accounting system followed by the Military farms and how it differed from the normal pattern of commercial accounting, the Ministry of Defence have stated :

"Military Farms are functioning as quasi-commercial organisation. While working out the cost of production of milk all direct and indirect expenditures are accounted for. The indirect expenditure includes the overhead charges at Army HQrs, Command HQrs, Military Veterinary Hospital charges, the Audit charges, Military Farms School & Research Centre and the superannuation charges of the staff. The accounting system in Military Farms differs from the normal pattern of commercial accounting in that whereas the commercial organisation meets their requirement of stores and other services from the open market on a competitive basis so as to ensure that the funds of the organisation are put to the optimum possible use to achieve greater efficiency and maximum profits, in the case of Military Farms, all stores and services have to be procured through Govt. agencies irrespective of any consideration of economy and market rates. Military Farms although a commercial organisation are meant to only cater for the requirements of troops which in itself is fluctuating due to operational requirement, move of troops and exercises—thereby it is not able to fully exploit its resources. Whereas all the norms and controls applicable to commercial organisations are imposed on Military Farms organisation, yet the flexibility and functioning which is applicable to the commercial organisation is not available to the Military Farms. In commercial organisation the rates of the finished products are fixed by the producers, keeping in view the market whereas in case of Military Farms the sale rates of milk and other dairy produce are fixed by the consumers on the basis of the local milk scheme rates or the market rates. The milk schemes, therefore, invariably run in loss and their losses are borne by States.

The Commercial system of accounting in Military Farms was introduced with effect from 1 April, 1912. This provided for the maintenance of collective accounts of all sections of the Military

Farms in the general heads of the expenditure and receipts. Only one statement of trading and profit and loss account for the farms as a whole was prepared at the close of the year. The Expert Accounting Committee recommended the maintenance of separate trading account for all the sections of the Military Farms namely cultivation, fodder, cattleyard, and dairy. This system was introduced to judge the working efficiency of every section and also to work out the cost of production of green fodder, dry fodder, milk and pasteurisation respectively to enable the administration to analyse the working of the different sections and to streamline their functioning, if required. The Expert Accounting Committee also recommended that interest on Govt. Capital Account 'A' and Govt. Banking Account (Govt. Account 'C') should not be charged. These recommendations were accepted by the Govt. However, the Comptroller and Auditor General did not favour the abolition of charges of interest on Govt. Capital Account 'A' and Govt. Banking Account (Govt. Account 'C').

In this respect the extract from note 94 from the DADS recorded on file No. A./06696/Q/MF-3 is reproduced below:

"The question of not charging interest on Govt Account 'A' and 'C' and its exclusion altogether from the proforma accounts of Military Farms was referred to the Comptroller and Auditor General for his approval. The Comptroller and Auditor General has remarked that the decision not to charge interest on Capital in the proforma account would appear to be a deviation from the usual procedure followed by other Departments, preparing the proforma accounts of Commercial Undertakings. He has also observed that the fact that the interest is not being adjusted in the accounts but is being done on proforma would not justify its exclusion altogether from the proforma accounts."

The preparation of separate trading accounts of all the sections has since been introduced and the cost of production of green fodder and dry fodder and milk and all types of pasteurised milk supplied by Military Farms is now worked out.

Govt. Banking Accounts shows all the day-to-day expenditure and receipts. The revenue expenditure is entered on the credit side and all the remittances in the treasury in the shape of cash, book transfer receipts excluding the amount of capital transfer are shown on the debit side. In other words, this account depicts the total indebtedness to the Govt. and *vice-versa* in current revenue banking account. In case there is credit balance the farms pay interest to the Govt. and if there is debit balance the Military Farms earn interest.

Military Farms are maintaining only proforma account. All the cash receipts are debited to the treasury and no separate account is kept in the bank. All the interest receipts and the payments are calculated on proforma basis."

3.39 The Audit para has further pointed out that a major portion of the net profit during the years 1976-77 to 1978-79 was being obtained from farm depots which were purchasing and supplying milk. Of the total profit

earned by the Dairy section amounting to Rs. 127.19 lakhs in 1976-77, Rs. 132.59 lakhs in 1977-78 and Rs. 135.28 lakhs in 1978-79, the non-cattle holding farms accounted for a profit of Rs. 84.19 lakhs, Rs. 94.54 lakhs and Rs. 64.57 lakhs respectively. In a note on the subject, the Ministry of Defence have stated as follows:

“The working of cattle-holding farms is quite different as compared with non-cattle holding farms. Whereas the former is a production unit involving heavy investment of Capital on land, buildings, livestock, tube-wells, tractors and implements for the production of milk, the latter is only a dairy section dealing with processing and distribution of milk. During 1978-79, cattle holding farms paid Rs. 27.13 lakhs as interest on Govt. Capital Account and received Rs. 52.41 lakhs as interest on Govt. banking account. The non-cattle holding farms paid Rs. 7.33 lakhs as interest on Govt. Account ‘A’ and received Rs. 56.19 lakhs as interest on Govt. banking account. It will thus be observed that during 1978-79 cattle holding farms earned a net interest of Rs. 25 lakhs as against Rs. 49 lakhs earned by non-cattle holding farms. Cattle-holding farms being a production unit, the total expenditure on establishment was Rs. 190.33 lakhs against Rs. 63.21 lakhs on non-cattle holding farms. It will thus be observed that increase in profits earned by non-cattle holding farms is due to less expenditure on payment of interest on Govt. capital account and establishment/wages.”

3 40 The balance sheet of the military farms as contained in the Appropriation Accounts of the Defence Services for the year 1979-80 indicates that net value of fixed assets was Rs. 7.79 crores out of which livestock was valued at Rs. 2.21 crores and land, buildings and machinery were valued at Rs. 5.58 crores. Besides, stock/stores in hand amounted to Rs. 3 crores. The Committee pointed out during evidence that the infrastructure appeared to be much more heavy than what was warranted. The Committee enquired whether any comparative study had been made about the accounting system followed by the Military Farms *vis-a-vis* the system adopted by the Amul Dairy. The Secretary, Ministry of Defence stated :

“No comparative study has been made about the method adopted by the Military farms and how it compares with the method adopted by the Anand people. The two systems are entirely different. They have got a fragmented system and we have got an integrated system. Their operation is distributed over a large number of people where the costs are lower. As far as the military farms are concerned, there is a vertical integrated system. Everything belongs to the military farm. There is a cost of investment, there is a cost of supervision, a cost of maintenance, etc. It is more than the cost incurred by the Anand people, under a cooperative method.”

3.41 Asked to state whether the pattern of vertical integration was not more onerous and cumbersome, the Additional Financial Adviser stated that the infrastructure was necessary. The Secretary, Ministry of Defence added :

“Sir, the present infra-structure can support much larger number of cattle but there are limitations. We do not need so many cattle at the particular stations.”

3.42. Asked whether attempt had ever been made to achieve economics of scale, the Defence Secretary stated that he had not studied the whole pattern and added :

“As I said the pattern of accounting is the normal commercial pattern of accounting. My submission is that with this level of assets you can certainly support a much larger programme. This is just a *prima facie* opinion”.

3.43 The Committee enquired whether any cost benefit study had been made by the QMG's Branch or the Ministry of Defence with regard to the working of the Military Farms. The Secretary, Ministry of Defence replied:

“My submission about this question will be that what is really needed is to look into the welfare aspects, management aspects as well as accounting system. Because, with the present accounting system it will be useful to have a management study as suggested by the Hon. Member. A view will have to be taken what kind of accounting system should be followed. There are, as I said, so many differences of opinion on the subject. Everybody has a different view on this. It is time that somebody went into this.”

3.44 In reply to a further question whether any study had been made in respect of the product-mix so as to make these farms economically more sound and viable, the Secretary, Ministry of Defence stated:

“These aspects have not been gone into.....In respect of product-mix they have gone into it in some other areas. Some effort has been made to optimise the production in terms of crop pattern but certainly not in terms of cost effectiveness which you mean.”

3.45 In a further note* on the subject, the Ministry of Defence have stated:

“No formal cost benefit study has been ordered and carried out. However, the Military Farms Directorate which carried out a cost benefit analysis of the economics of the milk production at 12 cattle-holdings farms, recommended for closure by the Study Group in 1978. Military Farms Directorate came to the conclusion that the Government will have to spend Rs. 57 lakhs extra if the milk was procured from the milk schemes after closing cattle farms.”

(e) Contribution of Military Farms

3.46 The Committee enquired in what manner the Military Farms had contributed to the cattle management programmes undertaken in the Civil Sector *vis-a-vis* similar programme undertaken by the Amul Dairy. In a written note, the Ministry of Defence have stated :

“Military Farms is the only organisation in the country who have the experience of over 10 decades in modern dairy cattle management. Fall out of our experience in cattle management have led to adoption of improved dairy practices by leading institutions and cattle breeders

*Not vetted in Audit.

in the country. Our functioning paved the way for establishment of National Dairy Research Institute in India and Anand Dairy, and led to the creation of the post of imperial dairy expert in India. The first incumbent of this post was Mr. William Smith of Military Farms (Asstt. Director of Military Dairy, Southern Sector, Poona from 1909-21) who guided work relating to dairy industry in the country from 1921 to 1932. Both National Dairy Research Institute complexes at Bangalore and Karnal are erstwhile Military Farms handed over to civil for starting these premier National Institutions in 1923. Similarly, Vety. College Mathura has been an erstwhile farm.

Age of maturity of our animals is the lowest recorded. Military Farms have thus paved the way towards improvement in this direction. Queries are made from us on this subject and management practices adopted by us in this direction are being incorporated in the national programme.

Military Farms adopted a very selective breeding policy. The aim was to combine merits of exotic breeds with those of indigenous breeds. The bulls with a very high potential were associated in our breeding programmes. As a result of this, lactation yield of cross-bred cows has shown significant improvement *i.e.* as against 2376 litres in 1970-71 we have now achieved a level of 3485 litres in 1979-80. In many countries where dairy development had made significant progress such as Denmark, United Kingdom, New Zealand and U.S.A. the average annual milk production per cow is 3000 to 4000 litres/Kgs. Military Farms can be justly proud to match leading countries in this regard.

As against this, the national average annual milk yield per cow is only of the order of 157 kg. (reproduced from the report of the National Commission on Agriculture 1976—para 28.1.4 at page 2, Vol. 7)

Military Farms have contributed substantially towards creating general awareness of the tremendous potential that cross-bred cows have. By participating in All India Livestock Shows, the farmers have had access to information pertaining to Military Farms and have a close look at our prized animals. At practically all annual livestock shows, organised by the Ministry of Agr. and Irrigation, our cows have bagged the coveted price of 'highest milk yielder' of the show. Subsequent to the livestock shows, we receive numerous queries from enterprising farmers seeking advice on as to how better results can be achieved.

Military Farms have contributed towards preserving superior germ plasm of indigenous milch breeds. A nucleus of sahiwal breed is maintained at Military Farm Meerut. Male calves produced are being utilised in the national progeny testing programmes for improvement of genetic potential of this breed.

Military Farms have provided an ideal training ground for various research scholars and breeders. Based on the authentic data maintained at Military Farms, 72 scholars have obtained their Post Graduate/Doctorate Degrees in last 7 years. The thesis submitted by these

scholars have greatly helped in formulating the national policies with regard to cattle breeding and management programmes. All Farms are regularly running short courses for Service Personnel due for release from the Service.

Military Farms are also manning technical training programme at Gorkha Rehabilitation Training Unit, Raiwala. These ex-servicemen are contributing towards adopting improved dairy practices in their respective areas after their retirement."

3.47 Asked how the milk performance of cows and buffaloes maintained by the Military Farms compared with the performances of the animals of the Amul Dairy, the Ministry of Defence have stated :

"Amul Dairy is a federation formed by various Cooperative Societies of farmers in Gujarat. It is primarily a milk producers' cooperative. Each farmer has a few heads of cattle and no authentic data is centrally available as can be the case with institutionalised farms. Every farmer is at liberty to adopt his own management practices as convenient to him. Certain inputs in terms of feed, vet. cover and marketing of the produce are centrally provided. It is, therefore, not possible to draw comparison in respect of Military Farms vis-a-vis the Amul Dairy. It may not be out of place to mention that the farmers in Gujarat are primarily rearing buff and not XB cows.

The question of comparing the performance of Military Farm animals with those of Amul Dairy does not arise. However Military Farm animals have not only been leading in milk yields in the country but their yields compare very favourably with the most advanced dairy nations like Denmark, New Zealand, U.K. and U.S.A. as brought out in National Commission on Agriculture Report of 1976 page 2 para 28.1.4. To have earned this distinction inspite of unfavourable environment of tropical climate speaks of our excellence in cattle management practices

The policy document prepared by NDDB on "Breeding and feeding for milk production on Op. Flood II is primarily based on the experience gained in cattle management at Military Farms."

(f) Long Term Policy

3.48 Referring to the fact that no Military Farms have been established after 1947, the Committee enquired whether Government had drawn up any long term policy for setting up Military Farms in other places taking into consideration the experience gained so far and the economics of working of the military farms on a departmental basis and if so, what were the proposals in this regard during the Sixth Plan. The Secretary, Ministry of Defence deposed :

".....there had been lot of changes in the domestic scene also. A number of milk producing or procuring organisations have come up. There has not been any considered decision taken about what has to be the policy for supply of milk to the defence services as such. There was a Committee set up in 1978 and they went into the question

of streamlining the Military Farms. They have considered various aspects and their recommendation was that Military Farms should continue to be part of the military organisation."

3.49 The Committee pointed out that a number of Committees/Study Groups had been appointed in the past to examine various aspects of the working of the Military Farms. Organisation and the National Commission on Agriculture had also gone into the matter and made its recommendations. Asked why Government had still not come to a firm conclusion about the future of the Military Farms in the context of the prevailing circumstances, the Defence Secretary stated in evidence :

"Each review throws a number of points. But there is no change in the basic structure."

3.50 Asked further, whether Government wanted the present concept to continue, the witness replied :

"It is continuing. Various people have different ideas how it should be done. There is no comprehensive organisation which has gone into this question. That is a matter of history which has happened which I cannot deny. No body has suggested that it should be changed."

Another representative of the Ministry of Defence stated :

"If the Military Farms are closed, that quantity of milk which is produced and supplied to the troops there, will not be available. The demand in the market will go up to that extent and will affect prices. The traders will know that self-reliance has gone from the Military Farms."

3.51 To a specific question whether Government wanted to continue all the Military Farms, animal farms, fodder farms, etc. as part of the defence effort or wanted to run them as co-operatives of ex-servicemen, the Defence Secretary explained :

"I feel that it is time that we should take a view whether considering the developments that have taken place in the milk availability and milk production programme it is worth-while to continue to organise it in the way it is organised or whether there could be some other forms of organisation or taking the extreme case, they should all be closed down. This whole range of possibilities is open. In a comprehensive body where experts who have been included in it have given their fullest consideration to this matter or not is the question. I must also mention that from the military side there is a very strong opinion that this should be continued because this would facilitate them to make available to them quality milk.

Considering the developments that have taken place in the milk sector in the last twenty years or so, there is need for a re-thinking or revaluation or reconsideration of the whole concept of milk farms to find out whether there is need to continue this as such or not and whether it has to be run in this form or it should be run on co-operative basis. This needs a detailed study."

(g) Streamlining the set up of Military Farms**(i) National Commission on Agriculture, 1976**

3.52 Referring to the recommendations made by the National Commission on Agriculture, 1976 in regard to the working of Military Farms, the Defence Secretary stated in evidence :

“The National Commission on Agriculture have also made a number of recommendations. In fact, they have praised the working of military farms to some extent. They said that the experience and good results obtained by the adoption of improved dairy management practices in the farms should be made use of.”

3.53 Some of the recommendations/observations of the National Commission on Agriculture for improving productivity through better cattle management subsequently furnished by the Ministry of Defence alongwith their comments, are given below :

- (a) The Military Farms Directorate should examine their present cross-breeding policy in consultation with the leading animal breeding specialists in the country and lay down a definite long range programme.
- (b) The Military Farms Directorate should group the crossbred stock in the Military Farms according to their genetic make-up and take up studies on their comparative performance and acceptability in different agro-climatic regions.
- (c) The Union Ministry of Agriculture and Irrigation and ICAR should actively collaborate with the cross-breeding programmes in the military dairy farms and extend expert advice and financial support for their breeding experiments.
- (d) The experience gained in the adoption of improved dairy management practices at the military farms should be made use of in the production of purebred exotic bulls. One of the military farms having facilities for housing and fodder production should be earmarked for developing a purebred exotic cattle breeding farm.
- (e) Superior female calves born in the military dairy farms should be reared at their youngstock farms.

We have been reviewing our breeding policy from time to time. In a study which was conducted by the Experts in the recent past, it has been decided that 5/8 grade of cows shall be forward crossed. The National aim now is to evolve a dairy breeding of our own with exotic inheritance. This is a considered view of the experts in this field. As a result of this recommendation, a project for evolving of a breed was formulated in consultation with the experts and also with the Planning Commission. This project is to be undertaken at Military Farm Meerut. The case is still under examination by Ministry of Agriculture and Irrigation.

It is not practically feasible to locate herds at different stations based on their exotic inheritance blood group. This kind of recommendation would involve continuous transfers in and out from different farms. However,

statistical analysis of all grades of cross bred cows held in Military Farms has been done in a very exhaustive manner. This data has been made available and has also been published in the shape of research papers.

As already brought out above, a project for evolving of breed is under examination by the Ministry of Agriculture and Irrigation and necessary expertise and financial support for this proposal should be forthcoming from that Ministry.

In so far as establishment of pure bred exotic cattle breeding farms is concerned, Military Farms can certainly take up this responsibility. Necessary initiative to this effect must come from the Ministry of Agriculture and Irrigation who are primarily responsible for implementing the recommendation of National Commission on Agriculture and financial support for such activities, which are in the national interest, must come from that Ministry.

We have adequate capacity to rear superior female calves at each main farm/young stock farm should there be a firm demand from the civil sector."

(ii) *Study Group on streamlining of Military Farms set up (Dec. '78).*

3.54 Relevant extracts from a Note furnished by the Ministry of Defence regarding some of the important recommendations made by the Study Group appointed in December 1978 to study the streamlining of Military Farms together with Government's decision thereon are reproduced below :

"(a) *Closing down of 12 cattle holding farms.*

This recommendation was examined in depth. We are inclined to accept closure of cattle section at MF Kirkee and MF Kanpur. At all other stations, we have established the economic viability of the existing set up. Decision on this recommendation has been examined at the highest level and pending till out-come of Public Accounts Committee Report is known.

(b) *Closing of Young Stock Farm Manjri, Bir Dhantauri and Agriculture Farm at Purkazi & Sitapur.*

We are not agreeable to this recommendation except in respect of MF Sitapur. Manjri and Purkazi are to be converted into milk production farms. Military Farm Bir Dhantauri is already functioning as young stock farm and we have definite need for this young stock farm to cater to the needs of rearing young stock in respect of cattle holding farms of Western Command.

(c) *Change in the status of Military Farms from the present quasi-commercial to that of a service.*

We have not agreed to this recommendation. This issue has also been examined earlier by the Study Group, which was ordered by the Government in 1974 and similar recommendation had been made

Military Farms can only justify their existence solely on their financial viability so that supply of milk ex-Military Farms to troops is economical to the State *vis a vis* the supply from milk schemes/trade.

(d) *Certain changes in the organisation of Military Farms*

This recommendation of the Study Group has not been accepted. Apart from other reasons the proposed organisation is likely to result in extra expenditure of Rs. 2.65 lakhs per annum. Entire organisational set up and rationalisation of rank structure has been examined and a paper submitted.

Certain recommendations have already been implemented as an off sheet of cadre review which was approved by the Government in the recent past. Other recommendations proposed for rationalisation of rank structure are under examination by the Service Hq.

(e) *Fixing the scale of veterinary cover*

This proposal was not accepted. Existing scales of Veterinary Officers is considered economical and adequate and it was agreed that *status quo* in this regard be maintained.

(f) *Provisioning of chilling plant/insulated vehicles for 11 and 12 Infantry Divisional Sectors*

Provisioning of chilling plant and insulated vehicles would have added to the over-head cost. In both the Div. Sectors, Milk is available and there is no problem involved in regard to this. Chilling plants are already held at Jodhpur and Kota.

(g) *Procurement and supply of fresh milk by a single agency instead of presently both Military Farm and ASC being responsible for the same*

After the deliberations it was felt that the *status quo* be maintained. Military Farms could not have undertaken supply of milk at station now covered by ASC without corresponding increase in their establishment.

Miscellaneous Matters (i) Lift Irrigation Scheme

3.55 Audit have pointed out that the lift irrigation scheme for Manjri Military Farm for which sanction had been accorded by the Ministry of Defence in 1972 at a cost of over Rs. 3 lakhs has been working at 50% efficiency due to defects in the works executed by the contractor.

3.56 Asked about the delay of more than 4 years and 8 months in setting up the Staff Court of Inquiry after receiving the report of the Technical Board in January, 1976, the Ministry have stated :

“Government sanction for the funds amounting to Rs. 3,08,714/- was obtained on 5 June 1974 for provisioning of a lift irrigation scheme at MF Manjri. The project was commissioned during Dec. 1975 and during the trial run its low efficiency was noticed. The Technical Board of Officers could finalise their findings by May 1977. Based on their findings the case for initiating disciplinary action against S/Shri A.P. Singhal the then Assistant Agriculture Engineer and S.G Joshi the then Officer Incharge, Military Farm Manjri remained under consideration of the Govt. As the findings of the Technical Board of Officers were inadequate to proceed further, orders for holding a

court of inquiry were issued on 21st August, 1980. From the above it will be seen that the matter has been under consideration without any delay after getting the final report of the Technical Board."

3.57 The court of inquiry blamed S/Shri A.P. Singhal and Manager S.G. Joshi for negligence in performance of their duty in which below specification materials from M/s Arun Enterprises were accepted resulting in an inefficient, uneconomical and incompleted project. The case is under examination for initiating disciplinary action against the above officials.

The Audit Para also states that a Board of Offices has been appointed to find out ways and means to improve the efficiency of lift irrigation in the farm. Asked why it had taken so long for the Directorate to initiate action in the matter, the Ministry have stated that though the project was commissioned during Dec. 1975, the contractor had gone to the civil court during Feb., 1976 and preferred certain claims against the Govt. Therefore matter had become sub-judice and no action could be taken till legal advice was obtained. After the formalities have been completed as per advice of the legal Adviser, orders were issued for holding siting-cum-costing board of officers on 17 June 1980 for recommending the complete details for removal of the defects and the agency who should carry out these works.

(ii) *Gobar Gas Plants*

3.58 The Committee enquired whether the Ministry of Defence had considered the feasibility of setting up Gobar Gas Plants in the Military Farms for meeting the energy requirements to the extent possible. The Ministry have stated :

"Feasibility with regard to the establishment of Gobar Gas plants at Military Farms has been examined in the past. A Gobar Gas plant was installed and tried at Military Farm Meerut during 1961. This plant did not work satisfactorily inspite of best efforts and requisite technical know-how available at that time.

Large sized Gobar Gas plants have a limited scope at Military Farms where energy requirements for workshop, cattleyard, sick live, boiler and so on are of a much larger magnitude. However, gas plants of smaller capacity for a very limited use have been installed at Military Farms like Kirkee, Bangalore and Meerut. These have very restricted use. Of late, the technology for energy utilisation has advance significantly. In consultation with the Department of Science and Technology we are examining the feasibility of establishing large sized gobar gas plants which could cater to our energy requirements and save the conventional sources of energy like coal and electricity."

3.59 The Military Farms are a legacy of the British period. They were set up to meet the requirements of milk products for the British troops and their families. The first farm was established in 1889 at Allahabad. As of today, there are 82 such farms of which 26 are cattle holding farms, 5 Young stock farms, 41 non-cattle holding farms/depots, 7 hay/baling farms and 3 *ad-hoc* farms/depots. The Military farms Organisation is the only departmentally managed government organisation in the field of animal husbandry and dairy farming responsible both for production and processing of milk for

supply to the troops, their families and to the military hospitals. They also supply dry fodder to the army animals.

3.60 The Committee find that the cattle holding farms with a total number of 8467 heads of cattle (1889 buffaloes and 6578 cows) were able to meet only 2/5th of the total demand in 1978-79. It is noteworthy that due to change in location of the troops as a result of the 1947, 1962, 1965 and 1971 operations, there has been a sea-change in the location of troops rendering the cattle holding farms quite irrelevant to the present day requirements. As much as 95% of milk requirement in the Northern and Eastern Commands is now being met through purchase from other agencies. For the Military farms in the country, the demand met through local purchase was of the order of 57.8% in 1977-78 and 59.4% in 1978-79.

3.61 Since Independence, the country has made rapid strides in the field of animal husbandry and dairy development particularly under Operation Flood I and now Operation Flood II. The Military farms have no doubt made a significant and pioneering contribution in the matter of introduction of modern cattle management techniques which has also been acknowledged by the National Commission on Agriculture.

3.62 The Committee have been given to understand that no new farms have been established since 1947. Non-availability of land is stated to be a serious handicap in the expansion programme. The Study Group appointed by the Ministry of Defence to suggest ways and means for streamlining the military farms set up, in their Report submitted in December, 1978 recommended closure of 12 cattle holding farms in the Southern, Western and Central Commands as sufficient milk was available locally. Government have not so far taken a final decision in the matter although they are inclined to accept closure of the cattle sections at Kirkee and Kanpur.

3.63 The Committee further observe that against a total capacity of 14,000 heads of cattle available in all the military farms, the actual number of cattle presently held is 7592. Thus the capacity utilisation is 52.8% only. It was stated in evidence that the capacity could be stepped up by 20-25% but it had to be deliberately restricted to the level of actual requirements as there was no outlet for the surplus milk. The Committee cannot therefore escape the conclusion that it is futile to expect economics of scale in the present situation. The Secretary, Ministry of Defence admitted in evidence that a vertically integrated set up like the present one could be hardly cost effective.

3.64 In view of the foregoing and taking particular note of the developments that have taken place in the milk sector during the last 20 years or so, the Committee are of the view that there is need for a rethinking with regard to the whole concept of military farms. The Committee would therefore like the Ministry of Defence to examine seriously the possibility of handing over the military farms organisation to the cooperatives of ex-servicemen which may be set up on the pattern of Anand Dairy.

3.65 A large number of service personnel are drawn from the rural areas. Given their farming background and their experience of disciplined team work in the army, there is every reason to believe that this is an area where their services can be gainfully employed after their release from active service. The Committee therefore recommend that necessary details should be worked

out without loss of time for implementing the above suggestion on a phased basis. The expert guidance and assistance of the Indian Dairy Corporation may be obtained in organising the cooperatives and in making suitable arrangements for supply of milk products to the troops. In areas where supply of milk is the responsibility of the Army Service Corps (ASC), the existing arrangements may continue.

3.66. The Committee observe that the net profit earned by the Military farms during 1977-78, 1978-79 and 1979-80 was of the order of Rs. 183.59 lakhs, Rs. 202.12 lakhs and Rs. 196.86 lakhs respectively. Of this, the interest earned on Government Banking Account was of the order of Rs. 93.80 lakhs, Rs. 109.53 lakhs and Rs. 128.62 lakhs respectively.

3.67. It is further observed from the balance sheets of the Military farms that bulk of the net profit during the years 1977-78 to 1979-80 is accounted for by the military farms/depots which are responsible only for purchasing and supplying milk. Thus, out of total profits of the Dairy Section amounting to Rs. 132.59 lakhs in 1977-78, Rs. 135.28 lakhs in 1978-79 and Rs. *132.05 lakhs in 1979-80, the non-cattle holding farms accounted for a profit of Rs. 94.54 lakhs, Rs. 64.57 lakhs and Rs. 102.85* lakhs respectively.

3.68. The Committee find from the Appropriation Accounts, 1979-80 that there was a loss of Rs. 2.69 lakhs during 1978-79 and Rs. 1.95 lakhs in 1979-80 on account of difference between actual cost of production/processing of milk on the one hand and the price charged to the payment consumers on the other. The subsidy adjusted as credit in the trading account in regard to milk issued to payment consumers, amounted to Rs. 6.62 lakhs in 1977-78, Rs. 5.36 lakhs in 1978-79 and Rs. 4.02 lakhs in 1979-80. The amount is far in excess of the concession of 10 paise and 5 paise per litre admissible to JCOs, ORs and officers respectively—the reason being fixation of low payment issue rates for buff milk.

3.69. The Committee further find that the procedure for fixation of free issue and sale rates of milk and milk products was laid down in December, 1965. According to this, the sale rates are fixed on the basis of local milk scheme rates of the equivalent quality of milk. At stations where milk schemes do not function, the basis is the local market rate. The Study Group appointed by the Ministry in 1974 had pointed out that the sale rates were fixed higher than the local market rates due to better quality and specification of farm produced milk supplied by the military farms and then increasing them further by 22 paise per litre to cover pasteurisation and delivery charges.

3.70. According to Audit, the profit of the Military farms is mainly attributable to the inflated rates charged for milk supplied free to the troops. The Expert Accounting Committee for Military farms in its report (November, 1962) had also observed that the rates for free issue to troops arbitrarily fixed on the high side without close relation to market rates could inflate the profits and were therefore hardly the correct criteria for assessment of the efficiency of the Military farms. The Expert Accounting Committee, therefore, recommended abolition of the system of fixing sale rates of dairy produce for free issue.

*Not voted in Audit.

3.71. The Study Group on streamlining the Military farms set up (December 1978) reiterated the earlier findings. It observed inter alia :

“The fixation of sale rates has no relation to the actual cost of production as the same is done with a view to showing profits in the farms as also to cover the losses of other sections.....The profits are accumulated by taking credit in the accounts.....interest on Government Account C. as also by fixation of free issue rates on unrealistic basis.”

3.72. The Ministry have informed the Committee that the question whether profit should be charged at all, particularly in respect of free issue to troops, is a matter of policy. However, it is admitted that in the present procedure of fixation of sale rate, ‘there is a subjective element..... which could be eliminated by rationalisation.....for example, by laying down a definite percentage over the cost of production/cost of procurement including pasteurisation charges. This will however have to be limited to the free issue rates. Fixation of principle of fixed percentage of profit over cost for payment issue rates will obviously lead to malpractices particularly where the rates in the market are higher than the rates at which milk is sold by Military farms.”

3.73. The Committee have been further given to understand that the system of pricing has since been reviewed and a revised procedure laid down whereby the standard rate of blended milk which used to be worked out at 7/10 % of the buffalo milk, will now be worked out on the cost of such milk and actual quantity of skimmed milk powder used for preparation of blended milk. It has also been decided that where there is an abnormal increase in the market rate, the rates over and above the limit of 20 per cent of the market rate during corresponding period of the previous year, will be fixed to protect the interest of the State and Revision Boards will be held, if necessary. It has been further decided that the actual pasteurisation and delivery charges would be recovered from the consumers.

3.74. It is unfortunate that as a quasi-commercial organisation, the Military farms should have failed to recover the actual cost of production of milk from payment consumers thereby incurring losses. It has taken as many as seven years to take a decision in the matter. The Committee expect that such losses will be avoided in future.

3.75. The Committee further observe that losses on trading of butter amounted to Rs. 6.01 lakhs in 1978-79 and Rs. 6.85 lakhs in 1979-80. These are attributed to the higher cost of production of butter which in turn is on account of erroneously fixing the cost of skimmed milk at a level lower than the purchase cost—the difference being about 11 paise per litre. Instructions are now stated to have been issued to fix the rate of separated milk realistically and on the basis of market rate.

3.76. It is further observed that the Military farms incurred a loss of Rs. 1.38 lakhs in 1978-79 and Rs.1.43 lakhs in 1979-80 on trading of ghee.

3.77. The Committee desire that the sale rates of cream, butter and ghee should be fixed taking into consideration the sale rates of the local milk schemes

or the rates charged by standard firms in places where such milk schemes do not exist and that there should be no question of any loss on this account in future.

3.78. From the foregoing, the Committee are led to the conclusion that the financial results of working of the Military farms do not really represent a true picture. The profits shown in the accounts are based on artificially inflated rates of free issues of milk to troops and hospitals which account for 95 per cent of the total issues. These also include large amounts of interest earned by the Military farms on Government Banking Account though the amount paid as interest on capital provided by Government, is also taken into account. Further, bulk of the profits are earned by the farm depots which only purchase milk from outside agencies for supply to troops and their families.

3.79. Considering further that the Military farms do not have to pay any land revenue or agricultural tax on capitalised land, that they have an assured and captive market and that they have easy access to Government resources for their capital requirements, the profits earned by the Military Farms are more apparent than real. The question as to how the Military farms can be made more profitable and how the accounting system should be re-structured so as to give a realistic picture of their functioning, is linked with the question of the very continuance of these farms as a departmental organisation in regard to which the Committee have expressed their views in the earlier paragraphs. The Committee desire that the whole set up of Military farms should be reviewed in all its aspects by Government at a high level in the light of the recommendations made by the Committee and an early decision taken in the matter. The Committee would like to be kept apprised of the same.

3.80. The Committee observe that a lift irrigation scheme was commissioned in Military Farm, Manjari during December, 1975. During the trial run, the plant which was installed by a contractor was found to contain several defects and the works were incomplete. Even though the Technical Board of Officers had given its findings in May 1977 it took more than three years for the Ministry to issue orders for holding a Court of Enquiry in the matter so as to fix responsibility on the defaulting officials. It is unfortunate that the case is still under examination and disciplinary action has yet to be taken. The Committee deprecate the inordinate delay in finalising the case and desire that conclusive action in the matter should now be taken without further loss of time.

3.81. The Committee understand that a Gobar Gas Plant was installed and tried at Military Farm, Meerut during 1961 but it did not work satisfactorily. Since the technology for energy utilisation in this field has now advanced significantly and a large number of gobar gas plants are functioning satisfactorily elsewhere, the Committee recommend that the Ministry of Defence should take up the matter with the Department of Science and Technology so that Gobar Gas Plants can be set up in the Military Farms under a time bound programme for catering to the energy requirements of these farms to the extent possible.

3.82. The Audit paragraph contains a number of other observations with regard to various activities undertaken by the Military farms such as fodder cultivation, deterioration in crop yields in the Military farm at Purkazi, concentrate scheme to increase milk yield etc. The Committee expect that appropriate action would be taken to rectify the shortcomings pointed out by Audit. The Committee desire that a close watch may be kept on the performance of the various farms particularly those which have been showing losses so as to improve their functioning and financial viability.

NEW DELHI:

March 8, 1982

Phalguna 17, 1903 (S)

SATISH AGARWAL

Chairman

Public Accounts Committee.

APPENDICES

APPENDIX I

WORKING OF MILITARY FARMS

Audit Paragraph

1. *Introduction.*—The primary function of Military farms is to supply (1) hygienic pasteurised milk and other dairy products to troops and Military hospitals as per authorised scales and (2) dry fodder for farm and Army animals. At some stations, the Military farms maintain their own milch cattle and also own agricultural land for raising fodder; the deficiencies in farm production of milk and dry fodder are met by purchases from the market. At other stations, where there are no cattle holding Military farms, the milk requirements are met entirely by purchases from the market. Milk is processed and delivered to the units in the farms' own vehicles.

At stations, where Military farms are not able to supply milk, the Army Service Corps (ASC) arranges supply of milk by entering into regular contracts. Where no fresh milk can be issued either by Military farms or by the ASC, tinned milk or milk powder is issued.

Military farms are administered by the Directorate of Military Farms (DMF) at the Army Headquarters (HQ) and each Command HQ has a Deputy Director, who is responsible for the efficient running of the farms within that Command. As on 31st March 1979 there were 44 Military farms (24 cattleholding, 5 young stock and 15 non-cattle holding depots).

2. *Performance appraisal*

2.1 *Production of milk.*—The number of adult milch cattle both in milk and dry maintained at Military farms during 1975-76 to 1978-79 were as under :

Year	Number of cattle		Total	Reduction in number of cattle	Percentage of reduction
	Buffaloes	Cows			
1975-76 . . .	3,128	6,462	9,590
1976-77 . . .	2,210	6,645	8,855	735	7.66
1977-78 . . .	1,937	6,738	8,675	180	2.03
1978-79 . . .	1,889	6,578	8,467	208	2.39

The reduction in the number of milch cattle was in pursuance of the policy of gradual elimination of buffalo stock. A team constituted by the Army HQ observed (December 1978) that maintenance of buffaloes at the Military farms was uneconomical and accordingly recommended that they be disposed of.

The production of raw milk in the farms during 1975-76 to 1978-79 was 22,983 kilolitres (kls.) (1975-76), 23,159 kls. (1976-77), 22,869 kls. (1977-78) and 20,728 kls. (1978-79). Despite reduction of 735 (7.66 per cent) milch cattle during 1976-77, production of milk increased in that year by 176 kls. (0.76 per cent). The decrease in production of milk during 1977-78 was attributed to reduction in the number of milch cattle and during 1978-79 it was partly due to lower overall average milk yield of 7.07 kgs. as compared to 7.60 kgs. during 1977-78. The Ministry of Defence stated (October 1980) that reduction in milk production in 1978-79 was mainly due to labour trouble in one Command, reorganisation of buffalo herd and decline in the fertility and increase in the percentage of dry animals.

As against the above production the quantity of milk purchased from trade was 21,756 kls. (1975-76), 22,389 kls. (1976-77), 23,602 kls. (1977-78) and 23,471 kls. (1978-79).

2.2 An analysis of percentage of satisfaction of the demand for fresh milk to troops/hospitals during 1977-78 and 1978-79 is given below :

Supplied by	Percentage of milk demand satisfied	
	1977-78	1978-79
A. Cattle holding farms:		
(i) Home production	42.20	40.61
(ii) Local purchase	8.10	8.39
B. Non-cattle holding farms Local purchase	49.70	51.00
TOTAL	100.00	100.00

The cattle holding Military farms are, thus meeting only about two fifths of the total milk demand.

2.3 *Working results.*—The working results of the Military farms during the years 1975-76 to 1978-79 are given below :

	1975-76	1976-77 (Rs. in lakhs)	1977-78	1978-79
Government capital at the close of the year	990.97	1006.73	1025.12	991.60
Fixed assets	664.83	714.05	769.94	784.81
Net profit inclusive of interest earned on Government banking account	126.64	144.43	150.43	165.74
Interest earned (included in net profit)	69.83	81.80	93.80	109.53
Net profit excluding interest	56.81	62.63	56.63	56.21

The above table would show that bulk of the net profit shown by the Military farms is on account of interest receipts. Further, the increase in the net profit inclusive of interest (Rs. 39.10 lakhs) over these 4 years was due to increase in interest receipts, being Rs. 39.70 lakhs.

2.4 The break-up of the profit of Military farms activity-wise, as given below, would indicate that a major portion of the net profit for 3 years (from 1976-77 to 1978-79) was being obtained from farm depots which were purchasing and supplying milk :

Activity	1976-77	1977-78	1978-79	Total
	(Rs. in lakhs)			
<i>Dairy</i>				
Cattle holding farms	43.00	38.05	70.71	151.76
Non-cattle holding farms	84.19	94.54	64.57	243.30
	127.19	132.59	135.28	395.06
Cultivation	(—)0.72	2.16	(—)0.25	1.19
Fodder	17.96	13.98	30.50	62.44
Poultry		1.70	0.21	1.91
TOTAL	144.43	150.43	165.74	460.60

3. *Pricing of milk.*—Under the present system of fixation of rates for dairy products supplied free to troops/Military hospitals, separate sale rates are fixed for each station for a period of 6 months on the recommendations of a Board of Officers appointed by the Station Commander. These rates are fixed on the basis of local market rates of similar quality of milk likely to prevail during the next 6 months plus a surcharge of 22 paise per litre on account of pasteurisation and delivery charges. In case of a rising trend in the prevailing market prices, higher sale rates up to a maximum of 20 per cent over the market rate of the corresponding season of the preceding year could be fixed. The rates for paying consumers were to be less by 5 paise and 10 paise per litre for officers and other ranks respectively.

The free issue rates of milk fixed under the existing pricing policy are higher compared to the cost of production and average purchase rates (as is evident from the table below). As per the report of the Study Group (1974), the sale rates were fixed higher because of "escalation" of local market/civil milk scheme rates due to better quality and specification of farm produced milk supplied by the Military farms and then increasing these further by 22 paise per litre to cover pasteurisation and delivery charges.

Year	Quantity of milk issued to troops (in lakhs of litres)	Average cost of production*		
		(Rs. per litre)		
1975-76	485.20	1.84 to	2.09	2.37
1976-77	486.63	1.84 to	2.10	2.38
1977-78	512.18	1.87 to	2.09	2.41
1978-79	493.81	1.93 to	2.13	2.48

*of cows, standard, blended and homogenised milk.

The profit of the Military farms, thus, arises mainly has a result of the inflated rates charged for milk supplied free to the troops.

4. *Subsidy on issue of milk to paying consumers.*—The overall subsidy to cover the difference between cost of production and sale realisations in respect of paying consumers, which was adjusted as credit in the trading account of dairy section, aggregated Rs. 26.79 lakhs over the period from 1975-76 to 1978-79 as shown in the following table :

Year	Quantity of payment issues of milk (in kilolitres)	Amount of subsidy adjusted as credit in the Trading Account (Rs. in lakhs)
1975-76	4,048	8.51
1976-77	3,388	6.29
1977-78	3,189	6.63
1978-79	2,960	5.36

The main reason for subsidy was fixation of low payment issue rate of buffalo milk in some of the areas.

5. *Loss on account of pasteurisation and delivery charges.*—In January 1975, orders were issued by the Army HQ for levying of a surcharge of 22 paise per litre of milk (from 1st April 1974) to cover the pasteurisation and delivery charges. The table given below shows that the actual pasteurisation and delivery charges of milk during 1975-76 to 1978-79 were higher than the surcharge rate fixed, thus, resulting in a total loss of Rs. 210.17 lakhs during these years.

Year	Total milk sold (in kiloliters)	Average (actual) pasteurisation and delivery charges (paise per litre)	Loss suffered (Rs. in Lakhs)
1975-76	52,568	31.81	51.57
1976-77	52,413	32.74	56.29
1977-78	54,708	30.60	47.05
1978-79	52,427	32.54	55.26

While a decision was taken (November 1979) to levy actual pasteurisation and delivery charges, orders implementing this decision were yet (October 1980) to be issued.

6. *Losses on account of issues of butter.*—Butter is not an item of ration to troops but finds place in the scale of hospital diet. In addition, butter is sold to paying customers. The trading in butter for the period 1975-76

to 1978-79 indicated a total loss of Rs. 32.40 lakhs as indicated in the table below :

Year	Quantity of butter (in kgs.)			Loss on			
	Produced	Free issues	Payment issues	Production rate (Rs. per kg.)	Sale rate (Rs. per kg.)	Free issues (Rs. in lakhs)	Payment issues
1975-76	283,087	108,190	123,032	23.29	18.67	4.57	6.53
1976-77	323,684	156,809	118,767	22.33	19.37	2.68	5.32
1977-78	249,869	124,312	97,212	22.84	18.47	3.30	4.00
1978-79	270,434	153,246	87,236	23.53	21.03	3.42	2.58
						13.97	18.43

Loss in trading in butter was mainly due to the sale rates being fixed lower than the cost of production with a view to maintaining sale rates in line with the market rates and attracting customers. In order to reduce losses, the Army HQ issued instructions in January 1977 to restrict payment issues of butter.

An examination by Audit of the free and payment issues of butter during 1977-78 in Command 'A', however, revealed that while the overall percentage of payment issues to total production of butter was brought down from 50 to 30 per cent, payment issues in 4 Military farms ranged from 60 to 90 per cent resulting in continued losses.

According to the Ministry (October 1980), butter is a byproduct in the trading of standard milk and the instructions issued in January 1977 were intended to restrict the sale of butter at places where it was not a by-product as a result of sale of standard milk.

7. *Concentrate scheme to increase milk yield.*—With a view to increasing the milk yield of animals in Military farms, a scheme for issue of concentrate ration on enhanced scale was approved (December 1975) by the DMF on a trial basis for 6 months commencing from 1st January 1976. The scheme was extended from time to time. Considering the increase in milk production *vis-a-vi* cost of extra ration, the DMF found (September 1977) the scheme to be beneficial and accordingly decided to adopt the increased scales of ration for different categories of animals initially for a period of 2 years with effect

from 1st October 1977. A Command-wise analysis of the average milk yield per animal in Military farms is given below :

Command	Milk yield in litres per animal					
	1975-76		1977-78		1978-79	
	Buffaloes	Cows	Buffaloes	Cows	Buffaloes	Cows
'A'	4.2	7.1	4.8	8.3	4.3	6.9
'B'	4.7	7.8	4.3	7.3	3.8	6.6
'C'	4.9	8.4	5.1	9.5	3.7	7.0
'D'	4.0	..	3.9	..	3.6	9.0
'E'	9.4	..	8.5
All India average	4.6	7.8	4.7	8.5	3.9	6.9

It would be seen from the above that generally there had been a decrease in the average yield of milk per animal.

A review of the working of the scheme in 4 Military farms in Command 'B' revealed that during October 1977—March 1979, although 7.75 lakh kgs. of extra concentrate ration was fed to cows and buffaloes; instead of an increase in milk production of 12.67 lakh litres as expected, there was shortfall of 10.83 lakh litres involving a loss of Rs. 24.77 lakhs.

According to the Ministry, the loss of Rs. 24.77 lakhs was due to non-materialisation of expected increase in milk yield in 4 Military farms, as the performance of cattle depended on their genetic inheritance, agro-climate conditions, fertility state of the herd, general management and outbreak of diseases.

While reviewing the scheme in April 1978, the DMF himself observed that the farms which had not shown improvement in milk production after the introduction of new feeding scales, were lacking in cattle management and that the animals were not getting their authorised ration in such farms. In his opinion, the possibility of malpractices in these farms could not be ruled out.

8. *Cost of production of milk in Military farms vis-a-vis cost of procurement from trade.*—A comparison of the local purchase rate of milk per litre for the year 1977-78 with the cost of production of milk in Military farms at 14 stations showed that Military farms produced milk at rates ranging from Rs. 2.42 to Rs. 4.70 per litre (buffalo) and Rs. 1.69 to Rs. 2.25 per litre (cow) against the corresponding local purchase rates ranging from Rs. 1.70 to Rs. 2.61 per litre (buffalo) and Rs. 1.55 to Rs. 1.60 per litre (cow).

As a result of the study, the Study Group recommended (December 1978) closure of 12 Military cattle holding farms in 3 Commands and their conversion into Military farm milk depots. None of the 12 Military farms had been so converted (October 1980). The recommendations of the study group were stated (October 1980) to be under consideration of the Ministry of Defence.

9. *Fodder cultivation in Military farms.*—An analysis of the cost of production of green fodder for 1977-78 and 1978-79 in different Commands is given below :

Command	Average cost of production of green fodder per 100 kgs.	
	1977-78	1978-79
	Rs.	Rs.
'A'	5.87	7.93
'B'	4.90	6.63
'C'	7.80	8.15
'D'	5.34	6.65
'E'	1.99	5.00

The following points emerge from the above :

- During 1977-78 the average cost of production of fodder varied from Rs. 1.99 to Rs. 7.80 (per 100 kgs.) from Command to Command.
- The cost of production of fodder in Commands 'A', 'C' and 'D' was very high.
- The cost of production of fodder during 1978-79 was higher.

The Ministry of Defence stated (February 1981) that the cost of production of fodder between farms and also between Commands was bound to vary and was a common feature in farming.

10. Other points of interest

10.1. *Cultivation in a Military farm.*—A review in audit of the statistics of crop yields during 1975-76 to 1978-79 in a Military farm 'X' having 230 acres of fertile land with irrigation facilities provided by 12 tube-wells revealed that compared to the production in 1975-76 the crop yield had gone down during 1977-78 and 1978-79 as indicated below :

Year	Average yield per hectare (in kgs.)					
	Mustard	Wheat	Barley	Peas	Sugar-cane	Paddy
1975-76	1,261	3,505	1,077	1,275	11,683	3,730
1976-77	No crop	3,289	1,009	1,560	50,615	4,470
1977-78	652	2,185	377	431	21,063	3,657
1978-79	257	2,040	No crop	138	16,975	3,487

The Ministry stated (October 1980) that the main reasons for deterioration in crop yields during 1977-78 and 1978-79 were unsatisfactory electric supply to tube-wells and delay in disposal of sugarcane crop for 1977-78. The Ministry added that measures were being taken to bring changes in the cropping pattern of the concerned Military farm by introducing new crops, which required less irrigation or could be cultivated as barani crops.

10.2 *Lift irrigation scheme in a Military farm.*—Sanction was accorded by the Ministry of Defence in December 1972 for provision of lift irrigation in a Military farm 'Y' at an estimated cost of Rs. 2.23 lakhs (revised to Rs. 3.09 lakhs in June 1974). Tender for the work required was accepted by the Military farm authorities in November 1973 and the work was awarded to a contractor for completion in 4 months. The solvency certificate furnished by the contractor indicated that he was an electrical and hardware agent and supplier.

Five extensions of time up to January 1975 were granted to the contractor and in March 1975, he intimated his intention to terminate the contract. Although there were a number of defects and works were incomplete, the scheme was formally inaugurated in December 1975. A Technical Board, which examined the incomplete works in January 1976, pointed out the absence of any record regarding the quality of material utilised. An over payment of Rs. 0.23 lakh made to the contractor, which was established by a departmental board in April 1975, was still (October 1980) to be recovered from him.

The Military farm authorities stated (February 1980) that the scheme was working at 50 per cent efficiency. Though the project envisaged additional irrigation of 51 hectares of land, the irrigated cultivation increased by only 6 hectares since October 1976.

The Ministry stated (October 1980) that a staff Court of Inquiry would be held shortly to fix responsibility for the lapses, if any. The Ministry added that a Board of Officers was also being held to find out ways and means to improve the efficiency of the lift irrigation.

11. *Summing up.*—The following are the main points that emerge from the review :

- Decrease in raw milk production during 1978-79 was in part due to lower average milk yield compared to the previous year.
- The cattle holding Military farms were meeting only about two-fifths of the total demand of milk.
- Bulk of the net profit shown by the Military farms was on account of interest earned on Government banking Account. Moreover, the net profit shown by the Military farms mostly accrued from farm depots (which were supplying purchased milk).
- The free issue rates of milk fixed under the existing pricing policy are much higher than the cost of production and average purchase rates. The profit, thus, earned by the Military farms was due to the inflated rates charged for milk supplied to troops.

- The overall subsidy to cover the difference between cost of production and sale realisations in respect of paying consumers aggregated Rs. 26.79 lakhs during 1975-76 to 1978-79.
- Actual pasteurisation and delivery charges during 1975-76 to 1978-79 ranged from 30.60 to 32.74 paise per litre as against the rate of 22 paise being levied from 1st April 1974, thereby resulting in losses aggregating Rs. 210.17 lakhs during the 4 years.
- The loss in trading in butter (free and payment issues) aggregated Rs. 32.40 lakhs during 1975-76 to 1978-79 due to the sale rates being fixed lower than the cost of production.
- There was a shortfall in milk production of 10.83 lakh litres (involving a loss of Rs. 24.77 lakhs) instead of an increase of 12.67 lakh litres as anticipated as a result of introduction of concentrate rations in 4 Military farms in one command during October 1977—March 1979.
- The cost of production of milk was higher in Military farms as compared to the local purchase rate of milk. A study team had accordingly recommended (December 1978) closure of 12 cattle holding farms in 3 Commands and their conversion into milk depots.
- In Military farm 'X' with a large area of fertile land and irrigation facilities, there was unsatisfactory yield of crops during 1977-78 and 1978-79.

[Paragraph 36 of the Report of C&AG of India for the year 1978—80
Union Government (Defence Services)]

APPENDIX II

STATEMENT OF CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Department Concerned	Conclusion/Recommendation
1	2	3	4
1	3.59	Ministry of Defence	<p>The Military Farms are a legacy of the British period. They were set up to meet the requirements of milk products for the British troops and their families. The first farm was established in 1889 at Allahabad. As of today, there are 82 such farms of which 26 are cattle holding farms, 5 Young stock farms, 41 non-cattle holding farms/depots, 7 hay/baling farms and 3 <i>ad-hoc</i> farms/depots. The Military farms Organisation is the only departmentally managed government organisation in the field of animal husbandry and dairy farming responsible both for production and processing of milk for supply to the troops, their families and to the military hospitals. They also supply dry fodder to the army animals.</p>
2	3.60	Do.	<p>The Committee find that the cattle holding farms with a total number of 8467 heads of cattle (1889 buffaloes and 6578 cows) were able to meet only 2/5th of the total demand in 1978-79. It is noteworthy that due to change in location of the troops as a result of the 1947, 1962, 1965 and 1971 operations, there has been a sea-change in the location of troops rendering the cattle holding farms quite irrelevant to the present day requirements. As much as 95% of milk requirement in the Northern and Eastern Commands is now being met through purchase from other agencies. For the Military farms in the country, the demand met through local purchase was of the order of 57.8% in 1977-78 and 59.4% in 1978-79.</p>

1	2	3	4
3	3.61	Ministry of Defence	<p>Since Independence, the country has made rapid strides in the field of animal husbandry and dairy development particularly under Operation Flood I and now Operation Flood II. The Military farms have no doubt made a significant and pioneering contribution in the matter of introduction of modern cattle management techniques which has also been acknowledged by the National Commission on Agriculture.</p>
4	3.62	Do.	<p>The Committee have been given to understand that no new farms have been established since 1947. Non-availability of land is stated to be a serious handicap in the expansion programme. The Study Group appointed by the Ministry of Defence to suggest ways and means for streamlining the Military farms set up, in their Report submitted in December, 1978 recommended closure of 12 cattle holding farms in the Southern, Western and Central Commands as sufficient milk was available locally. Government have not so far taken a final decision in the matter although they are inclined to accept closure of the cattle sections at Kirkee and Kanpur.</p>
5	3.63	Do.	<p>The Committee further observe that against a total capacity of 14,000 heads of cattle available in all the military farms, the actual number of cattle presently held is 7592. Thus the capacity utilisation is 52.8% only. It was stated in evidence that the capacity could be stepped up by 20—25% but it had to be deliberately restricted to the level of actual requirements as there was no outlet for the surplus milk. The Committee cannot therefore escape the conclusion that it is futile to expect economies of scale in the present situation. The Secretary, Ministry of Defence admitted in evidence that a vertically integrated set up like the present one could be hardly cost effective.</p>
6	3.64	Do.	<p>In view of the foregoing and taking particular note of the developments that have taken place in the milk sector during the last 20 years or so, the Committee are of the view that there is need for a rethinking with regard to the whole concept of military farms. The Committee</p>

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			would therefore like the Ministry of Defence to examine seriously the possibility of handing over the military farms organisation to the cooperatives of ex-servicemen which may be set up on the pattern of Anand Dairy.
7	3.65	Ministry of Defence	A large number of service personnel are drawn from the rural areas. Given their farming background and their experience of disciplined team work in the army, there is every reason to believe that this is an area where their services can be gainfully employed after their release from active service. The Committee therefore recommend that necessary details should be worked out without loss of time for implementing the above suggestion on a phased basis. The expert guidance and assistance of the Indian Dairy Corporation may be obtained in organising the cooperatives and in making suitable arrangements for supply of milk products to the troops. In areas where supply of milk is the responsibility of the Army Service Corps (ASC), the existing arrangements may continue.
8	3.66	Do.	The Committee observe that the net profit earned by the Military farms during 1977-78, 1978-79 and 1979-80 was of the order of Rs. 183.59 lakhs, Rs. 202.12 lakhs and Rs. 196.86 lakhs respectively. Of this, the interest earned on Government Banking Account was of the order of Rs. 93.80 lakhs, Rs 109.53 lakhs and Rs. 128.62 lakhs respectively.
9	3.67	Do.	It is further observed from the balance sheets of the Military farms that bulk of the net profit during the years 1977-78 to 1979-80 is accounted for by the military farms/depots which are responsible only for purchasing and supplying milk. Thus, out of total profits of the Dairy Section amounting to Rs. 132.59 lakhs in 1977-78, Rs. 135.28 lakhs in 1978-79 and Rs. 132.05* lakhs in 1979-80, the non-cattle holding farms accounted for a profit of Rs. 94.54 lakhs, Rs. 64.57 lakhs and Rs. 102.85* lakhs respectively.

*Not vetted in Audit.

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10	3.68	Ministry of Defence	<p>The Committee find from the Appropriation Accounts, 1979-80 that there was a loss of Rs. 2.69 lakhs during 1978-79 and Rs. 1.95 lakhs in 1979-80 on account of difference between actual cost of production/processing of milk on the one hand and the price charged to the payment consumers on the other. The subsidy adjusted as credit in the trading account in regard to milk issued to payment consumers, amounted to Rs. 6.62 lakhs in 1977-78, Rs. 5.36 lakhs in 1978-79 and Rs. 4.02 lakhs in 1979-80. The amount is far in excess of the concession of 10 paise and 5 paise per litre admissible to JCOs, ORs and officers respectively the reason being fixation of low payment issue rates for buff milk.</p>
11	3.69	Do	<p>The Committee further find that the procedure for fixation of free issue and sale rates of milk and milk products was laid down in December, 1965. According to this, the sale rates are fixed on the basis of local milk scheme rates of the equivalent quality of milk. At stations where milk schemes do not function, the basis is the local market rate. The Study Group appointed by the Ministry in 1974 had pointed out that the sale rates were fixed higher than the local market rates due to better quality and specification of farm produced milk supplied by the military farms and then increasing them further by 22 paise per litre to cover pasteurisation and delivery charges.</p>
12	3.70	Do.	<p>According to Audit, the profit of the Military farms is mainly attributable to the inflated rates charged for milk supplied free to the troops. The Expert Accounting Committee for Military farms in its report (November, 1962) had also observed that the rates for free issue to troops arbitrarily fixed on the high side without close relation to market rates could inflate the profits and were therefore hardly the correct criteria for assessment of the efficiency of the Military farms. The Expert Accounting Committee, therefore, recommended abolition of the system of fixing sale rates of dairy produce for free issue.</p>

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13	3.71	Ministry of Defence	<p>The Study Group on streamlining the Military farms set up (December 1978) reiterated the earlier findings. It observed <i>inter alia</i> :</p> <p>“The fixation of sale rates has no relation to the actual cost of production as the same is done with a view to showing profits in the farms as also to cover the losses of other sections. . . the profits are accumulated by taking credit in the accounts. . . . interest on Government Account ‘C’ as also by fixation of free issue rates on unrealistic basis.”</p>
14	3.72	Do	<p>The Ministry have informed the Committee that the question whether profit should be charged at all, particularly in respect of free issue to troops, is a matter of policy. However, it is admitted that in the present procedure of fixation of sale rate, “there is a subjective element. . . which could be eliminated by rationalisation. . . for example, by laying down a definite percentage over the cost of production/ cost of procurement including pasteurisation charges. This will however have to be limited to the free issue rates. Fixation of principle of fixed percentage of profit over cost for payment issue rates will obviously lead to malpractices particularly where the rates in the market are higher than the rates at which milk is sold by Military farms.”</p>
15	3.73	Do.	<p>The Committee have been further given to understand that the system of pricing has since been reviewed and a revised procedure laid down where by the standard rate of blended milk which used to be worked out at 7/10% of the buffalo milk, will now be worked out on the cost of such milk and actual quantity of skimmed milk powder used for preparation of blended milk. It has also been decided that where there is an abnormal increase in the market rate, the rates over and above the limit of 20 per cent of the market rate during corresponding period of the previous year, will be fixed to protect the interest of the State and Revision Boards will be held, if necessary. It has been further decided that the actual pasteurisation and delivery charges would be recovered from the consumers.</p>

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16	3.74	Ministry of Defence	It is unfortunate that as a quasi-commercial organisation, the Military farms should have failed to recover the actual cost of production of milk from payment consumers thereby incurring losses. It has taken as many as seven years to take a decision in the matter. The Committee expect that such losses will be avoided in future.
17	3.75	Do.	The Committee further observe that losses on trading of butter amounted to Rs. 6.01 lakhs in 1978-79 and Rs. 6.85 lakhs in 1979-80. These are attributed to the higher cost of production of butter which in turn is on account of erroneously fixing the cost of skimmed milk at a level lower than the purchase cost—the difference being about 11 paise per litre. Instructions are now stated to have been issued to fix the rate of separated milk realistically and on the basis of market rate.
18	3.76	Do	It is further observed that the Military farms incurred a loss of Rs. 1.38 lakhs in 1978-79 and Rs. 1.43 lakhs in 1979-80 on trading of ghee.
19	3.77	Do	The Committee desire that the sale rates of cream, butter and ghee should be fixed taking into consideration the sale rates of the local milk schemes or the rates charged by standard firms in places where such milk schemes do not exist and that there should be no question of any loss on this account in future.
20	3.78	Do	From the foregoing, the Committee are led to the conclusion that the financial results of working of the Military farms do not really represent a true picture. The profits shown in the accounts are based on artificially inflated rates of free issues of milk to troops and hospitals which account for 95 per cent of the total issues. These also include large amounts of interest earned by the Military farms on Government Banking Account though the amount paid as interest on capital provided by Government, is also taken into account. Further, bulk of the profits are earned by the farm depots which only purchase milk from outside agencies for supply to troops and their families.

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21	3.79	Ministry of Defence	<p>Considering further that the Military farms do not have to pay any land revenue or agricultural tax on capitalised land, that they have an assured and captive market and that they have easy access to Government resources for their capital/requirements, the profits earned by the Military farms are more apparent than real. The question as to how the Military farms can be made more profitable and how the accounting system should be re-structured so as to give a realistic picture of their functioning, is linked with the question of the very continuance of these farms as a departmental organisation in regard to which the Committee have expressed their views in the earlier paragraphs. The Committee desire that the whole set up of Military farms should be reviewed in all its aspects by Government at a high level in the light of the recommendations made by the Committee and an early decision taken in the matter. The Committee would like to be kept apprised of the same.</p>
22	3.80	Do	<p>The Committee observe that a lift irrigation scheme was commissioned in Military Farm, Manjari during December, 1975. During the trial run, the plant which was installed by a contractor was found to contain several defects and the works were incomplete. Even though the Technical Board of Officers had given its findings in May 1977 it took more than three years for the Ministry to issue orders for holding a Court of Enquiry in the matter so as to fix responsibility on the defaulting officials. It is unfortunate that the case is still under examination and disciplinary action has yet to be taken. The Committee deprecate the inordinate delay in finalising the case and desire that conclusive action in the matter should now be taken without further loss of time.</p>
23	3.81	Do	<p>The Committee understand that a Gobar Gas Plant was installed and tried at Military Farm, Meerut during 1961 but it did not work satisfactorily. Since the technology for energy utilisation in this field has now advanced significantly and a large number of gobar gas plants</p>

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			are functioning satisfactorily elsewhere, the Committee recommend that the Ministry of Defence should take up the matter with the Department of Science and Technology so that Gobar Gas Plants can be set up in the Military farms under a time bound programme for catering to the energy requirements of these farms to the extent possible.
24	3.82	Ministry of Defence	The Audit paragraph contains a number of other observations with regard to various activities undertaken by the Military farms such as fodder cultivation, deterioration in crop yields in the Military Farm at Purkazi, concentrate scheme to increase milk yield etc. The Committee expect that appropriate action would be taken to rectify the shortcomings pointed out by Audit. The Committee desire that a close watch may be kept on the performance of the various farms particularly those which have been showing losses so as to improve their functioning and financial viability.

