

**COMMITTEE ON PUBLIC
UNDERTAKINGS**

(1967-68)

SIXTEENTH REPORT

(FOURTH LOK SABHA)

**Action taken by Government on the recommendations
contained in the Thirty-Ninth Report of the Committee
on Public Undertakings (Third Lok Sabha)**

BHARAT HEAVY ELECTRICALS LTD., NEW DELHI

**MINISTRY OF INDUSTRIAL DEVELOPMENT AND
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(1967 - 68)

(Date of presentation to Lok Sabha - 25.4.68)

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1967-68)

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Shri M. M. Mathur—*Under Secretary*

*Cesed to be a Member of the Committee consequent on his retirement from Rajya Sabha on 2-4-68.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Sixteenth Report on the Action Taken by Government on the recommendations contained in the 39th Report of the Committee on Public Undertakings (Third Lok Sabha) on Bharat Heavy Electricals Ltd., New Delhi.

2. The 39th Report of the Committee was presented to the Speaker, Lok Sabha on the 3rd March, 1967 and laid on the Table of the Lok Sabha on the 29th March, 1967. The replies of Government to the recommendations contained in the Report were received on the 8th and 29th September, 1967.

3. The Committee considered the replies on the 17th April, 1968 and approved the draft Report the same day.

4. The Report has been divided into the following four Chapters:—

I. Report.

II. Recommendations that have been accepted by Government.

III. Recommendations which the Committee do not desire to pursue in view of Government's reply.

IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.

5. An analysis of the action taken by Government on the recommendations contained in the 39th Report of the Committee on Public Undertakings (Third Lok Sabha) is given in Appendix VIII. It would be observed therefrom that out of 28 recommendations contained in the Report, 67·71 per cent have been accepted by Government and the Committee do not desire to pursue 32·14 per cent of the recommendations in view of Government's reply. Replies of Government in respect of 7·15 per cent of the recommendations have not been accepted by the Committee.

D. N. TIWARY,

Chairman,

Committee on Public Undertakings.

NEW DELHI;
April 25, 1968

Vaisakha. 5, 1890 (S)

CHAPTER I

REPORT

A. Switchgear Unit

Recommendation Serial No. 19 (paragraph 77)

In para 77 of their Thirty-ninth Report on Bharat Heavy Electricals Ltd., the Committee felt that both the Undertaking and the Government had taken an inordinately long time in preparation and sanctioning of the estimates. The Committee had stressed that project estimates should be finalised fairly early in the execution of the projects and after thorough examination, Government should accord sanction without any delay. The construction of the Hardwar Project started in 1963 and the project had also gone into partial production. It was surprising that the project estimates had not been finalised and sanctioned. The explanations for the delay were not very convincing.

2. In reply, the Government stated that approval of the estimates would be given shortly. The Committee, thereafter enquired from the Government whether the estimates had been sanctioned and if so, the date thereof might be intimated alongwith reasons for delay in issue of sanction. In their further reply, the Government has simply stated that the estimates have not yet been sanctioned.

3. The Committee cannot help but express their disapproval at such delays. It is now two years since the Project went into partial Production but the Government sanction of the project estimates has not been accorded so far. No reasons have been stated for this inordinate delay in sanctioning the estimates. The Committee, suggest that the Government should enquire into the causes for not sanctioning the estimates so far and take suitable action against the defaulting officers.

B. Board of Directors.

Recommendation Serial No. 22 (paras 89-90)

4. In paragraphs 89 and 90 of their Report, the Committee felt that it would not be right for the Sub-Committee consisting only of the Chairman and two official Members to take decisions on such important matters like the Budget Estimates and Project Estimates without bringing such matters to the notice of the full Board, which comprised of six Members. There should be no difficulty for the full Board to meet and consider such important matters. The Committee also suggested that in case it was necessary to have a standing sub-Committee, its powers and functions should be specified in writing.

5. The Government have stated that the standing sub-Committee of the Board, has no statutory authority either to consider or to take decisions on matters which are not referred to it by the full Board. As such, it is not considered necessary to lay down in writing the powers and functions of the standing sub-Committee. The Committee's observations about decisions by the sub-Committee on important matters have only been noted for guidance. In reply to a specific enquiry it has been stated that sub-Committee has not been dissolved.

6. The Committee regret to note that the Government have not given any satisfactory reasons for not taking action as suggested by the Committee. The Committee re-literate their earlier recommendation that important matters should be considered by the Board, as a whole which comprises of six Members only, and if it is necessary to have a standing sub-Committee, its powers and functions should be specified, in writing.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

The report of the Technical Committee for site selection reveals that the primary consideration for choosing the present sites of the projects was technical. The economic aspects of location do not seem to have been given due consideration (Paragraph 14).

REPLY OF GOVERNMENT

The observations of the Committee are noted. Economic aspects of each site were not gone into in detail in view of the considerations set out in para 8 of the Report, reproduced below.

"It seems implicit in the Government's policy of dispersal of industries that some sacrifice in the economy of transport will be countenanced. It is necessary that easy accessibility to the location of the plants should be ensured. The main raw materials which require long distance transport are steel (all types) and coal. The other materials are such that they have to be either imported from abroad or are available in almost all regions and their total tonnage is also comparatively small. With the equilisation of steel prices at all important rail heads, the Government have in a way placed all important centres on a par. In regard to the finished products also which is predominantly steam generating units, it should be possible with a little careful planning for each of the three units, to cater to the regional demands without involving very much of cross-country movement."

[Ministry of Industrial Development & Company Affairs O. M. No. 24-1/67 HECH, dated 29th September, 1967.]

Recommendation (Serial No. 3)

The reasons given in justification of locating the Head Office of the B.H.E.L. in Delhi, are familiar ones. The Committee feel that this tendency to concentrate Head Offices in Delhi should be curbed. While they agree that liaison work with the D.G.T.D. etc. is important during the

construction phase, this matter would lose its importance once the projects have gone into production. The argument that the interference in the day-to-day administration of a project by the Head Office will be more if the Head Office is located near a Project, does not also appear very convincing. The Committee suggest that as soon as the construction of the projects are over, the desirability of shifting the Headquarters Office to another place e.g., Hyderabad which apart from being central, will be nearer to two projects, might be examined. (Paragraph 18).

REPLY OF GOVERNMENT

The Committee's observations to examine the desirability of shifting the Headquarters, after the construction of Projects is over, are noted. Construction works are still in progress and a new project, the Central Foundry Forge Project, is being taken up at Hardwar. The position will be reviewed in due course.

[Ministry of Industrial Development & Company Affairs O.M. No. 24-1/67-HECHE, dated the 29th September, 1967.]

Recommendation (Serial No. 4)

The Committee consider that the estimated cost investment and likely return on such investment are some of the basic considerations in the matter of setting up any industrial project. It is surprising that these aspects were not taken into consideration before taking a decision for setting up the projects of the B.H.E.L. The argument of the Secretary of the Ministry that costs and profitability were of a secondary importance at that stage is not a sound one. Considerations of self-reliance are undoubtedly important, but the economic aspect of any scheme is equally important. The Committee hope that Government will insist on having these important and basic data worked out before sanctioning a project. (Paragraph No. 24).

REPLY OF GOVERNMENT

The need for adequate investigations covering relevant economic aspects, before a project was put forward for selection was emphasised *vide* Ministry of Finance O.M. No. 3878/JS(AM) dated the 7th October, 1965. (*Vide* Appendix I). With a view to ensuring a thorough study of all factors relevant to project selection, the Planning Commission issued a Manual, in May 1966, for the preparation of feasibility studies for industrial projects in the public sector. It has been impressed upon the Ministries and the project authorities concerned that proper feasibility studies should be prepared as indicated in the Manual. The procedures for according approval to the projects have also been rationalised.

[Ministry of Finance (Bureau of Public Enterprises) O.M. No. 2445/FI/67, dated the 8th September, 1967.]

Recommendation (Serial No. 5)

The delay of 15 months between the receipt of the Preliminary Project Report and the commissioning of the Detailed Project Report in the case of Hardwar Project was unduly long and the explanation given for the delay is not convincing. It was apparently not a matter which required such a deep thought and investigation before deciding as to what should be done. Such long delays upset planning considerably, and lead to avoidable consequential difficulties. This is especially so in this case where two or three projects are linked together. (Paragraph 27.)

REPLY OF GOVERNMENT

The Committee's observation has been noted.

[Ministry of Industrial Development & Company Affairs O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 6)

The Committee cannot but conclude that there was no proper co-ordination between the CWPC, the Planning Commission and the Ministry concerned in regard to the unit sizes of the turbogenerator sets to be produced at the Hyderabad Project. It is surprising that a decision to manufacture 25 MW units was taken and plans in this regard progressed with foreign consultants without having the whole question thoroughly examined. A Committee was appointed only in early 1962 i.e. 15 months after it was decided to manufacture 25 MW units and when the D.P.R. was about to be ready. This committee reported in July, 1962 and though it was headed by the senior most official of the C.W.P.C., its recommendations were not the same as the decisions arrived at by the Planning Commission, who had decided upon 100 MW size units. It is obvious that there was no crystallised thinking on this subject. The Committee regret the manner in which the project was conceived and proceeded with without basic data or exact knowledge of the future requirements. (Paragraph 35.)

REPLY OF GOVERNMENT

The Committee's observation has been noted.

[Ministry of Industrial Development & Company Affairs O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 12)

It is noticed that as at present, considerable quantities of raw-materials will have to be imported for the manufacture of electrical equipment by

the projects of the B.H.E.L. While this is partly inevitable till the Alloy Steel Projects go into production, the Committee feel that firm arrangements should be made with the Hindustan Steel Ltd., or other private steel manufacturers in the country for the supply of steel and alloy steel requirements of the B.H.E.L. The Committee would have expected the B.H.E.L., along with the Heavy Electricals (India) Ltd., Bhopal to make an all out effort to obtain their requirements indigenously to the maximum extent possible, including the encouragement of setting up of new ancillary industries or the starting of new items of production by existing factories. There is not much evidence that this has been done. The Committee hope that intensive efforts will be made in this direction. (Paragraph 55.)

REPLY OF GOVERNMENT

Noted.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 13)

The Committee would urge that intensive efforts and research should be made for using substitute materials, easily available in India, for materials which are imported, so that dependence on imports may cease. One such item is copper which is being replaced by aluminium to a great extent in the electrical industry. Another field which may be fruitfully investigated is insulation material for which good possibilities of indigenous substitution appears to exist. The Committee hope that the company as well as the DGTD will give this matter their earnest attention. (Paragraph 56).

REPLY OF GOVERNMENT

The observations of the Committee are noted and necessary instructions have been issued.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 14)

The Committee feel that in the matter of detailed drawings and the body compositions of the spare parts and components of the plant and equipment due attention should be given by the management. Drawings and body specifications of imported spares and components are most important requirements if dependence on foreign suppliers is to be eliminated. The BHEL should make earnest efforts to obtain these from the consultants and suppliers and if efforts fail, the drawings should be made by

the Research and Development section and advance arrangements made for obtaining the special alloys or metals with which the components are made. (Paragraph 63).

REPLY OF GOVERNMENT

At the time of purchase of machinery, an essential quantity of spares required to cover initial breakages as well as routine maintenance for a limited period had been included in the original contracts. Normally a machinery manufacturer would not provide drawings or specifications for such spares and would prefer to sell them to the customer as required. To circumvent such contingencies, steps have been taken to prepare drawings from the spares received as also to find out the composition of materials used, so that further spares could be manufactured indigenously. For all future purchases of plant and equipments efforts would be made to obtain detailed drawings and body compositions for spare parts.

So far as components that are bought out and go into the production of BHEL equipment are concerned, drawings and specifications are obtained in all cases from the Collaborators so that their gradual manufacture could be taken up in the country.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 15)

The Committee recommend that every endeavour should be made to completely do away with imports of spares for electrical equipment already in use in the country. All users of such equipment might be told to procure or prepare the drawings and designs of the various parts and components required by them so that indigenous manufacture could be undertaken. The factories of the BHEL should do their utmost to manufacture such spares. Government should also encourage actual users to place their orders with the BHEL rather than allowing imports. (Paragraph No. 65).

REPLY OF GOVERNMENT

The observations of the Committee are noted and necessary instructions have been issued.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE; dated the 29th September, 1967].

Recommendation (Serial No. 17)

The Committee recommend that in case none of the private parties come forward to manufacture seamless tubes, Government might examine the possibility of setting up a public undertaking for manufacturing such tubes

if the Heavy Engineering Corporation Ltd., cannot undertake their manufacture. Every efforts should be made to avoid wastage of foreign exchange on the imports of this material which can be easily manufactured in the country. (Paragraph 71).

REPLY OF GOVERNMENT

The recommendation of the Committee is noted and action has been initiated already on the same lines.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 18)

The Committee find that the capital structure of the Company is not in accordance with the policy laid down by Government. (Paragraph 74).

REPLY OF GOVERNMENT

The Committee's observation has been noted. But it may be added that upto 31st March, 1967, shares amounting to Rs. 6369 lakhs, have been invested in the Company and loans amounting to Rs. 4136 lakhs have been given to the Company. During the year 1967-68, budget provision is Rs. 331 lakhs in the shape of equity capital and Rs. 2448 lakhs in the form of loans. It is expected that during the year 1967-68, the present authorised share capital of Rs. 65 crores would be fully subscribed.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 20)

The difficulty faced by the Tiruchy project in regard to its requirements of Working Capital must be faced by several other projects. If they are unable to obtain their requirements from Banks, the only course open to them is to temporarily utilise the funds made available by Government for capital works. This is improper, but in the circumstances, Government do not seem to have left the projects with an alternative. The Committee see no reason why the public sector projects should not be authorised to borrow their entire requirements from the Banks on the basis of a guarantee provided by Government. The Committee would urge a speedy decision on this matter. (Paragraph No. 81).

REPLY OF GOVERNMENT

Guidelines have been laid down for the Public Enterprises in the matter of financing their working capital requirements (*vide* Ministry of Finance O. M. No. 2(32)/65-FI, dated 16th March, 1967, (*vide* Appendix II).

[Ministry of Finance, (Bureau of Public Enterprises) O.M. No. 2445/FI/67, dated the 8th September, 1967.]

Recommendation (Serial No. 23)

The Committee are not very happy over indefinite employment of deputationists from Government Departments in the projects. Even in the initial phase of a project, the best persons who have knowledge of procedures in commercial organizations should be chosen. If a man has to be taken from a Government Department and if his work and conduct are found satisfactory, he should, as far as possible, be permanently absorbed in the organisation, subject to the conditions of service of the Company. This will enable the staff of the Company to develop a sense of belonging right from the start of their career. (Paragraph 94).

REPLY OF GOVERNMENT

In line with the Committee's observations, action has already been taken to absorb suitable deputationists on permanent posts in BHEL.

[*Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967.*]

Recommendation (Serial No. 24)

The Committee feel that considerations of experience alone for employment of retired personnel is not a very convincing argument as all retired persons have experience. Employment of retired personnel results in the blocking of opportunities for the younger people. It is understandable that retired persons having some specialised knowledge or experience vital to the undertaking being employed for some time, but for normal jobs like those of civil engineers or personal Assistants for which any number of candidates are available in the country there does not appear to be any justification for appointment of retired personnel.

The Committee would recommend that Government should lay down a clear policy regarding the employment of retired persons in the public sector undertakings. (Paragraphs 97-98).

REPLY OF GOVERNMENT

The policy in this regard is indicated in Ministry of Finance O.M. No. 2(32)/67-FI, dated 28th July, 1967, (*Vide Appendix III*).

[*Ministry of Finance, (Bureau of Public Enterprises) O.M. No. 2445/FI/67, dated the 8th September, 1967.*]

Recommendation (Serial No. 25)

The present Chairman of the Company has been appointed for a period of 3 years, i.e., from 1965 to 1968. The Company was fortunate to have an experienced man like the present incumbent as the top administrator. The Committee are, however, constrained to note that Government, even now, after having considerable experience in setting up public sector projects have to face difficulties in finding suitable persons to man the top posts in the public sector projects. That Government have to employ retired and superannuated persons for such posts shows that no effective steps have yet been taken to train persons at the middle managerial level from where persons for the top posts could be drawn. In the case of the BHEL Government had some experience in setting up an electrical plant at Bhopal and if proper attention had been paid to this aspect, it would, perhaps not have been difficult to find persons to man the top posts in the BHEL from Bhopal or some other similar public undertakings. The present Chairman would retire in 1968, and Government would again be confronted with the problem of finding a man to replace him then. (Paragraph 100).

REPLY OF GOVERNMENT

The observations of the Committee are noted.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 26)

The representatives of the Ministry assured the Committee, during evidence, that Government were taking every step practicable to ensure that the staff rendered surplus on completion of the projects were not rendered unemployed. The Committee hope that Government and the projects authorities would give earnest attention to this problem and make suitable arrangements for the absorption of surplus personnel elsewhere so that the projects are not burdened with surplus staff. (Paragraph 103).

REPLY OF GOVERNMENT

The Committee's observations have been noted.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 28)

The Committee hope that the projects will be completed on schedule and will be able to fulfil their objectives without much difficulty. Power

supply is the key to prosperity and every effort should be made to ensure that commitments in regard to supply of basic machinery for power generation are fulfilled in time. The role of the BHEL is great in this regard and the Committee hope that the ~~undertaking~~ will live up to its responsibilities. (Paragraph 107).

REPLY OF GOVERNMENT

The Committee's observations are noted.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-~~MECH~~; dated the 29th September, 1967].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT REPLY

Recommendation (Serial No. 2)

It will be seen that the three projects of the BHEL are in more senses than one, inter-linked with each other. The turbines, generators, motors, pumps, boilers, etc., which would be required for a single power project would be manufactured in three different places. The forgings and castings to be manufactured at Hardwar will form component units of the same equipment and as such these will have first to be transported to the other factory before being fitted and transported to the power project site. It is apparent that the ultimate cost of the assembled equipment to the consumers will increase due to the location of three plants so far away from each other. The problem is of special importance in this particular case because the State will be the biggest purchaser of the products of the company, and as such, the ill effects of the location will have to be suffered by the public. The Committee feel that this is a matter of vital relevance in the location of the projects and seems to have been altogether ignored. (Paragraph 15).

REPLY OF GOVERNMENT

Each unit of the company is sufficiently large in terms of investment, employment potential, managerial organisation, provision of services etc. In the case of the High Pressure Boilers Plant, Tiruchy and the Heavy Power Equipment Plant, Hyderabad, the ultimate doubling of the plants was envisaged even at the time the projects were approved. There was also the vital aspect of regional dispersal of such important industries set up in the public sector. In the circumstances, it was not quite possible to locate all the units at the same place or even in the same State. However, it may be mentioned that the Heavy Electrical Equipment Plant and the Central Foundry Forge would be at Hardwar and the Heavy Electrical Equipment Plant would be the largest single consumer of the castings and forgings produced in the Central Foundry Forge. Similarly, the Heavy Power Equipment Plant and the Switchgear Unit have both been located at Hyderabad.

[Ministry of Industrial Development & Company Affairs O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 7)

The Committee find that in the case of the Projects of the B.H.E.L., the economic aspects like total capital cost, profitability etc. were not brought to the notice of the Cabinet. The economic viability of a Project is a very important aspect which must be fully assessed before taking a decision regarding its setting up. The Committee, in their Thirteenth report, have recommended that Government should lay down the form and the manner in which the Cabinet approval to projects is sought. The Committee had then suggested that for this purpose a list of all the basic information to be included in the note should be drawn and that it should be ensured that nothing of importance from the technical or economic point of view was omitted. Every proposal which is put up to the Cabinet for approval should also contain an indication of the investment-output ratio. The Committee would like to reiterate the recommendation and hope that in the case of all projects to be set up in the public sector in future this aspect will also be indicated. (Paragraph No. 40).

REPLY OF GOVERNMENT

As indicated in para 39 of this Report, the current practice is that in all cases where the approval of Cabinet is sought for a project, the full details of the estimated capital cost, etc. are furnished in the Note to the Cabinet. The extent instructions also require that as complete a picture of financial implication, including investment-output ratio anticipated, as possible should be indicated in the Note to the Cabinet, also mentioning the extent of uncertainty involved in the estimates given. The measures indicated in the reply to the recommendation at Serial No. 4 should improve the position in this regard.

[Ministry of Finance, (Bureau of Public Enterprises) O.M. No. 2445/FI/67, dated the 8th September, 1967].

Recommendation (Serial No. 8)

A time-schedule for the construction of a project is very essential both for its timely completion and for a proper technical and administrative control during the construction stage. In the case of the Hardwar project, the project authorities had obviously no knowledge of such a schedule before they started the execution of the project. The plea that the volume of the Detailed Project Report containing the time-schedule was not delivered to the project authorities by the consultants is no justification. There does not appear to have been any effort made to obtain the time-schedule or for that matter even to prepare one. If Government had prepared a check list of items which should be covered in a Detailed Project Report and checked

the items before the commencement of the project, such an important item could not have been overlooked. (Paragraph 44).

REPLY OF GOVERNMENT

The time schedules of construction and commissioning of projects should be and, in fact, are normally indicated in the Detailed Project Reports. The need for the preparation of a suitable time-table at the start of the project so that the progress of implementation could be watched was also reiterated *vide* Ministry of Finance O.M. No. 3879/JS(AM) dated 7th October, 1965 (Appendix IV). The Planning Commission is also evolving suitable programming and reporting systems and methods. The Bureau of Public Enterprises would keep the progress of projects at various stages under constant review.

[Ministry of Finance, (Bureau of Public Enterprises), O.M. No. 2445/FI/67, dated the 8th September, 1967].

Recommendation (Serial No. 8)

A time-schedule for the construction of a project is very essential both for its timely completion and for a proper technical and administrative control during the construction stage. In the case of the Hardwar project, the project authorities had obviously no knowledge of such a schedule before they started the execution of the project. The plea that the volume of the Detailed Project Report containing the time-schedule was not delivered to the project authorities by the consultants is no justification. There does not appear to have been any effort made to obtain the time-schedule or for that matter even to prepare one. If Government had prepared a check list of items which should be covered in a Detailed Project Report and checked the items before the commencement of the project, such an important item could not have been overlooked. (Paragraph 44).

REPLY OF GOVERNMENT

Although in the Detailed Project Report prepared by M/s. Prommash export, the Consultants, no time schedule for the construction of the Project had been given, construction schedules in respect of civil works were drawn up by the Project authorities, when the Project was started. Schedules for the supply of machinery and equipment were also drawn up. These were drawn up on the basis of the production programme envisaged for the Plant. To match the overall construction schedule, detailed schedules for each block as also for auxiliary services have also been prepared indicating targetted dates of completion.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

FURTHER INFORMATION CALLED FOR BY THE COMMITTEE

Two replies have been received, one from the Bureau of Public Enterprises vide their O.M. No. 2445/FI/67, dated the 8th September, 1967 and the other from your Department. These may please be reconciled and the final reply given on this recommendation.

[L.S.S.O.M. No. 29-PU(I)/67, dated the 28th October, 1967].

FURTHER REPLY OF GOVERNMENT

The reply furnished by this Ministry covers the recommendation in so far as it relates to Bharat Heavy Electricals Ltd., whereas the reply furnished by the Bureau of Public Enterprises covers the general issue. As such, both the replies are valid.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-1/67-HECHE, dated the 23rd November, 1967].

Recommendation (Serial No. 9)

The Committee hope that all efforts will be made to complete the various blocks of the Hardwar Project without any further delay. The Committee do not see why the target date for completion of the project should be advanced to 31st March, 1969 merely because the financial year happens to end on that date. The projects should be completed as early as possible and it should necessarily synchronise with the end of the financial year. Delaying the completion even by 3 months would add to the cost of the Project. (Paragraph 15).

REPLY OF GOVERNMENT

The schedule now laid down for completion of the Project are expected to be adhered to.

[Ministry of Industrial Development & Company Affairs O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

FURTHER INFORMATION CALLED FOR BY THE COMMITTEE

The target dates by which the various blocks of the Hardwar Project will be completed may please be communicated.

[L.S.S.O.M. No. 29-PU(I)/67, dated the 28th October, 1967]

FURTHER REPLY OF GOVERNMENT

The target dates of completion of the different shops of Heavy Electricals Equipment Plant, Hardwar are given in the statement (vide Appendix V).

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-1/67-HECHE, dated the 23rd November, 1967].

Recommendation (Serial No. 10)

The Committee find that in spite of a provision in the agreement regarding the timely supply of foundation drawings for the heavy equipment of the Hardwar Project, these have not been received according to stipulation in the agreement. The inclusion of a penalty clause in an Agreement might have a salutary effect in preventing delays. Possibility of including such a provision in the further contracts might be examined. (Paragraph No. 48).

REPLY OF GOVERNMENT

The Ministry of Finance O.M.No. F.33(23)-EGI/60 dated 27-9-1960 (*vide* Appendix VI) laid down for the guidance of the Ministries/Departments, concerned that in the consultancy agreements, there should, as far as possible, be a provision for suitably phasing the payments to the consultants, related to different stages of rendering the consultancy services such as timely supply of working foundation drawings, etc. It may also be indicated that the last instalment should be as substantial as possible, as in case of a serious defect or failure it would be possible to withhold the last instalment. This guideline is being reiterated to the Ministries.

[*Ministry of Finance, (Bureau of Public Enterprises) O.M. No. 2445/EI/67, dated the 8th September, 1967.*]

FURTHER INFORMATION CALLED FOR BY THE COMMITTEE

Please state the reason(s) for not including the penalty clause, at the time of concluding the agreement, as prescribed in clause (ix) of the Annexure to the Ministry of Finance (Department of Expenditure) O.M. No. 33(23)-E.G.I./60, dated 27-9-1960.

[*L.S.S.O.M. No. 29-(I)/67, dated 27-10-1967*]

FURTHER REPLY OF GOVERNMENT

The non-inclusion of a penalty clause seems to be an inadvertent omission and more care will be exercised in future. Even if such a clause was proposed, it cannot be said categorically whether the Soviet Authorities would have agreed to it.

[*Ministry of Industrial Development & Company Affairs (Department of Industrial Development). O.M. No. 24-1/67-HECHE, dated the 23rd November, 1967.*]

Recommendation (Serial No. 11)

The Committee suggest that Government might examine the above suggestions. It may also be considered whether other construction material like cement etc., can be made available to the projects on a high priority basis. Since availability of these materials in time and in required quantity is vital for the timely completion of the projects, it is necessary that Government should ensure that the projects get their supplies of construction material without difficulty. (Paragraph 52).

REPLY OF GOVERNMENT

Wherever there is control, formal or informal, over the distribution of any item of construction material, efforts are made to allot the maximum possible quantity to important projects like those of Bharat Heavy Electricals Ltd., consistent with the overall availability of the material and the *inter-se* priorities of the various demands. The supply position of *semi* killed quality M.S. Plates is not difficult at present and the priority demand for public undertakings is generally met to the extent possible. The supply position of tested killed quality M.S. Plates is difficult at present and it is possible to meet only a part of the demand. Imports are also considered and accepted wherever the demand is urgent and cannot be met in time from the indigenous supplies.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

Recommendation (Serial No. 16)

The Committee feel that not much stress has been laid by the undertaking in exploring the possibility of fabricating plant and equipment of the ancillary plants, within the country. No serious effort appears to have been made to enquire if any private entrepreneur or any public undertaking was prepared to fabricate the plants in view of the fact that three sets of such plants were required by the B.H.E.L. Apart from saving vital foreign exchange, such a move would have fostered expertise in India in this field of industry. (Paragraph 69).

REPLY OF GOVERNMENT

Full and detailed enquiries were made within the country about the availability of ancillary plants like Compressors, Oxygen Plant, Acetylene Plant, Producer Gas Plant, etc. Detailed investigations were carried out to eliminate all parts that could be manufactured within the country. The final imports were restricted to the minimum after allowing for the maximum use of indigenous capacity available.

It may be mentioned in this connection that Compressors of the required size for Tiruchy Plant were located in the country and procured indigenously.

B.H.E.L. could not have waited for indigenous capacity for all the ancillary equipment to be developed in the country, after entering into collaboration with some foreign parties. The demand from BHEL alone would not have been sufficient in any case to justify the setting up of plants for manufacture of these ancillary units.

[*Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967.*]

Recommendation (Serial No. 21)

There is apparently some confusion about the role of the F.A. & C.A.O. in regard to the financial scrutiny of the proposals. It should be advantageous to associate the F.A. & C.A.O. when entering into agreements with foreign consultants and collaborators which involve sizeable financial commitments. The Committee have found disparity in the powers exercised by the F.A. & C.A.O. in the public undertakings. The Committee recommend that Government should issue suitable directions on this matter in order to clarify the role of the F.A. & C.A.Os. in the public undertakings. (Paragraph No. 85).

REPLY OF GOVERNMENT

In pursuance of the recommendation of the Estimates Committee at Serial No. 12 of their 52nd Report (1963-64) on "Personnel Policies of Public Undertakings", Government have already decided that the Financial Advisers should attend all the meetings of the Boards of Directors. This has been reiterated *vide* this Ministry's O.M. No. 13(57)/66-FI, dated 27-10-1967 (*Vide* Appendix VII).

The representatives of the Finance Ministry on the Boards of Directors of various Public Enterprises have also been requested to ensure that proper procedures are evolved by the enterprises for examination of all proposals with financial implications, e.g., creation or upgradation of posts, preparation of capital and production budgets, placement of orders for the purchase of plant and machinery, raw materials etc., award of contracts for civil engineering and erection, collaboration agreements and agreements for deputation of specialists etc. It has been reiterated in this context that the Financial Adviser of the project should invariably be consulted on all financial proposals and wherever his views are not accepted, the matter should be brought to the notice of the Board at the next Board meeting.

[*Ministry of Finance (Bureau of Public Enterprises) O.M. No. 782/FI/155/67, dated the 13th November, 1967.*]

Recommendation (Serial No. 27) ..

A disproportionately large number of people had resigned from the Hyderabad Project. The Committee learnt that the management were not aware of the real reasons for the resignations of most of the employees. Sixteen of the 98 persons were stated to have resigned because they obtained better jobs elsewhere and 5 for continuing their studies. 77 people were stated to have resigned for personal reasons or ill health. The Committee feel that this large figure indicates some inherent cause which might have persuaded these persons to resign their jobs. It might be beneficial for the management to investigate into the causes of these resignations and take remedial action if necessary. (Paragraph. 105).

REPLY OF GOVERNMENT

An investigation into the causes of resignations from the Hyderabad Project has been conducted. Of the 98 persons who resigned, no less than 79 were from the Civil Engineering Department. This is a temporary department which functions on a large scale during the construction phase only. The employees in this department are naturally always on the look out for better openings since their services are temporary and they are liable to be retrenched as soon as the construction is over. The investigation shows that the employees who resigned, were generally satisfied with the salaries and other conditions of service. Some of them, however, felt that the amenities available at the project site were not sufficient. This was no doubt, the case during the earlier stages of construction of the project, but now that a township has been fully established, with various amenities like hospitals, schools, community centres etc., there is no such difficulty.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 19)

The Committee feel that both the B.H.E.L. and Government have taken an inordinately long time in regard to the preparation and sanctioning of the estimates of the Hardwar Project and the Switchgear unit. Project estimates should be finalised fairly early in the execution of the projects and after thorough examination, Government should accord its sanction without any delay. The construction of the Hardwar Project started in 1963 and the project has also gone into partial production. It is surprising that its estimates have not been finalised and sanctioned as yet. The explanations given for the delay are not very convincing... (Paragraph 77).

REPLY OF GOVERNMENT

Noted. The cases are under the final stages of consideration and it is expected that the approval to the estimates will be accorded shortly.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

FURTHER INFORMATION CALLED FOR BY THE COMMITTEE

Please state whether sanction to the estimates has now been accorded and if so, the date thereof. Reason(s) for delay in issue of sanction may also please be given.

[L.S.S. O.M. No. 29-PU(1)/67, dated the 28th October, 1967].

FURTHER REPLY OF GOVERNMENT

Sanctions to the estimates have not yet been accorded. These are still under consideration.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 23rd November, 1967].

COMMENTS OF THE COMMITTEE

Please see paras 1 to 3 of Chapter I of this Report.

Recommendation (Serial No. 22)

The Committee feel that it would not be right for the sub-Committee of the Board of Directors consisting only of the Chairman and two official Members to take decisions, on such important matters like the Budget estimates and the Project estimates without bringing to the notice of the Board. Such important matters should be decided by the full Board. The present Board is a compact board of six members and it should not be difficult for it to meet to consider such important matters.

The Committee would suggest that in case it is necessary to have a standing sub-Committee, the powers and functions of such a sub-Committee should be specified in writing. (Paragraph 89-90).

REPLY OF GOVERNMENT

The standing sub-Committee of the Board has no statutory authority either to consider any matters or to take decisions thereon. It can consider and decide only those matters which are referred to it by the Board of Directors and that also according to the terms of reference as laid down by the Board in each case. As such, it is not considered necessary to lay down in writing powers and functions of the Standing sub-Committee.

The Committee's observations about decisions by the Sub-Committee on the important matters have been noted for guidance.

[Ministry of Industrial Development & Company Affairs, O.M. No. 24-1/67-HECHE, dated the 29th September, 1967].

FURTHER INFORMATION CALLED FOR BY THE COMMITTEE

The Committee desire to know, whether the sub-Committee constituted by the Board of Directors has since been dissolved and if not, whether its powers and functions have been defined in writing.

[L.S.S. O.M. No. 29-PU(I)/67, dated the 13th February, 1948].

FURTHER REPLY OF GOVERNMENT

The standing sub-Committee of the Board of Directors of Bharat Heavy Electricals Ltd., has not been dissolved. The Sub-Committee will consider only those matters which are referred to it by the Board of Directors in accordance with the terms of reference laid down by the Board in each case. The decisions or recommendations of the Sub-Committee, as the case may be, are placed in due course before the Board of Directors.

[Ministry of Industrial Development & Company Affairs (Department of Industrial Development) O.M. No. 24-1/67-HECHE, dated the 12th March, 1968.]

COMMENTS OF THE COMMITTEE

Please see paras 4—6 of Chapter I of the Report.

APPENDIX I

(Vide reply to recommendation at Sl. No. 4 Chapter II).

No. 3878/JS(AM).

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF CO-ORDINATION)

New Delhi, the 7th October, 1965

OFFICE MEMORANDUM

SUBJECT:—*Preparation of feasibility studies before proposing projects for external assistance.*

The Committee on utilisation of external assistance under the chairmanship of Dr. V. K. R. V. Rao, while examining causes for delay in the aid utilisation in the public sector commented on the dearth of well-conceived projects for which all necessary preparations had been made for placing of orders as soon as foreign exchange became available. While noting that even projects included in the lists to be forwarded to the Aid India Consortium were often not ready for immediate implementation in the event of funds being made available, the Committee had recommended that no project should be proposed for aid unless a feasibility report had been completed. The Government has accepted this recommendation.

2. The Rao Committee had emphasized that feasibility reports should not merely be technological in character but should fully explore the economic aspects, taking due account of the possibilities of economising on the use of scarce resources such as foreign exchange. The Committee had also observed that feasibility studies must be of a high standard, so that they are accepted by the institutions and countries providing assistance as justification for the acceptance of projects in principal.

3. The need for careful and detailed investigations in regard to suitability of site, availability of required natural resources, other raw materials, etc. was emphasized in this Department's O.M. No. D/347/65/DS(B) dated 7-8-65. The Planning Commission have also circulated a draft memorandum on feasibility studies for public sector projects vide Shri Tarlok Singh's D.O. No. 12(4)/65-M&A dt. 26-7-65. On finalisation of the Planning Commission study, a comprehensive office memorandum indicating in detail the scope of feasibility reports will be issued in due course. Meanwhile, the Ministry of Industry etc. are requested to ensure that before any new investment proposal is posed for external assistance, there should be avail-

able, if not a detailed project report, at least a feasibility study which should be drawn up after adequate preliminary investigations and should give evidence that alternative technologies, sizes of plant, locations, product-mix etc. have been considered.

Sd/- AJIT MOZOONDAR,

Jt. Secy.-

APPENDIX II

(Vide reply to recommendation at Sl. No. 20 in Chapter II)

No. 2(32)/65-F. I.

GOVERNMENT OF INDIA
MINISTRY OF FINANCE

(DEPARTMENT OF COORDINATION BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 16th March, 1967.

OFFICE MEMORANDUM

SUBJECT:—*Financing of Working Capital requirements of Public Sector Undertakings.*

The question of providing working capital to the public sector enterprises has been engaging the attention of the Government for some time. While it is true that the case of each undertaking will have to be considered on its merits, the following guidelines are laid down which may assist the projects in assessing and meeting their working capital requirements:—

- (a) The Board of Directors in case of each undertaking should determine the reasonable level of the working capital and review the position from time to time to ensure that the total investment in the working capital is kept as low as possible.
- (b) In the first instance, the enterprises concerned should approach the State Bank of India for the cash-credit arrangement to meet the requirements of their working capital on the security of their current assets including stocks of stores, spare-parts raw-materials, etc. According to the normal bank practices, the State Bank may ask for a certain margin while fixing the cash-credit limits.
- (c) It would be necessary for the undertaking to find ways and means of raising the margin money. The State Bank of India should be requested to provide for the entire working capital needs. If necessary, the excess over the margin money could be covered by a guarantee from the Central Government.
- (d) Whenever the total requirements of the working capital cannot be met by the cash-credit arrangements with the State Bank of

India, the enterprises may approach the Government for short-term loans. Such requests would have to be examined *vis-a-vis* the position of internal resources of the undertaking.

- (e) So far as the use of internal resources and in particular depreciation fund is concerned, this should in the first instance be utilised for meeting capital expenditure. While making a demand for additional funds for capital expenditure, the internal resources including depreciation fund will, invariably, be taken into account.
- (f) Where the undertakings are making losses, the amount of the loss sustained will also be met from internal resources in the first instance.

The Ministry of Industry, etc. are requested to bring this to the notice of the Public Sector Undertakings.

Sd./-R. C. DUTT,
*Secretary to the Government of India and
 Director General, Bureau of Public Enterprises.*

To

All Ministries/Departments of the Govt. of India.

All FAS in the Department of Expenditure.

Copies to:—

Secretary, Department of Economic Affairs.

Secretary, Department of Expenditure.

Secretary, Department of Coordination.

Addl. Secretary, Department of Economic Affairs.

J. S. (Budget).

APPENDIX III

(Vide reply of Govt. to the recommendation at Sl. No. 24 in Chapter II)

No. 2(32)/67-FI

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
(BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 28th July, 1967

OFFICE MEMORANDUM

SUBJECT:—*Extension of service/re-employment of superannuated employees in the Public Enterprises.*

The Undersigned is directed to say that in their 52nd Report on "Personnel Policies of Public Undertakings", the Estimates Committee made the following observations:—

"It is noted that despite the decision announced in Parliament in November, 1961 that Government should give broad indication of the principles to be followed by public undertakings in the employment of retired persons, no principles have as yet been laid down. The Committee are unhappy at the inability of Government to implement a decision which they announced over two years ago. It is expected that once a decision is placed before Parliament, it would be acted upon. They hope that this would be done now.

The Committee agree that there might be cases where it is inevitable to re-employ retired technical personnel, in the national interest, to isolated specialised posts for a specific period if persons of requisite knowledge and experience, are not otherwise available. But they do not approve of this practice being followed indiscriminately and retired personnel being employed even for non-technical secretarial jobs. The Committee hope that Government would keep this aspect in view while laying down broad principles to be followed by public undertakings in the employment of retired personnel".

2. The question of laying down broad principles to be followed in regard to employment of superannuated persons in Public Enterprises has been under the consideration of Government for some time in the light of the principles mentioned above.

3. Cases of extension of service/re-employment of persons in Public Enterprises fall under the following two categories:—

- (a) Posts, appointments to which are made by Government or require the approval of Government in accordance with the provisions of the relevant Articles of Association/Statutes.
- (b) Posts, appointments to which can be made by the competent authorities in the Public Enterprises.

4. The following principles are being followed in regard to grant of extension of service/re-employment to Central Government servants:—

- (i) Extension of service/re-employment beyond the normal date of Superannuation should be granted only rarely and in really exceptional circumstances.
- (ii) In posts not requiring scientific or technical qualifications, 60 years of age should ordinarily be treated as the dead line beyond which no officer should be granted extension of service or re-employed. But when the next person in the line of succession is not of comparable merit, an officer of outstanding merit may be allowed to continue upto the age of 62.
- (iii) Extension of service or re-employment should not, as a rule, be granted beyond the age of 62, even in cases of the most outstanding merit, except in the case of scientific and technical personnel. Even in the case of scientific and technical personnel, extension/re-employment beyond the limits mentioned above is not automatic, though, in such cases, where the officer is of outstanding merit and there is a shortage of officers in the particular field of specialisation, extension/re-employment may be allowed upto a higher age-limit provided there is none ripe enough to take over the job.
- (iv) In the case of honorary appointments—*e.g.*, appointments on the Boards of Directors of Public Sector Undertakings—the limit may be 65 years provided that the appointment is really honorary and does not carry a substantial remuneration.

In order to enable the Ministry of Home Affairs to scrutinise proposals for extension/re-employment beyond the age of 60 years, the Ministries are required to explain the reasons for each proposal in terms of the criteria mentioned above, giving specific details of persons in the line of succession together with their qualifications, the reason why a superannuated person is considered of outstanding merit etc. The character rolls of the officer proposed to be given extension/re-employment and of at least the next two or three officers in the line of succession are also required to be sent.

5. In regard to the cases of the first type, indicated in paragraph 3(a) above, it has been decided that the principles mentioned in paragraph 4 above and the procedures laid down by the Ministry of Home Affairs in respect of the Central Government servants should be followed.

6. In so far as the cases of the second category, as indicated in paragraph 3(b) above, falling within the powers of the Government Companies/Corporations are concerned, the broad principles followed by Government in this respect, as mentioned in paragraph 4 above may be brought to the notice of the Public Enterprises with the suggestion that they may consider whether similar principles could be adopted by them. The administrative Ministries, are, therefore, requested to suitably address the Public Enterprises with which they are concerned.

Sd./- M. M. MEHTA,

Director.

To

All Ministries/Departments of the Government of India.

APPENDIX IV

(Vide reply to recommendation at Sl. No. 8 in Chapter III)

No. 3879/JS(AM)

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF CO-ORDINATION)

New Delhi, the 7th October, 1965.

OFFICE MEMORANDUM

SUBJECT:—*Early preparation of project reports; avoidance of change in the scope of projects at a late stage; necessity of preparation of reasonably accurate financial estimates and time tables of progress.*

While examining the causes for delays in aid utilisation in the public sector, the Committee on utilisation of external assistance under the chairmanship of Dr. V. K. R. V. Rao emphasized the need for early preparations of project reports for each project considered to be *prima facie* feasible. Observing that a major cause of delay had been the change in the scope of the projects at a late stage, they recommended that such changes should be avoided. They also recommended that the project should prepare reasonably accurate overall financial estimates in advance and that a suitable time-table should also be prepared at the start, against which progress should be measured. Government have accepted these recommendations. The Ministry of Industry etc. are accordingly requested to ensure that—

- (a) once the *prima facie* feasibility of the project is established, the preparation of the detailed project report should be completed without undue delay;
- (b) there is sufficient advance planning of projects with preparation of reasonably accurate overall financial estimates which would obviate the need for frequent revision of estimates once sanctioned; and
- (c) a suitable time-table is also prepared by the project authorities at the start and furnished to the Ministries concerned so that the progress of implementation could be watched and measured.

Sd/- AJIT MOZOOMDAR,

Joint Secretary.

To.

All the Ministries of the Government of India.

APPENDIX V

(Vide reply to recommendation at Sl. No. 9 in Chapter III)

BHARAT HEAVY ELECTRICALS LTD.

HEAVY ELECTRICAL EQUIPMENT PLANT, HARDWAR.

Sl. No.	Item of work	Date of completion
1. CIVIL WORKS (FACTORY CONSTRUCTION).		
(a)	Site development.	Work completed in June, 1964.
(b)	Factory buildings excluding machine foundations.	March, 1968.
(c)	<i>External Services.</i>	
(i)	Roads and railways.	December, 1968.
(ii)	Water Installations.	December, 1967.
(iii)	Power installations.	December, 1968.
(iv)	Sewerage	March, 1971.
(v)	Storm water drainage.	December, 1967.

Ministry of Industrial Development & Company Affairs O.M. No. 24-1/57-HECHE, dated the 23rd November, 1967.

APPENDIX VI

(Vide reply to recommendation at Sl. No. 10 in Chapter III)

No. F. 33(23)-E.G.I./60

GOVERNMENT OF INDIA
MINISTRY OF FINANCE

(DEPARTMENT OF EXPENDITURE)

New Delhi, the 27th September, 1960.

OFFICE MEMORANDUM

SUBJECT :—*Principle for fixing remuneration payable to Consultants.*

The Estimates Committee, in para 32 of their 8th Report (1957-58) on the Naval Dockyard, Bombay, have recommended that Government should review the present position in regard to the fixation of fees for the consultants engaged by them in connection with the execution of various projects and should lay down principles on which remuneration should be paid to such consultants in future contracts. As the types of work for which consultancy arrangements are entered into vary from project to project [the following are some of the types viz., (i) Preparation of a preliminary project report; (ii) Preparation of a detailed project report; (iii) Preparation of detailed drawings and designs for the plant or the works; (iv) Supervision of the installation of machinery, construction of plant and works with an attendant responsibility for stipulated performance; (v) service in respect of specific problems], it is difficult to lay down any hard and fast criteria on which the quantum of remuneration can be assessed or to lay down a schedule of rates. However, certain factors/principles have been listed in the annexure for the guidance of the Ministries, etc. who may have to enter into such arrangements in future. The items listed in the annexure should not be treated as an exhaustive code but as points for guidance only. As the nature of work for which consultancy agreements become necessary vary from project to project and as much will depend on what is acceptable to the consultants who would be interested in a particular job, each case will have to be considered on merits.

2. A copy of the reply sent to the Estimates Committee in this regard is enclosed (see Annexure).

Sd/- C. R. KRISHNAMURTHY,
Deputy Secretary to the Govt. of India.

To.

All the Ministries of the Govt. of India, etc.

ANNEXURE

Factors/Principles to be taken into account while entering into consultancy arrangements in future

(i) Some of the items of work may have to be done in the country, while others may have to be done outside. It is necessary, therefore, that a clear indication in regard to both should be available so as to determine the quantum of remuneration. It would also be useful to include in the agreement a list of staff that would be posted within the country so that no confusion or dispute arises at a later stage.

(ii) Certain facilities may have to be made available to the consultants in regard to residential and office accommodation, travelling allowances both from the parent country to India and within India, provision of vehicles, equipment, medical facilities, etc. When assessing the remuneration, the incidence of such facilities should be clearly borne in mind.

(iii) There should be a clause for premature determination of a consultancy agreement in case the work is found to be unsatisfactory or not suitable, and there should be an indication in regard to the payments involved in case of such a contingency arising. As far as possible, the quantum of remuneration should approximate to the quantum of work actually done and legitimate expenses incurred by the consultants. It should also be clearly laid down that whatever work has been done by the consultants shall be the property of the employer and all papers, drawings and designs etc. should be secured in suitable form before final payments are made.

(iv) The consultancy agreement should also provide a safeguard to the employer in the contingent of any infringement of patent rights during their employment or in future and the consultants must be required to guarantee indemnification for all time.

(v) The taxation aspects in respect of the remuneration, salaries etc. paid should be kept in mind and not left open, as otherwise foreign consultants are likely to claim tax remissions later.

(vi) In the case of certain consultancy agreements, utilisation of some patent rights may be involved, which may require payment of royalty or fees for several years to come. As far as practicable, such perpetual payments should be avoided unless justified on financial grounds.

(vii) The foreign exchange aspects should also be kept in view, and as far as possible, the consultants should be required to work within India with the help of local personnel so as to reduce payments in foreign currency.

(viii) When payments are to be made in foreign currency it would be better to deposit the rupee equivalent in a bank in India nominated by the Consultants and remittance facility allowed.

(ix) A penalty clause should be provided (in addition to the right to determine the agreement) in case of delay in execution or unsatisfactory performance and also a right to postpone the payment of every instalment in such a situation should be secured.

(x) Remuneration for consultancy service:

- (a) Fixation of remuneration as a percentage of the total cost of the project or as a percentage of the cost of plants and machinery, is open to objection as the incentive for economy in designing is lost thereby. Secondly, it would be difficult to know in advance what the commitments on account of the consultants' fees would be. Thirdly, it might result in unintended benefit on account of the increase in cost of work due to extraneous reasons like contractors' delays and failures. In order to avoid these difficulties, the fee, as far possible, when based on a percentage, should be calculated on the basis of the estimated cost and expressed in the consultancy agreement as a definite figure. If necessary, provision may be made for varying the figure by negotiation if the scope of the project is changed and, as a result, a substantial change occurs in the actual cost.
- (b) Where a fixed fee payable either in lumpsum or in instalments is agreed to and where the consultants require a portion of the fee within a few days of the agreement being signed, it would be necessary to limit the payment to as small an amount as practicable. The payment of the remaining amounts may be fixed in instalments, *e.g.*, at the submission of the project reports, at the submission of the drawings and designs, during erection period and when the plant has gone into production and given satisfactory performance. It would be necessary that the last instalment should be as substantial as possible, as in the case of a serious defect or failure, it would be possible to withhold the last instalment. The quantum of the instalments, as far as practicable, should be based on the amount of work done.
- (c) In regard to fee for patented rights and processes, it should be considered whether it would be advantageous to buy such rights outright or to make payments on yearly basis.
- (d) In all cases, the interests of the projects should be suitably safeguarded.

APPENDIX VII

(Vide reply to recommendation at Sl. No. 21 on Chapter III)

No. 13(57)/66-FI.

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

[BUREAU OF PUBLIC ENTERPRISES]

New Delhi, the 27th October, 1967

OFFICE MEMORANDUM

SUBJECT:—*Attendance by Financial Advisers of the meetings of the Boards of Directors of Public Enterprises.*

The undersigned is directed to say that as envisaged in the Bureau of Public Enterprises O.M. No. 3(10)-PC/64 dated the 13th June, 1968, most of the Public Enterprises have now ensured the attendance of their Financial Advisers at the meetings of the Boards of Directors. However, it has been noticed that this decision of the Government taken in pursuance of a recommendation of the Estimates Committee is yet to be implemented in some of the Enterprises. Ministry of Industrial Development and Company Affairs too may suitably advise the enterprises with which they are concerned, to take necessary action to implement the decision, if they have not already done so.

Sd/- P. K. BASU,

Director.

To

All Ministries/Departments of the Government of India.

APPENDIX VIII

(*Vide* para 5 of Introduction)

Analysis of action taken by Government on the recommendations contained in the Thirty-ninth Report of the Committee on Public Undertakings (Third Lok Sabha)

I. Total No. of recommendations made	28
II. Recommendations that have been accepted by Government (<i>Vide</i> recommendations at Sl. Nos. 1, 3, 4, 5, 6, 12, 13, 14, 15, 17, 18, 20, 23, 24, 25, 26 and 28).	
Number.	17
Percentage of total.	60·71%
III. Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>Vide</i> recommendations at Sl. Nos. 2, 7, 8, 9, 10, 11, 16 21 and 27).	
Number.	9
Percentage of total.	32·14%
IV. Recommendations in respect of which the replies of Government have not been accepted by the Committee (<i>Vide</i> Recommendation at Sl. Nos. 19 and 22).	
Number.	2
Percentage of total.	7·15%

Serial No.	Name of Agent	Agency No.	Serial No.	Name of Agent	Agency No.
27.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6. . . .	27	33.	Bookwell, 4, Sant Narakari Colony, Kingway Camp, Delhi-9.	96
28.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi. . . .	66		MANIPUR	
29.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1. . . .	68	34	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annex, Imphal. . . .	77
30.	People's Publishing House, Rani Jhansi Road, New Delhi . . .	76		AGENTS IN FOREIGN COUNTRIES	
31.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi. . . .	88	35.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W.C.-2.	
32.	Hind Book House, 82, Janpath, New Delhi	95			

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