

**RAILWAY CONVENTION
COMMITTEE
(1985)**

(EIGHTH LOK SABHA)

SECOND REPORT

ON

**[Action Taken by Government on the Recommendations contained in the
Eleventh Report of the Railway Convention Committee, 1980 on Cost of
Operation of Railways (Cost of Materials)]**



Presented in Lok Sabha on..... 24 MAR 1986
Laid in Rajya Sabha on.....

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1986/Magha, 1907 (Saka)

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Corrigenda to Second Report of The Railway
Convention Committee, 1985.

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CONTENTS

		PAGE
COMPOSITION OF THE RAILWAY CONVENTION COMMITTEE, 1985		(iii)
INTRODUCTION		(v)
CHAPTER I	Report ...	1
CHAPTER II	Recommendations/Observations that have been accepted by the Government ...	5
CHAPTER III	Recommendations/Observations which the Committee do not desire to pursue in view of the replies of Government ...	15
CHAPTER IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee.	22
CHAPTER V	Recommendations/Observations in respect of which final replies of the Government are still awaited. ...	24
APPENDIX		
Analysis of the action taken by Government on the recommendations/Observations contained in the Eleventh Report of Railway Convention Committee, 1980. ...		26
PART II		
Minutes of the sitting of the Railway Convention Committee (1985) held on 8th January, 1985. ...		27

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RAILWAY CONVENTION COMMITTEE
(1985)

1. Shri Subhash Yadav—*Chairman*

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4. Shri B. Devarajan
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13. Shri Vishwanath Pratap Singh
14. Shri Dipen Ghosh
15. Shri M. Maddanna
16. Shri Bhagatram Manhar

*Resigned from the Membership of the Committee w.e.f.
11-12-1985.

(iv)

17. Shri Kalpnath Rai
18. Shri P. Upendra

SECRETARIAT

1. Shri N.N. Mehra—*Joint Secretary*
2. Shri K.H. Chhaya—*Chief Financial Committee Officer.*
3. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

INTRODUCTION

1. The Chairman of Railway Convention Committee (1985) having been authorised by the Committee to submit the Report on their behalf present this second Report on Action Taken by Government on the recommendations contained in the Eleventh Report of the Railway Convention Committee (1980) on "Cost of Operation of Railways (Cost of Materials)".

2. The Eleventh Report of the Railway Convention Committee (1980) was presented to both the Houses of Parliament on 17th April, 1984. The replies of the Government to all the recommendations contained in the Report were received by 17th September, 1985.

3. The Committee considered the replies of the Government at their sitting held on 8th January, 1986 and adopted the Report on the same day.

4. An analysis of action taken by Government on the recommendations contained in the Eleventh Report of Railway Convention Committee (1980) is given in Appendix. It would be observed therefrom that out of 17 recommendations made in the Report, 7 recommendations i.e., 41.1% have been accepted by the Government. The Committee have decided not to pursue 6 recommendations i.e., 35.5% in view of the replies furnished by the Government. The final replies in respect of 2 recommendations i.e., about 11.7%, are still awaited from the Government. Replies in respect of 2 recommendations i.e., 11.7%, have not been accepted by the Committee.

NEW DELHI.
February 12, 1986

Magha 23, 1907 (Saka)

SUBHASH YADAV
Chairman
Railway Convention Committee.

CHAPTER I

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations/conclusions contained in their Eleventh Report (Seventh Lok Sabha) on "Cost of Operation of Railways (Cost of Materials)."

1.2 Action Taken Notes on all the recommendations and conclusions contained in the Report have been received from the Government*.

1.3 Replies to the recommendations and conclusions contained in the Report have been categorised under the following heads :—

(i) Recommendations and conclusions which have been accepted by the Government :

S. Nos. 1, 7, 9, 12, 14, 16 and 17.

(ii) Recommendations and conclusions in respect of which replies of the Government have been accepted :

S Nos. 2, 3, 5, 10, 11 and 13.

(iii) Recommendations and conclusions in respect of which replies of the Government may not be accepted :

S. Nos. 6 and 8.

(iv) Recommendations and conclusions in respect of which final replies of the Government are still awaited :

S. Nos. 4 and 15.

1.4 The Committee expect that final replies to the recommendations in respect of which only interim replies have been furnished will be submitted expeditiously.

1.5 The Committee will now deal with the action taken by Government on some of its recommendations.

* Out of five points on which further information was called on 24-10-1985, information on three points was received on 5-12-1985.

A. Need to reduce expenditure incurred on purchase of proprietary items from a single source (S. No. 6, para 2.34).

1.6 The Railway Convention Committee in paragraph 2.34 of their Eleventh Report mentioned that considerable expenditure was incurred on purchase of proprietary items from a single source. Although the Committee had been assured that enough safeguards existed to ensure the need, the reasonableness of price and the non-availability of alternative source etc. the Committee had reasons to believe that there existed a lot of scope for malpractice and that there was malpractice. The Committee, therefore, urged continuous monitoring of such purchases by the Railway Board with a view to taking steps to minimise such purchase and obviate any malpractice. The Committee also suggested that there should be effective liaison with the Directorate General of the Technical Development to locate or develop alternative sources both in respect of indigenous procurement and import.

1.7 The Ministry of Transport (Department of Railways) (Railway Board) in their reply informed the Committee as follows :

“Development of alternative sources in respect of procurement of Railway stores, where single sources exist is taken up on top priority. Items having single source of supply are identified and the development of alternative sources is taken up by the Dev. Cell working in the Ministry of Railways as well as by Zonal Railways and Production Units. Centralised procurement of important high value items of Railway stores both indigenous and imported is done by Railway Board for the Railways so as to have the benefit of price reduction and eliminate any scope for malpractice. Continuous liaison with DGTD is maintained by Ministry of Railways and necessary help is obtained to develop or locate alternative source for procurement of items of Railway stores, where single source exists. The observations made by RCC have been brought to the notice of the Zonal Railways and Production Units for necessary action.”

1.8 The Committee are not convinced of the reply given by the Ministry. Steps taken to minimise expenditure on purchase of proprietary items from a single source have not been indicated. The apprehension of the Committee that there is lot of scope for malpractice in this has not been removed. The Committee would reiterate that there should be regular monitoring of such purchases at the Board level and effective steps should be taken to bring down expenditure on such purchases to the minimum.

B. Variation in price of proprietary items (S. No. 8 para 2.36)

1.9 The Railway Convention Committee in paragraph 2.36 referred to the statements regarding purchase of proprietary items by the different railways each item from the same source. The Committee were informed during evidence that except for marginal variations it was not possible that the price paid for the same item would be different from place to place and Railway to Railway from the same source. The instance brought out in paragraph 2.32 of this Report, however, strongly suggested that this could not be ruled out. The general explanation given by the Railway Board ruling out this possibility was not at all convincing to the Committee. They would like the Railway Board to investigate each case by an independent team of officers and report the results to the Committee after taking such action as might be warranted on the basis thereof.

1.10 The Ministry of Transport (Deptt. of Railways—Railway Board) in their reply have stated as follows :—

“Information as given on point No. 9* arising out of discussion held with RRC on 9-1-1984 reflects the correct position. However, the SDGM of the Railways concerned would be requested to verify the position and advise.”

1.11 The Committee note that in some cases the difference in prices was not marginal but as high as 20% for the same quantity, quality, source of purchase and date of purchase. The Ministry have neither

*Reproduced in paragraph 2.33 of the Eleventh Report.

replied to the suggestion of the Committee that such cases be investigated by an independent team of officers and results thereof communicated to the Committee nor informed about the advice received from the different zonal railways Administrations on this issue. The Committee expect to hear soon in this regard.

The Committee regret that even after a lapse of two years, the Railway Board have not been able to furnish the detailed report as agreed to by them.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1, Para No. 1)

The Railway Convention Committee (1980) examined the Cost of Operation of Railways to ascertain the scope for economy in order that the Railways may be in a better position to augment the appropriations to various funds and pay reasonable dividend to the General Revenues and yet render better service to the community. Of the working expenses (excluding dividend) of the Railways, 45.8 per cent is accounted for by staff cost, 25.6 per cent by fuel cost and the rest by other stores (1981-82). The Committee's Ninth Report on Cost of Operation of Railway's covered their examination of Cost of Staff and Fuel. This Report deals with the cost of other stores besides the systems of purchases, disposals inventory control and costing in general.

Reply of Government

This being general observation is noted.

Recommendation (S. No. 7, Para No. 2.35)

The Committee do not favour continued dependence on import for raw materials and components. They desire that rapid indigenisation should be achieved and self-reliance attained under a time bound programme.

Reply of Government

Indian Railways have been making persistent efforts to achieve maximum possible import substitution and self-sufficiency. Bulk of items used by the railways are either being manufactured in their own workshops or are being procured from indigenous sources.

2. To prevent heavy drain on foreign exchange in importing Wheels & Axles to meet Railways' requirements, the railways are setting

up a Wheel & Axle Plant at Yelahanka, Bangalore, which is expected to go into partial production in late 1984. This Plant will produce approximately 70,000 Wheels and 23,000 Axles per year.

3. Another production unit *viz.* Diesel Component Works is being set up Railways at Patiala for the manufacture of components of diesel locos and its sub-assemblies. On commencement of production in this unit, it would be possible to indigenise further components of diesel locos.

4. Imports are limited to only certain hard core items including some raw materials and proprietary items. The manufacture of such specialised items calls for sophisticated manufacturing techniques, high capital investment and even foreign collaboration in some cases. Due to limited offtake of these items by the Railways, not many units in private/public sector are keen to take up their indigenous manufacture. In order to encourage new entrepreneurs in taking up indigenous manufacture of difficult and sophisticated items, incentives such as guaranteed offtake, liberalised delivery schedules, waiver of liquidated damages, grant of price escalation and payment of advance in selective and deserving cases etc. are being offered.

Recommendation (S. No. 9, Para 3.22)

As early as 1975, The Railway Convention Committee (1973) had stressed in their Eighth Report the need for strengthening materials management. They had pointed out that the plan expenditure on 'Inventories' had exceeded the revised plan outlay to the extent of five times. They called for streamlining of stores procedures. Although the Committee had been subsequently informed by the Railway Board that the position of inventories had significantly improved by the introduction of modern techniques and adoption of important economy measures, regrettably the present position does not bear out this claim. The Comptroller and Auditor General of India in his report (1981-82) has highlighted the disquieting trend noticed in the plan expenditure on 'Inventories' since 1980-81. The expenditure during 1980-81 and 1981-82 was as high as Rs. 118.85 crores and Rs. 75.52 crores respectively against the total plan provision of just Rs. 40 crores for all the five years of the Sixth Plan. No wonder therefore the inventory balance as on 31 March 1982 and 31 March 1983 stood at Rs. 460.65 crores and

Rs. 431.29 crores respectively. This on all account, despite the explanation of the Ministry, indicates a very unsatisfactory state of affairs. The inventory carrying cost is quite considerable and is substantially avoidable.

Reply of Government

Due to paucity of funds the allocation of funds made for inventories was much lower than the requirements. Moreover the Plan provision of Rs. 40 crores as the Inventory funds for the 6th plan was based on the prices prevailing before the commencement of the 6th plan.

As already explained in the Memorandum submitted to RCC the performance of the Inventories has to be judged from the efficiency indicator viz. turnover ratio of Stores Suspense to Issues (both without fuel) and not with reference to the absolute value of inventory during any year. This ratio has started steadily coming down and the same has come down to 35% in 1983-84 (Prov.) from 39% obtaining in 1979-80.

Taking into consideration the wholesale price Index for all Commodities and taking 1971-72 as the base year for the prices the Stores suspense has been showing a steady decline as can be seen from the statement below :

(Value in crores of Rs.)

Year	Stores Bal.	Wholesale price index (All Comm.)	Value of Stores suspense 71-72 prices.	Relative Stores suspense at 71-72 prices
1971-72	182.03	105.6	182.03	100.00
1980-81	297.91	257.3	122.26	67.16
1981-82	358.88	281.3	134.72	74.00
1982-83	335.26	288.6	122.67	67.39
1983-84 (Prov.)	348.03	315.3	116.56	64.03

However with improved facilities in future like introduction of modern computers in inventory applications, it is expected that still better control could be achieved.

Further Information asked for by the Committee

What is the percentage of stores balances to the yearly plan expenditure during the Sixth Five Year Plan ?

Further Reply of Government

The ratio of Stores balance (excluding fuel) to Issues on the Railways which went up from 35 per cent in 1976-77 to 42 per cent in 1979-80 has come down to 36 percent in 1984-85.

Recommendation (S. No. 12, Para 3.25)

“Further the Committee suggest that value analysis should be undertaken by inter disciplinary team of officers to bring down the cost of raw materials and components. Such Cells should be constituted in all Zonal Railways and Production Units and the results achieved monitored by the Railway Board”.

Reply of Government

Action on the lines indicated has already been taken by the Railways based on the recommendations of the Yardstick Committee.

Recommendation (S. No. 14, Para 4.10)

Another area of cost reduction in regard to inventory holding is prompt disposal of surplus/obsolete stores and scrap to the best advantage of the Railways. Although in value terms the percentage of non-moving items of stores has come down to in 1983-84, in physical terms, according to the Railway Reforms Committee, the position is alarming. On six Zonal Railways and one production unit they observed that 7,850 items had not been drawn for more than four years and 4,664 items for more than five years. Surplus materials symbolise either mistake in procurement or change in planning decisions by management and perhaps to some extent overall absence of efficiency. The Committee, therefore, urge that the Railways should exercise stricted review and ensure disposal of non-moving items with a view to controlling the inventory-carrying costs.

Reply of Government

The position of inactive items is being watched in Railway Board's office on the basis of half-yearly returns received from the Zonal Railways/Production Units. Further, a review of these items is also made in the periodical Inventory Control meetings held in Board's office from time to time and in the annual Controller of Stores (COS) meetings and remedial measures taken.

In physical terms, the total number of inactive items has come down from 68610 as on 31.3.83 to 48730 as on 31-3-84, It would therefore be seen that continuous efforts are always being made to bring down the inactive items on the Railways. Further based on the recommendation of the Railway Reforms Committee, a Committee of Heads of Departments including the COSs, FA&CAOs and heads of the main users Departments have been directed to constantly moitor the position of inactive items apart from the stores balances (copy given below).

**GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
(RAILWAY BOARD)**

No. 84/RS(IC)/165/1/RRC/Rec. No. 99 New Delhi, Dated 11-6-84

**The General Managers (Stores)
All Indian Railways/Production Units.
(including W & AP)**

Sub : Railway Reform Committee recommendations contained in Report Part XIII-Chapter VI Rec. No. 99.

The Railway Reforms Committee under the chairmanship of Shri H.C. Sarin made the following recommendation on Material Management on Railways :—

“Rec. No. 99. (i) A Committee consisting of Controllers of Stores, FA & CAOs, and the Head of the main user Departments should be constituted to meet at least once a quarter, after the closing of accounts, to review stores balances and take stock of the inventory situation.

- (ii) The Committees should submit quarterly reviews to the General Managers, who in turn should send a bi annual situation report to the Railway Board.
- (iii) The EDP Centre should put up clearcut data for deliberation by the Heads of Department Committees in order to take the meetings useful. This should include *inter alia* the data specifically recommended.
- (iv) The Committees should also review the progress to Survey Committees for surpluses, with a view to ensuring final disposal.

(Paras 3.2.3 2.1,3.2.2,3.3.3 and 3.3.4)

Extracts of paras 3.2, 3.2.1,3.2.2, 3.3.3 and 3.3.4 referred to in the aforesaid recommendation is also enclosed.

The Ministry of Railways have accepted the recommendation and desire that this should be implemented forthwith. In the case of Production Units attention is invited to this Ministry's letter No. 77/RS(IC)/165/29 dated 21.1.1978 wherein formation of similar Committees has already been advised.

This issues with the concurrence of Finance Directorate.

Please acknowledge receipt of this letter.

Sd/-

(S. Krishnan)

Jt. Director Railway Stores
Railway Board.

DA/AS above.

No. 84/RS(IC)/165/1/RRC Rec. No, 999

New Delhi. Dt. 11-6-84

Copy forwarded to .—

- (1) Controller of Stores All Indian Railways/P. Units.
- (2) FA & CAOs, All Indian Railways/P. Units.
- (3) Controller of Stores, COFMOW, 1 Eastern Avenue, Maharani Bagh, New Delhi.

- (4) C.A.O., D.C.W., Patiala.
- (5) The General Manager, Metro Railway, Calcutta.
- (6) C.A.O., Railway Electrification, Jaika Bhawan, Nagpur.
- (7) C.A.O., M.T.P, Calcutta.
- (8) C.A.O, M.T.P, Bombay/Delhi/Madras.
- (9) Professor (Stores), Railway Staff College, Baroda.
- (10) OSD/SDG, Central Railway Bombay & I.C.F., Madras.
- (11) J.D.F.R.(EB) and D E,B, Railway Board (with 2 spares).

Sd/-

(S. Krishnan)

Jt. Director Rly Store (IC) Rly. Bd.

Extracts of paras 3.2, 3.3.1, 3.3.2, 3.3.3 and 3.3.4 of Chapter VI of RRC Report Pt. XIII.

3.2 We recommend, therefore, that it be made obligatory for these Committees to submit quarterly reviews to the General Managers, who should be required to send a situation report to the Ministry of Railways twice a year.

3.3. In order that the deliberations of these Committees can be useful, without taking up undue time of the officers concerned, the following information should be prepared by the Stores Department with the aid of the EDP centre :

1. Value of non-moving stocks (seperately for those non-moving for six months and twelve months) and individual identification of all such items with a value in excess of Rs. 25,000/-
2. A summary of A & B items for which more than six month's stock exists.
3. A summary of items with an annual demand in excess of Rs. 50,000/- for which there is non-compliance at any user point. This should be checked against items (.1) & (.2) above, with a view to giving lateral assistance and avoiding fresh purchases.

4. Review the progress of Survey Committees for unwanted surpluses, with a view to ensuring their disposal.

Recommendation (S. No. 16, Para 4.12)

The quantity of scrap ferrous, non-ferrous and condemned rolling stock has been rising from year to year. The total value of scrap sold has risen from Rs. 49.65 crores in 1979-80 to Rs. 88.80 crores in 1982-83. The Committee feel that a part of the scrap-ferrous and non-ferrous is attributable to wasteful production practices. This aspect needs a review to minimise the scrap arisings. Further, scrap that could be reused should be so used within the Railways. A critical study of the unit value realised on the sale of scrap and condemned rails should be undertaken periodically by the Railway Board to ensure that there is no leakage anywhere.

Reply of Government

The quantity and value of scrap sold during 1980-81 to 1984-85 is given below.

Year	Disposal in terms of quantity			Value of disposal (in crores of Rs.)
	Ferrous scrap (in 000 MT)	Non-ferrous scrap in 000 MT)	Rolling stock (in Nos.)	
1980-81	209.50	3.34	10,900	70.79
1981-82	171.25	3.00	16,150	75.34
1982-83	206.16	3.31	20,450	88.80
1983-84	304.15	4.85	22,040	119.86
1984-85	302.03	3.32	20,340	140.00

The increase in disposal of scrap and condemned rolling stock is due to concerted efforts made for disposal for realisation of value by improvement and the drive initiated in 1980-81 for condemnation of all overaged wagons and large scale condemnation of steam locomotives. In the Mechanical Workshops the scrap arisings which could be attributed to Production Processes essentially pertain to forgings and castings processes. In these processes, to the extent feasible, the scrap arisings are re-cycled. As regards rails released from primary renewals,

these are carefully screened for use in the secondary renewals. Reconditioning work is also undertaken, such as cropping of the rail ends and welding them together. We are also in the process of setting up rail re-profiling depots which will re-profile the released rails for use in the metre-gauge section. Only the scrap rails which do not have any use, are disposed off by auction. However, the recommendations of R.C.C. have been noted and reiterated to the Railways and Production Units. As regards study of the unit value, it is stated that value of scrap depends on several factors such as quality of scrap/condemned rolling stock, demand and supply situation, transport facilities available, location whether accessible to market/Mini Steel Plants/Re-rolling Mills, etc. It will, therefore, not be feasible to compare the unit value of scrap/rails and condemned rails in varying conditions under which these materials are sold all over Indian Railways covering almost the entire country. The scrap materials are sold by Railways after fixation of reserve price taking all aspects into consideration.

Recommendation (S. No. 17, Para No. 5.14)

According to the Ex-Chairman of Railway Tariff Enquiry Committee who appeared before this Committee, the costing system adopted by the Railways gives no indication as to the necessary and the unnecessary, the justified and the unjustified costs in the various elements of costs. The Committee are in agreement with the suggestion that development of some kind of 'standard' or 'appropriate' cost for management control, planning and decision making is absolutely necessary. In fact that Estimates Committee have also recently in their Report on 'Railway Production Units' stressed this need. There, however, appears to be no expertise in costing especially at higher levels in the Railways. The Committee recommend effective costing cells consisting of cost experts should be ensured and reliable costing system evolved for monitoring of costs and achieving better cost control. What the Committee envisage is an integrated approach to cost and financial accounts whereby standard costs could be compared with actual costs and difference could be analysed in terms of usage, rate, etc variances and prompt remedial steps taken for effective cost control from year to year. The results of such an approach and action should be reflected in the Annual Reports of Railways for the information of Parliament and the public.

Reply of Government

While the principles and techniques of standard costing with the attendant analysis of variances to help achieve better cost control is easy of adoption for repetitive manufacturing activities, the complexities of providing transportation services catering to a wide range of fluctuating demands from users do not easily lend themselves to such treatment.

2. Even so, the Committee's recommendation to have Costing Cells consisting of Costing experts is accepted in principle. The modalities would be worked out to weave costing expertise into the existing cadres of the Accounts Department at appropriate levels. This would be effected principally by intensifying the exposure to Cost Accounting knowledge and techniques, to serving officers and staff and also by lateral induction of persons with Cost Accounting qualifications and experience at appropriate levels.

3. Continuous efforts are being made to refine the traffic costing techniques. In recent times, incremental costing has been used for quotation of station-to-station rates with a view to recapturing high-rated traffic. Efforts are also on to have the basic cost data available at quarterly time-intervals instead of annually. Installation of higher capacity computers on the Zonal Railways which have already been programmed for completion in the next twelve months would also considerably help in deriving disaggregated costs at sub-zonal levels and for different streams of traffic.

4. The results of such efforts when fully operational would also be reflected suitably in the Annual Reports to Parliament.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES OF THE GOVERNMENT

Recommendation (Sl. No. 2, Para 2.19)

The expenditure on purchase of stores (other than fuel) has gone up from Rs. 665 crores in 1978-79 to Rs. 1601 crores in 1982-83. The factors that led to the vast increase are *inter alia* started to be increase in prices, greater repairs and maintenance requiring higher outlay on materials, enhanced track renewal activities etc. The Committee are not quite convinced that there was no scope for economy in purchases. On the contrary their examination has revealed that there is scope for economy if only the purchase procedures are rationalised and better inventory management and cost control achieved.

Reply of Government

The Ministry of Railways would like to reiterate that, with the existing facilities, available, the Railways are doing their best to economise on purchases. The turn-over ratio of Issues to Balances (without Fuel) has come down from 43% in 1981-82 to 36% in 1982-83. This figure has come down still further to 34% in 1983-84 with the continuing emphasis on inventory control on the Railways and the Production Units. However, with additional facilities likely to be available with the replacement of existing obsolete computers in the near future and further rationalisation of Stores organisation on scientific yardsticks for purchase, stocking, disposal etc., the Railways expect to do still better and produce even more encouraging results.

Recommendation (S. No. 3, Para 2.20)

There are three different agencies for making purchases for Indian Railways—(i) the Railway Board, (ii) Zonal Railways and Production Units and (iii) the Directorate General of Supplies and Disposals. On

a review being made in early Seventies, it was decided that the Railways would handle purchase of all items which are special to railways' requirements and that DGS&D would purchase common items needed by other Ministries/Department also. At present 27 per cent of the Railway purchases are through the DGS&D. The major items are fuel (other than coal) and paints. The Railways pay a commission to DGS&D. As there is no price advantage arising out of centralised procurement by DGS&D, the price of petroleum products being fixed, the Railways have made a plea that they should be permitted to buy direct from the Public Sector Oil companies. According to the Financial Commissioner (Railways) the Railways could handle this without extra cost as virtually the entire work except the placing of orders is done by them even now. The Committee see no reason why the DGS&D should continue to handle this purchase on behalf of Railways. In their view it would be economical to cut out this intermediary between the oil companies and the users. They recommend that the Railways should procure petroleum products directly from the oil companies in future.

Reply of Government

“Accepted. However, this matter has been referred to Ministry of Supply for their concurrence. Implementation would follow after the modalities of the transfer are finalised.”

Further information asked for by the Committee

Please obtain the comments of the Ministry of Supply, and furnish them to the Committee.

Further Reply of Government

The question of taking over the procurement work of fuel oil etc. by the Ministry of Transport, Department of Railways was taken up with the Department of Supply. The Department of Supply have advised that the Committee constituted by that department under the Chairmanship of Joint Secretary, Supply, have not agreed to the transfer of procurement work of fuel oil etc. from DGS&D to the Department of Railways.

Recommendation (S. No. 5, Para 2.29)

The Committee are of the view that the purchase procedures adopted by the Railways inhibit timely procurement of stores even within the country. Cases are not rare where the lead time is more than a year. This would inevitably lead to local purchases at higher cost or a tendency on the part of the indenters to over-stock stores. In either case considerable avoidable expenditure would be the result. In this connection the Committee would draw attention to the report of the Railway Reforms Committee on Materials Management. That Committee has brought out cases of inordinate delay in processing indents and issuing tenders. There have been glaring instances where urgent requirements were not processed for procurement for as long as 5 years. The Committee are distressed at this state of affairs and urge that provisioning and placement of orders should in future be regulated under a time bound programme. In their view a target of about a month to complete all formalities before issue of tenders would not be asking for too much from the system. Unfortunately this does not happen now in even 5 per cent of the Cases.

Reply of Government

Ministry of Railways are aware that the inventory management on the Railways has to be further streamlined and Modernised Consistent with the increasing Computerisation that go with heavier workload. Accordingly various committees appointed in the past have made a number of recommendations including the one pertaining to creation of Unit Purchase Cells for streamlining the Purchase Organisation. Many of these recommendations have been accepted and are in varying stages of implementation. The ultimate aim is to make the system predominantly officer oriented. Some recommendations involve re-structuring of ministerial cadre for Purchase. Once all these recommendations are finally implemented, it is expected that provisioning and placement of orders will be processed in a much shorter time.

Recommendation (S. No. 10, Para 3.23)

The ratio of Stores held in stock to the actual issues improved from 54 to 23 in the case of stores including fuel and from 70 to 33 in the case of stores excluding fuel between 1972-73 and 1977-78 but deteriorated to 28 and 42 respectively in 1981-82. It is abundantly clear that there has been relaxation in the tempo of inventory control since 1978. The Railway Board have indicated that the ratio has since improved 23.5 and 36.5 in 1982-83. The Committee are not however sure of the reliability of these figures, for the stores balances excluding fuel were indicated to be higher than those including fuel in the statement given at page 147 of the Railways Year Book (1982-83). The Committee would await an explanation in this regard and the action taken to improve the ratio to 30 for stores excluding fuel as recommended by the Railway Reforms Committee.

Reply of Government

Stores Balances constitute bookings under two main heads viz. "Purchase" & "Stock" and other heads Sales & Adjustment. Purchase Head is debited with payments made for purchase of fuel and is credited with the value of fuel received which in turn is debited to Stock. The debits under stock are cleared by adjusting the issues of fuel to locomotives etc. Under the head Fuel-Stock there are debit balances indicating value of coal/HSD oil in physical stock. As indicated earlier, the head Purchase-Fuel is debited with payments made and credited with the value of Coal/HSD oil received in sheds. It is seen that the head Purchases—Fuel has credit balances at the time of closing of accounts due to the following reasons :—

- (i) HSD oil is supplied to Railways from various points throughout the country. The bills for this supply are initially passed by PAO/DGS&D and debit is raised by exchange account through Reserve Bank against the Railways. There is time-lag between the receipt of HSD oil and receipt of debits for the Oil. The HSD oil is received earlier than debits which means that credits are booked earlier than debits. Some of the debits of HSD oil physically received in one year are received in the next financial year. Thus credits under the head pur

chases are generated and remain uncleared at the end of the financial year. Similarly, there is time-lag between the physical receipt of Coal and passing of Coal bills by the Railways. In many cases bills for Coal supplied in March are passed in April which generates uncleared credits under Purchases-Fuel. In brief, payment of some quantity of HSD oil and coal received in a year is made in the next financial year resulting in credits under Purchases.

- (ii) Sometime in operational exigencies, Public Coal Wagons are intercepted and utilised by the Railways. This will immediately generate credits under Purchases. Such credits are cleared by adjustment of claims paid to parties after linking the missing wagons of parties with the intercepted wagons utilised in sheds. This process takes time. Similarly, some HSD Oil tanks of oil companies are also intercepted and utilised by Railways, thereby generating credits under Purchases. As there is a time lag in arranging payments of claims an adjustment of claims against "Purchases fuel" by suitable linking, certain credit balances remain unadjusted at the end of the year. Thus, the action of intercepting Public Coal and HSD oil tanks of Oil companies in operational exigencies results in generation of credits under the Purchases-Fuel which remain uncleared at the end of financial year.

When credits under Purchases—fuel due to the above two factors are more than the debits under Fuel-stock over all credit balances under fuel are generated. When such negative balances are added to Stores balances other than fuel, the Stores Balances with Fuel become less than Stores Balances without Fuel.

Railway Reforms Committee's Recommendations regarding improving the turnover ratio to 3% for stores excluding fuel are not acceptable due to the following reasons :—

1. Relatively higher turnover ratio for diesel and electric loco spares as compared to other groups due to their relatively new assets.

2. Erratic supply position of materials like WTA and steel which inspite of monitoring tend to arrive in bulk towards the end of the financial year.
3. In the case of Railways like NF, long lead resulting in need for higher buffer stock.
4. Certain percentage of inactive/over stock items is inavitable in an organisation leading to adverse balance.

Recommendation (S. No. 11, Para 3.24)

Besides tightening up of inventory control, further standardisation and cost reduction by value analysis are warranted to economise on inventories. The Committee note that the number of items in inventory were as many as 4 lakhs in April 1974, but as a result of several steps taken in regard to their standardisation and rationalisation, the number of items has been brought down to 2.3 lakhs in April, 1982. It has, however, been admitted that there was scope to further bring down this number. Efforts in this regard should continue vigorously.

Reply of Government

Ministry of Railways have already identified the basic causes which result in proliferation of stock items and corrective action is being continued. However, the number of stock items would go up with passage of time, commensurate with new types of rolling stock introduced in the Railways. Further to ensure better budgetary control on materials, efforts are being made to reduce the number of non-stock items which naturally would also result in increasing the total number of stock items. It would be the constant endeavour of the Railways to standardise/rationalise the sizes and specifications while making new stock items.

Recommendation (S. No. 13, Para 3.26)

The observations of the Railway Reforms Committee in regard to inventory management in the Railways are pertinent. They have found that there is only a peripheral awareness of the scientific aspects of materials management. The stores discipline in the Railway infrastructure functions more or less as a loosely-knit and disorganised purchaes

and supply department. The wide range of sophistication which has been achieved in materials management in some other countries in terms of management of operation has yet to make a dent in the Railways. The position thus calls for immediate attention. The Committee would like to know the action taken to improve the position.

Reply of Government

The Railway Reforms Committee has pointed out that Railways have not yet achieved a wide range of sophistication in materials management in terms of management or operation as in other foreign countries. The RRC's recommendations are under detailed examination. Some of these have already been accepted and to the extent financial resources permit, the recommendations will be implemented in a phased manner. It may, however, be appreciated that the gestation period for reaching the levels of sophistication prevalent in western countries will be relatively longer. It would not be appropriate to invite attention to the fact that the Railways' performance in respect of inventory control is not only the best in Government/Public Sector, but is also favourably comparable with many industries in the private sector.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH THE REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED AND WHICH HAVE BEEN REITERATED

Recommendation (S. No. 6, Para No. 2.34)

Considerable expenditure is incurred on purchase of proprietary items from a single source. Although the Committee have been assured that enough safeguards exist to ensure the need, the reasonableness of price and the non-availability of alternative source etc., the Committee have reason to believe that there exists a lot of scope for malpractice and that there is malpractice. The Committee would, therefore, urge continuous monitoring of such purchases by the Railway Board to take steps to minimise such purchase and obviate any malpractice. The Committee would also suggest that there should be effective liaison with the Directorate General of Technical Development to locate or develop alternative sources both in respect of indigenous procurement and import.

Reply of Government

Development of alternative sources in respect of procurement of Railway stores, where single sources exist is taken up on top priority. Items having single source of supply are identified and the development of alternative sources is taken up by the Dev. Cell working in the Ministry of Railways as well as by Zonal Railways and Production Units. Centralised procurement of important high value items of Railway stores both indigenous and imported is done by Railway Board for the Railways so as to have the benefit of price reduction and eliminate any scope for malpractice. Continuous liaison with DGTD is maintained by Ministry of Railways and necessary help is obtained to develop or locate alternative source for procurement of items of Railway stores, where single source exists. The observations made by R.C.C. have been brought to the notice of the Zonal Railways and Production Units for necessary action.

Comments of the Committee

Please see Paragraph 1.8 of Chapter I.

Recommendation (S. No. 8, Para No. 2.36)

At the instance of the Committee the Railway Board have furnished statements regarding purchase of proprietary items by the different railways each item from the same source. The Committee were informed during evidence that except for marginal variations it was not possible that the price paid for the same item would be different from place to place and Railway to Railway from the same source. The instance brought out in paragraph 2.32 of this Report however strongly suggest that this cannot be ruled out. The general explanation given by the Railway Board ruling out this possibility is not at all convincing to the Committee. They would like the Railway Board to investigate each case by an independent team of officers and report the results to the Committee after taking such action as may be warranted on the basis thereof.

Reply of Government

Information as given on point No. 9 arising out of discussion held with RCC on 9-1-84 reflects the correct position. However, the S.D.G.M. of the Railways concerned would be requested to verify the position and advise.

Comments of the Committee

Please see paragraph 1.11 of Chapter I.

CHAPTER V

RECOMMENDATIONS OBSERVATIONS/IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation (S. No. 4, Para 2.21)

In regard to paints and varnishes, it is seen that during the year 1981-82, DGS&D purchased these items largely for the Railways. Railways have claimed that they can exercise better quality control while directly purchasing paints. The Committee accordingly suggest that the Railways could handle the purchase of paints also provided it would make for not only quality but also economy on purchase overheads.

Reply of Government

Accepted. However, this matter has been referred to Ministry of Supply for their concurrence. Implementation would follow after the modalities of the transfer are finalised.

Further information asked for by the Committee

Please obtain the comments of the Ministry of Supply and furnish them to the Committee.

Further Reply of Government

However, as regards taking over of paints by the Department of Railways from DGS&D, the matter is still under consideration of the Department of Supply.

Recommendation (S. No. 15, Para 4.11)

It is quite possible that some useful store rendered surplus in one Zonal Railway may be needed in another Railway. There should therefore be exchange of information so that such stores

may not be disposed of, the Railways needing them paying higher cost to procure them from the open market. The Committee would suggest setting up of a centralised machinery in Railway Board to act as a clearing house of information in this regard.

Reply of the Government

The Railway Reforms Committee have also suggested creation of a monitoring wing in the Stores Directorate in the Railway Board's Office for which suitable strengthening of the Organisation is under the consideration of RRC.

The Recommendation of the Convention Committee is accepted in principle and implementation would follow after the detailed recommendations of RRC on the necessary Organisation are received.

NEW DELHI ;
February 12, 1986

Magha 23, 1907 (Saka)

SUBHASH YADAV,
Chairman,
Railway Convention Committee

APPENDIX

(Vide Para 4 of Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS/OBSERVATIONS CONTAINED IN THE ELEVENTH REPORT OF RAILWAY CONVENTION COMMITTEE, 1980

I. Total number of recommendations	17
II. Recommendations/observations which have been accepted by the Government (<i>vide</i> recommendations at S. No. 1, 7, 9, 12, 14, 16 and 17)	
Number	7
Percentage to total	41.1%
III. Recommendations/observations which the Committee do not desire to pursue in view of the replies of the Government (<i>vide</i> recommendations at S. Nos. 2, 3, 5, 10, 11 and 13)	6
Percentage to total	35.5%
IV. Recommendations/Observations in respect of which the replies of the Government have not been accepted by the Government (<i>vide</i> recommendations at S. Nos. 6 and 8)	
Number	2
Percentage to total	11.7%
V. Recommendations/observations in respect of which final replies of the Government are still awaited (<i>vide</i> recommendations at S. Nos. 4 and 15)	
Number	2
Percentage to total	11.7%

PART II

**Minutes of the sitting
of the Railway Convention Committee (1985)
held on 8 January, 1986**

RAILWAY CONVENTION COMMITTEE
(1985)

6th Sitting

8-1-1986

The Railway Convention Committee held its sitting from 1530 hrs. to 1630 hrs.

PRESENT

MEMBERS OF THE COMMITTEE

1. Shri Vijay N. Patil—*in the chair*
2. Shri B. Devarajan
3. Prof. Narain Chand Parashar
4. Shri Ram Dhan
5. Shri M. Maddanna
6. Shri Bhagatram Manhar
7. Shri P. Upendra

SECRETARIAT

1. Shri K.H. Chhaya—*Chief Financial Committee Officer*
2. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

In the absence of the Chairman, RCC, Shri Vijay N. Patil presided.

The Committee considered the Draft Action Taken Report on Action Taken by Government on the recommendations contained in the Eleventh Report of the Railway Convention Committee 1980 on Cost of Operation of Railways (Cost of Materials).

After consideration, the Committee adopted the Action Taken Report subject to amendment mentioned in the Appendix.

APPENDIX

AMENDMENTS MADE BY THE COMMITTEE
IN THE DRAFT ACTION TAKEN REPORT ON XITH
REPORT OF RCC (1985)

Page	For	Read
6.	<p>The Ministry has neither replied to the Suggestion of the Committee that such cases be investigated by an independent team of officers and results thereof communicated to the Committee nor informed about the advice received from the different Zonal Railway Administration on this issued. The Committee expect to hear soon in this regard.</p>	<p>The Committee note that in some cases the difference in prices was not marginal but as high as 20% for the same quantity, quality, source of purchase and date of purchase. The Ministry have neither replied to the suggestion of the Committee that such cases be investigated by an independent team of officers and results thereof communicated to the Committee nor informed about the advice received from the different zonal railways Administrations on this issue. The Committee expect to hear soon in this regard.</p> <p>The Committee regret that even after a lapse of two years, the Railway Board have not been able to furnish the detailed report as agreed to by them.</p>