

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1974-75)**

(FIFTH LOK SABHA)

FIFTY-SEVENTH REPORT

**Action Taken by Government on the recommendations
contained in the 34th Report of the Committee on
Public Undertakings (Fifth Lok Sabha)**

INDIAN TELEPHONE INDUSTRIES LIMITED

(MINISTRY OF COMMUNICATIONS)



**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1975/Phalguna, 1896 (S)

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IN 34TH REPORT OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS (FIFTH LOK SABHA) ON INDIAN
TELEPHONE INDUSTRIES LIMITED.

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(1974-75)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Fifty-Seventh Report on the Action Taken by Government on the recommendations contained in the Thirty-Fourth Report of the Committee on Public Undertakings (Fifth Lok Sabha) on the Indian Telephone Industries Ltd.

2. The Thirty-Fourth Report of the Committee on Public Undertakings (Fifth Lok Sabha) was presented to Lok Sabha on the 25th April, 1973. Replies to all the 46 recommendations (unvetted by audit) were received from the Government by 12th February, 1974. Further information in respect of 8 recommendations was, however, called for and the requisite information was received from the Government by 18th July, 1974.

3. The replies of Government and further information received from Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on the 24th December, 1974. The Action Taken Sub-Committee authorised the Chairman to finalise the Report on the basis of the decisions of the Sub-Committee, to circulate it to the Members of the Committee for adoption and to present the same to Parliament.

4. The Report has been divided into the following 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 replies.

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

(V) Recommendations in respect of which final replies of Government are still awaited.

5. An analysis of the Action Taken by Government on the recommendations contained in the Thirty-Fourth Report of the Committee

is given in Appendix II. It would be observed therefrom that out of the total number of recommendations made in the Report 48 per cent have been accepted by Government. The Committee do not desire to pursue 22 per cent of the recommendations in view of Government's replies. Replies of Government in respect of 30 per cent of the recommendations have not been accepted by the Committee.

NEW DELHI;
March 4, 1975.

Phalguna 13, 1896 (S).

NAWAL KISHORE SHARMA
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

A. MAX and Transmission Divisions

Recommendation No. 1 (Paragraphs Nos. 2.15 & 2.16)

The Committee noted that no serious effort had been made to determine precisely the capacity of the MAX and Transmission Divisions from year to year.

The targets and actual production had been indicated in the Transmission Division in terms of value alone. In view of the fact, that targets of production of the various items had to be varied from year to year depending upon the product-mix and in view of the fact that value of production could rise on account of price and quantity variance and other factors, the Committee felt that there was no clear-cut yardstick available to the Management for evaluating the efficiency in production performance. The Committee recommended that keeping in view the past performance and the likely types of orders to be received, it should be possible for the Company to make an accurate assessment and fix the capacity for evaluating the performance. The Committee found that, on the one hand, the Management stated that the production schedules were prepared taking into account the availability of machines, equipments and also the forecast of the orders, on the other hand the Management attributed the shortfall in production to the fixation of targets deliberately at a higher level as a measure of incentive for higher production.

The Government stated in reply that with the customer agreeing to a long-term planning of their requirement followed by placing of firm orders and with the many improvements already made in procurement of materials, advance planning etc., ITI expected to achieve quantitative targets and the budgetted sales to a large extent.

The Committee note that the ITI is expecting to achieve the quantitative targets and the budgetted sales to a large extent with the customer agreeing to a long-term planning of their requirement followed by placing of firm orders. The Committee reiterate their recommendation that it should be possible for the company to make

an accurate assessment and fix the capacity more realistically by greater coordination with the P & T who are their principal customer.

B. Decline in efficiency

Recommendation No. 3 (Paragraph No. 2.18)

The Committee noted that the actual production generally fell short of the targets both in the MAX and Transmission Divisions from 1966-67 to 1970-71. The Committee were informed that the shortfall in production were mainly on account of inadequate receipt of raw materials/components/piece parts and of prescribed quality, non-receipt and non-availability of imported stores and the labour efficiency being less than 100 per cent. The Committee noted that while the Company had already taken measures to ward off delays in obtaining import licences and to see that supply of indigenous components were received well in time, the labour efficiency had declined from 105.9 per cent in 1965-66 to less than 100 per cent in 1971-72, although the amount of labour incentives both direct and indirect showed an upward trend from 1965-66 to 1967-68 and again in 1971-72. The Committee noted that out of 31 shops then functioning, 5 shops had not attained 100 per cent efficiency at any stage while 7 shops had fallen below 100 per cent efficiency from 1969-70. The Committee found that while the expenditure on labour incentives had increased, the efficiency had actually come down thus causing shortfall in production. The Committee noted that the incentive scheme already in vogue was reviewed in January, 1970 and according to the Management, certain modifications would be called for in the Scheme and these were under active consideration. The Committee recommended that the Management should finalise the modified scheme without any further delay ensuring that the modified scheme did not have any adverse effect. The Committee had also suggested that the Management should consider relating labour incentives to productivity so as to improve the efficiency and achieve better production performance. The Committee had also suggested that the reasons for decline in efficiency in the 7 shops should be gone into and suitable remedial measures taken to improve their efficiency.

The Government stated in reply that the labour efficiency while stood at 105.9 per cent in 1965-66, it came down to less than 100 per cent in 1971-72 for the following reasons:—

“In all incentive schemes it is planned to include initially those groups where sufficient amount of margin exists in

the industrial engineering timings to promote an improvement in efficiency with additional effort on the part of the operatives. As efficiency improves and crosses the base, the operatives start to earn incentive money. This momentum continues till it reaches an optimum efficiency above the base and nearer or exceeding 100 per cent. As the scheme gains momentum and the earnings become sufficiently attractive additional group's and shape are brought on the incentive scheme, as soon as conditions can be created for such an incentive scheme to work effectively.

During the period from 1965-66 to 1971-72 the emoluments of the workers were increasing while the rates paid for incentive earnings had not been matching the same rate of increase. Correspondingly the motivational element of the incentive has to some extent been eroded and this resulted in a decrease in the overall efficiency. This process has been aided to some extent by difficulties in keeping the operators supplied with materials all the time. Due to delays and difficulties in making available materials in time in the earlier parts of the year, there has been a tendency to keep down employment of men and to compensate for this by employment of staff on overtime during the second half of the year. In an environment where overtimes and incentives operate simultaneously the incentive are generally less attractive.

The cumulative effect of these three factors has, therefore, been a gradual fall in efficiency of production. The revision of the incentive scheme is being negotiated with the workers' union. While negotiating the new agreement, the recommendation of the Committee to relate labour incentives to productivity more directly would be borne in mind."

The Committee note that the revision of the incentive scheme is being negotiated with the workers' union. The Committee reiterate that the incentive scheme may be finalised at an early date keeping in view the Committee's earlier recommendation that the labour incentive may be related to productivity so as to improve efficiency and achieve better production performance.

C. Cross-bar Project—Defects in design

Recommendation No. 5 (Paragraphs Nos. 3.15 to 3.17)

The Committee noted that the agreement with the BTM which was to have expired on the 21st May, 1971, was extended first from May, 1971 to May, 1972, and again from May, 1972 to May, 1973 in spite of the problems of production as well as in the maintenance of cross-bar exchanges supplies by the collaborators. The Committee were informed that this extension was for the benefit of ITI in order to enable follow up action for the removal of certain deficiencies in the equipment particularly in design most of which related to defective spark quenchers, corrosion of certain parts due to climatic conditions, circuit defects and common control equipment etc. While the Committee noted that the cross-bar system of telecommunications was modern in design, concept and utilisation, they were constrained to point out that the type of cross-bar technology for manufacture in India had been found in actual practice not to be fully suited to our conditions. The Committee were at a loss to understand how such a serious shortcoming crept in when a technical team of senior officials had gone round different countries to examine and recommend the most suitable type of cross-bar equipment for manufacture in the country. The Committee were informed that the Company indicated to the collaborators the pattern of traffic and other information which was sufficient only for the strowger system and without adequate data about the periodicity of calling which was an essential feature in this system and which had an important bearing on the design of the equipment. The Committee failed to understand why such an essential pre-requisite as periodicity of calls was not identified in detail and the special feature of Indian conditions kept in view while selecting the collaboration for the cross-bar equipment. The Committee felt that at least at the time of preparing the Detailed Project Report, these features should have been gone into in detail so that the type of cross bar exchange and the equipment which was manufactured really suited the Indian conditions. The net result of the serious omission had been that in the case of the cross bar system installed in Bombay, as compared to 9,400 line capacity only 6,019 lines could be provided resulting in a recurring loss of about Rs. 30 lakhs per annum. This matter had been high-lighted by the Public Accounts Committee (1971-72) in paragraph 1.1 of their 2nd Report (Fifth Lok Sabha) while examining the financial implications of the defective cross-bar system installed in Bombay. Since this equipment had also been installed elsewhere, the Committee apprehended that the financial loss might be far higher. In view of the above, the Committee desired that the

reasons for not keeping in view the peculiar conditions of Indian telephone operation while deciding foreign collaboration and later not rectifying this serious omission even at the time of preparing the detailed project report should be gone into and responsibility fixed.

The Committee noted that Government claimed now to have found solutions to overcome these shortcomings. The Committee wished that Government had taken concerted measures much earlier and had effected the necessary rectifications without any loss of time. At any rate, the Committee desired that the cross-bar equipment already installed should be systematically rectified and the Committee informed whether it had, in fact, been able to achieve the rated capacity in actual operations. The Committee also liked ITI to confirm that the cross-bar equipment now being manufactured at least conformed to the Indian requirements and was free from the defects which had earlier depressed its operating capacity/efficiency.

The Committee also liked Government to analyse in detail the shortcomings and handicaps which had been experience in selecting this foreign collaboration and in its subsequent operation so as to learn the requisite lesson and advise all Public Undertakings how to avoid such pitfalls in future.

The Government stated in reply that the Indian Telephone Industries Limited, Bangalore, were manufacturing the strowger type of switching equipment in collaboration with M/s. Automatic Telephone & Electric Company of U.K. In early sixties, the need for adding another type of switching equipment, which would be modern in design and also provide facilities contemplated in the context of nation-wise subscriber trunk dialling was felt. A high level Committee of technical experts of the Posts & Telegraphs Department was formed to go into the selection of a suitable new switching system. Members of this Committee visited various foreign countries which were manufacturing modern telephone switching equipment to make a on-the-spot study of the various systems in operation in those countries. The Committee recommended the cross-bar switching system for adoption in India. A tender for supply of 48,000 lines of local exchanges and 6,500 lines of trunk automatic exchange equipment and for collaboration in the setting up of the cross-bar switching equipment of similar design was called for and the quotations received were considered by a Committee. Amongst the cross-bar systems put up before the Committee, the following three were considered for adoption in this country:—

- (i) IME system of Sweden;
- (ii) BTM system of Belgium; and
- (iii) NEC system developed by Japan

For reasons of high price and difficult terms of collaboration, the offer of IME was ruled out. Between the two offers of NEC and BM the offer of BTM of Belgium was preferred for the following technical considerations:—

- (a) BTM, in conjunction with ITT, had vast experience in the manufacture of varied types of telecommunication equipment, and had set up production units in different countries. NEC's experience was limited to Japan.
- (b) BTM, as part of the ITT Group, had experience of what is known as the "compelled Sequence Signalling System", and their offer was for this type of equipment. NEC was yet to develop it. The then Director of Research, P & T Department and the officers in the Telecommunications Research Centre, were of the view that the new cross-bar Exchange should, from the beginning, incorporate the "Compelled Sequence MF Signalling" system.
- (c) The process of manufacture of the BTM Cross-bar equipment was considered simpler than the NEC, according to the ITI Limited.
- (d) The BTM and ITT had experience in inter-working of cross-bar equipment with different types of automatic exchanges in different countries, including the Strowger which was the type then in use in India. The NEC's experience was limited largely to inter-working with equipment in use in Japan.

After detailed consideration of the report of the Committee of technical experts, the Government of India decided, after obtaining the approval of the Cabinet, in favour of the BTM system of Pentaconta switching equipment for this country, and collaboration agreements with ISEC and BTM were signed in 1964 for manufacture of Pentaconta Crossbar switching equipment by the ITI Limited, Bangalore. The signatories to these agreements from the Government's side were the President of India and the Indian Telephone Industries Limited.

The agreements were valid for a period of seven years ending 20th May, 1971, during which period the ITI were required to reach

a manufacturing capacity of 1,00,000 lines of switching equipment of Jorbagh pattern. Due to various reasons, which have been enumerated in brief in reply to Recommendation No. 8, the ITI could not attain the targeted manufacturing capacity before the expiry of the contract in May, 1971. The Government of India, therefore, extended the agreements for another year without payment of royalty so that the ITI could during this period attain the scheduled capacity provided in the agreements. The BTM offered fullest co-operation to the ITI and the scheduled capacity of 1,00,000 lines per annum was reached towards the end of March, 1972. In order to enable the ITI to stabilise its production of Pentaconta type of switching equipment at the scheduled capacity, it was felt that the agreements might be extended by another year beyond May, 1972. This was agreed to by the Government of India on the same terms as the first extension viz., without payment of any royalty. The agreements were finally terminated on the expiry of the second extension viz., 20th May, 1973.

One of the reasons attributed for the deficient and unsatisfactory working of the crossbar equipment was different requirements of telephone traffic prevailing in India-vis-a-vis other parts of the world where Pentaconta switching equipment had been installed. It was stated that the traffic rate depended on (a) the actual communication needs of the communities; and (b) the state of efficiency of the cross-bar system. The aspect of telephone traffic could unfortunately not be assessed before the Pentaconta switching equipment was selected for adoption in this country. It was further stated that it was not actually the cross-bar system which had not been found suitable, but certain design deficiencies which subsequently came to notice of the Company in the particular type of crossbar manufactured by the BTM under the traffic conditions obtaining in the country. The reason for this was not that the decision was taken without foresight but due to lack of experience in the working of this system. Such a risk was stated to be inevitable in adoption of any new system. The selection was made after careful consideration and a thorough investigation in the matter had revealed that no individual officer could be held responsible for selection of this system.

The defects in the working of the crossbar equipment imported from BTM and installed at some stations had also been identified. A task Force comprising of BTM, ITI and the P & T Department was constituted and they drew up a planned programme for rectification of these defects. Some of the defects had been rectified and the others were being rectified as and when they were coming to notice.

In addition, the rectification work in general was also in hand. With regard to the crossbar exchanges installed at Bombay, where about 60 per cent lines were commissioned initially, the working capacity had been substantially improved since then.

It was confirmed that most of the defects of the present equipment had been identified and solutions for these had been found. Arising out of these, changes had largely been incorporated already in the equipment being produced except a few that were in the process of implementation. It was mentioned, however, that besides modifications in the existing system design, which would considerably improve the service and the capacity that could be used in the exchanges, the overall systems concepts which would be most suitable for Indian traffic was also being examined afresh, and arising out of this, the necessary changes in system design as deemed necessary were proposed to be introduced in due course.

Regarding the crossbar equipment received and already installed in exchanges, rectification work was stated to have already been taken up. With the progressive implementation of these changes, the quality of service was expected to improve and fuller utilisation of the capacity of the equipment was also expected.

It was further stated that a number of changes had already been implemented in the equipment being manufactured in ITI; for example, the contact material and spark quenchers suitable for high intensity traffic had already been changed in the current production line. As more and more improvements were being conceived to improve the performance of the equipment on account of the continued efforts put in by the Telecommunication Research Centre, Posts & Telegraphs and the Research and Development Organisation of Indian Telephone Industries, the equipment in production was being modified accordingly. With these changes, the equipment was being remedied of the major defects that it had in the earlier design and due to this, the operating capacity of the equipment and its efficiency was stated to be progressively improving.

The Committee making further inquiry asked the Government to state reasons as to why the important aspect regarding telephone traffic to be borne by the equipment was not taken into consideration before the Pentaconta Switching Equipment was selected.

The Committee pointed out that in the crossbar system certain design deficiencies were stated to have come to notice subsequently in the particular type of crossbar manufactured by the BTM under the traffic conditions obtaining in the country. The reason for this was stated to be lack of experience in the working of the system.

The Committee also enquired as to why none could be held responsible for the selection of the Crossbar system the working of which had been found far from satisfactory.

The Committee also desired to know whether necessary modifications in the existing system, design had been carried out. If so, what was the amount spent thereon? It was also enquired whether any changes had been introduced on the basis of fresh examination conducted taking into account the Indian Telephone Traffic and if so, with what results.

The Committee wanted to know the total expenditure incurred on the rectification work carried out on the crossbar equipment received and already installed in exchanges. It was also enquired as to what had been the experience regarding improvement in quality of service and utilisation of the capacity of the equipment after the implementation of the changes.

The Committee also enquired the cost of modifications of the equipment in production carried out on the basis of the efforts made by the Telecommunication Research Centre/Posts and Telegraphs and the Research and Development Organisation of Indian Telephone Industries.

The Government in their further reply stated that the P & T Department had gone in for Crossbar type common control equipment for the first time. Before commissioning of the exchanges, it was not known that the periodicity of calling had such, a critical influence on the performance of the crossbar exchanges mainly due to lack of experience in the field of common control system and due to incidence of traffic on account of suppressed demands. As such these factors could not be taken into account before the Pentaconta Switching Equipment was selected.

It was further stated that the selection of the common control system was made after careful consideration. In the absence of experience such type of defects were stated not to have been foreseen and they were noticed only on the actual working of the system which had been identified and were being rectified. The Government stated that it was not correct to hold any individual officer responsible for the defects which were found later. The detailed project report only provided for the production of various equipments for 100,000 lines in the same proportion as given for Jorbagh Exchange which in turn had been designed by M/s. BTM. The inadequacies were stated to have come to notice while operating the

system and could not be foreseen either at the time of the selection of the system or at the project report stage.

Most of the defects in the existing crossbar exchanges were stated to have been identified and the solutions for the same finalised. This work had been done by a Task Force set up for this purpose with the representatives from the Telecommunications Research Centre, ITI Ltd. and the P & T Directorate. The expenditure incurred on the work had not been assessed. A redesign group had been set up recently in the T.R.C. to redesign the Pentaconta System incorporating necessary changes most suitable for Indian Traffic.

As far as upgradation of BTM supplied crossbar exchanges were concerned, M/s. Bell Telephone Manufacturing Company was stated to have supplied the entire modification material free of cost and also in addition, they had agreed to pay Rs. 80 lakhs towards the cost of manpower for executing the modification work. It was stated to be early to say about the effect of implementation of the changes in the exchanges because the upgradation work was still in progress.

The modifications to the equipment in production were being carried out progressively by the ITI Ltd. The modifications consisted mostly of improvement in the grade of Spark quenchers; improvement in protective finishing, slight increase in the size of the electrical contact and certain modifications to the circuits and mechanical components for improved performance. The Committee were also informed that the cost increase was not expected to be substantial and would be known only after all the modifications were finalised.

The Committee note that "some" of the defects in the working of the crossbar equipment imported from BTM have been rectified and others are being rectified as and when they are coming to notice. In addition, the rectification work in general is also in hand. The Committee further note that "most" of the defects of the present equipment have been identified and solutions for these have been found. Arising out of these, changes have "largely" been incorporated already in the equipment now being produced except a few that are in the process of implementation. The Committee also note that besides modification in the existing system design, the overall system concepts which will be most suitable for Indian traffic is also being examined afresh and necessary changes in system design "as deemed necessary", would be introduced "in due course". The cost of modifications of the equipment in production, according to the Government, is not expected to be "substantial" and would be known only after all the modifications are finalised.

The Committee find that the reply given by Government is couched in general terms. The Committee understand from reply to a Lok Sabha Unstarred Question No. 1276 dt. 20-11-74 that the programme of upgradation work in the crossbar exchanges is still on hand and about 20 per cent of the upgradation work in the BTM supplied exchanges at Karol Bagh and Jor Bagh and in the ITI supplied exchange at Janpath is yet to be done. The Committee also find that the work in Okhla and Chankyapuri exchanges had not even been started till November, 1974.

The Committee would like the ITI to identify all the defects in the crossbar system without any further delay and ensure that all of them are rectified as early as possible so that the subscribers using the crossbar system do not have to suffer inconvenience any longer due to the faulty working of the system as heretofore.

D. Project Estimates

Recommendation No. 6 (Paragraph 3.20)

The Committee noted that there was laxity of financial control both on the part of Management of ITI and the Government as the Company was allowed to continue to incur expenditure on the Project for more than 5 years (from 1966-67 to 1971-72) without preparing a revised estimates and its approval by a competent authority. The Committee recommended that the procedural delays and various lapses which had caused the delays should be investigated and responsibility therefor fixed.

The Ministry stated in their reply that the excess in expenditure over the original project report was to the extent of Rs. 75.48 lakhs under plant outlay of which Rs. 24 lakhs was due to the devaluation of Indian rupee in June, 1966 and Rs. 18 lakh was due to price escalation as laid down in the agreement, although the plant, machinery and other facilities had been received in the ITI and installed by 1968, it took some more time for an accurate determination of their capacity in terms of production. The precise assessment of this aspect could be made in consultation with BTM. This assessment was done in two stages, once in 1968 and again in 1970. As a result of the assessment and discussions, BTM, effected free supply of 21 machines on which company had to pay a total customs duty of Rs. 11.48 lakhs. This expenditure could not have been anticipated in full before 1970. Further, the assessment of the capacity of machinery and equipment installed for the crossbar revealed later that additional machinery estimated to cost about Rs. 22 lakhs would have to be purchased and installed for the Project to enable achievement of the production targets as per the

Project Report. The revised project report was thus possible only after 1970 and the revised project report was put up to the Board in August, 1971 and after Board's approval it was forwarded to Government in October, 1971. The Ministry also stated that correspondence exchanged with the ITI for obtaining certain information and clarification and consultation with the Ministry of Finance took some time. The sanction for the revised project estimates was issued on the 28th September, 1972.

The Government stated that as desired by the Committee, they investigated the case and found that the time taken in sanctioning the revised estimates was caused mainly due to the reason mentioned above and it was not possible to fix responsibility on any individual officer.

The Committee are not satisfied with the reply of Government and are of the view that the revised Project Report should have prepared and got sanctioned when there was the slightest likelihood of the estimates being exceeded and they should not have waited till after the completion of the project. When the project was installed in 1968, the assessment in terms of production and consultations with the collaborators should have been done much earlier and the revised Project Report which was stated to be possible after 1970 should, after approval of the Board of Directors, have been forwarded to Government long before October, 1971.

The Committee are also surprised to note that full one year was taken by Government to issue sanction for the revised project estimates. The Committee feel that Government should have obtained the necessary information/clarification from ITI with all expedition instead of entering into long drawn correspondence so that the revised estimates were available to the undertaking in time for purposes of more effective financial control. The Committee would like the Government to take steps to streamline the procedure for having strict financial control on the part of both Management of the Public Undertakings and the administrative Ministries concerned.

E. Collaboration Agreement

Recommendation No. 8 (Paragraphs 3.43 & 3.44)

The Committee pointed out that there was a shortfall ranging from 67 per cent to 100 per cent in actual performance even after 6 months of the time stipulated in the agreement with the collaborators viz. M/s. BTM for achieving the full capacity. The Management stated that delays pertaining to supply of know-how, semi-equipped assemblies etc. on the part of BTM were some of the

reasons responsible for not attaining the actual performance within the time specified in the agreement. These delays ultimately affected the training and the production programmes. The Committee observed that there was no provision in the agreement with the BTM for taking action against them for such delays or for claiming the damages from them and desired that the reasons for the delays should be investigated.

The Government have conceded in their reply that the major reason for the slippage in achieving the capacity for many years had been the continuous delay on the part of the BTM in supplying piece parts, components, tools and machines. There were also other factors like receipt in damaged condition of some machines shipped by BTM etc. It has been further stated that this was apparently the first major collaboration entered into by BTM with any outside party and therefore, the great magnitude of work that was involved in the transfer of know-how and the supply of specially designed plant and machinery, jigs, tools and fixtures had not fully appreciated by them and thus BTM was not in a position to meet the very tight targets which were specified by them in the agreement.

The Committee are not satisfied with the reply of the Government as none else but the Government themselves were responsible for selecting a collaborator.

The Committee regret to note that the agreement entered into With BTM was defective inasmuch as no action could be taken for delays on their part which badly upset the training and the production programmes of the ITI. The Committee urge that in future ample precautions should be taken by the Government before entering into such agreements in accordance with the instructions issued by the Ministry of Finance (Department of Expenditure) in their Office Memorandum No. F. 12(S) E-Coord/72 dated 26-4-1973 that "Ministries should provide for necessary safeguards in collaboration agreements so that the collaborator gets a stake in ensuring that contemplated production targets are achieved according to the schedule."

F. Deficiency in Capacity

Recommendation Serial No. 9 (Paragraph Nos. 3.45 to 3.47)

The Committee expressed their dissatisfaction about the lack of urgency with which the various manufacturing problems had

been tackled in ITI and pointed out that they had failed to manufacture equipment of the requisite quality at ITI upto the installed capacity. It was further pointed out that information pertaining to know-how and standard time data had not been received by ITI from BTM for a large number of items, components and assembly operations.

The Government in their reply have stated that the total plant and machinery supplied by BTM had failed to give the rated capacity. As a result of series of discussions, the BTM finally accepted the inadequacy of the plant and machinery and supplied, free of cost, additional plant and machinery by the year 1972. It has also been stated that ITI has now got adequate plant and machinery to manufacture equipment as was envisaged in the agreement. The Government have assured that the production was coming up to the rated capacity.

Regarding not manufacturing cross-bar equipment of the requisite quality the Government have stated that the defects in the equipment arose out of the fact that the equipment was based on the designs supplied by the BTM Company which did not meet our requirements fully. The rectification work of the defective equipment by the BTM Company was under execution. References were made to BTM regarding defects in designs and a number of modifications and change notes were issued by the BTM and these had progressively been implemented in ITI. The Government have also informed the Committee that a task force consisting of engineers of the P&T Department and ITI had been working out solutions for further improvements to be adopted in future production by the ITI.

The Committee cannot appreciate why ITI agreed to have the equipment which was based on defective designs and why this matter was not gone into at the appropriate time. The Committee desire that all the defects of the cross-bar equipment should be rectified as early as possible and they should be informed when the entire rectification work has been completed.

The Committee would also like that Parliament should be kept informed of the modifications made by the ITI engineers in consultation with BTM to remove the defects noticed by the former during their study of the designs and as a result of field reports; and also about the progress made by the task force consisting of the engineers of the P&T Department and ITI Ltd. which is stated to have been working out solutions for effecting further improvements to be adopted in future production by the Indian Telephone Industries.

G. Defective Agreement

Recommendation No. 10 (Paragraph No. 3.48)

The Committee felt unhappy at the way in which matters connected with BTM agreement had been handled and recommended that the whole matter concerning the agreement should be thoroughly investigated and the responsibility for not only entering into a defective agreement but also the failure to take follow up action at different stages during the implementation of the agreement be fixed.

In their reply the Government have stated that follow up action on various matters connected with the implementation of the agreement was taken. The ITI had taken up the manufacture of the cross bar equipment for the first time and had no previous experience. They were guided by the collaborators. It was only when the ITI installed the machines and ran them, the inadequacy of the machines was assessed. The BTM agreed to supply free of cost additional machines towards inadequate provision of machine capacity in the collaboration agreement.

The Committee find that the reply of Government is incomplete. There is no mention in their reply about holding of investigation in respect of entering into a defective agreement with the Collaborators. The Committee, therefore, reiterate their earlier recommendation that the whole matter regarding entering into defective agreement with the collaborators may be thoroughly probed and responsibility fixed.

H. Manpower Analysis

Recommendation Serial No. 15 (Paragraph Nos. 3.63 to 3.64)

The Committee pointed out that they had been repeatedly coming across instances where officers and other staff grossly in excess of requirements as envisaged in the Detailed Project Report etc. were employed. The Committee observed that even when the requisite level of production or even a substantial portion thereof had not been reached, the officers and staff employed usually were far in excess of what would be even required for achieving 100 per cent level of production. This indicated the laxity with which the appointments of staff were made in the beginning which militated against disciplined hard work and thereby vitiated the atmosphere in Public Undertakings for achieving optimum production results. The Committee recommended that Government at the highest level should analyse in detail the reasons for recurrence of such

lapses and lay down guidelines to obviate their recurrence. The Committee also recommended that the Government should also hold Chief Executives squarely responsible for any such lapse in future so that production discipline could be maintained all along the line.

The Government in their reply (January, 1974) stated that the recommendation of the Committee was being brought to the notice of the Bureau of Public Enterprises for issue of general instructions for guidances of all the public undertakings.

The Committee further enquired in June, 1974 whether the suitable guidelines had been issued by the Bureau of Public Enterprises in this respect. The Government stated (July, 1974) that the BPE had yet to issue the guidelines.

The Committee are distressed to note the inordinate delay on the part of Government to issue the necessary guidelines regarding over-staffing in public sector undertakings. The Committee once again desire that suitable guidelines in this regard be issued without any further loss of time.

Recommendation Serial No. 28 (Paragraph 7.8)

The Committee noted that the costing system in vogue in the Company did not provide for determination of product-wise actual costs. The Committee urged that as the product-wise analysis of actual cost would be helpful in the fixation of prices for various products on a scientific basis, the compilation of product-wise actual cost should soon be undertaken.

The Government stated in their reply that so long as element-wise cost control is exercised at every stage of production, there is an automatic cost control on the finished product as well.

A separate element wise cost comparison between product-wise standards and actuals at the finished product stage would, according to the Government, be a duplication of efforts.

The Committee do not share the view expressed by Government that a separate element wise cost comparison between product-wise standards and actuals would be a duplication. The Committee therefore, reiterate that compilation of product-wise actual cost should be undertaken early.

I. Standard Costs vs. Selling Prices

Recommendation Serial No. 32 (Paragraph 7.25)

The Committee noted that product-wise actual costs were not compiled by I.T.I. to enable comparison of selling prices with such actual costs. The Committee also noted that in the absence of break-up of standard cost, into its constituents viz. labour, materials and over-heads the Management was not in a position to indicate specific reasons for variation in standard costs from year to year. There had been increased in selling prices and standard cost of several products of MAX and Transmission Division including the telephones during three years from 1969-70 to 1971-72. The Committee stressed the need to streamline the procedure of costing and recommended that the Company should compile product-wise actual costs and also analyse the variations between the standard costs and the actuals and take suitable remedial action. The Committee desired that the basic commercial principle of finding out product-wise actual costs for comparison with selling prices should be followed to find out the financial viability of products of the undertaking.

The Government stated in reply that it was not possible to find out the actual cost incurred for a product in terms of total raw materials, labour and over-head without changing the present production pattern and such a change was not considered desirable. Having regard to the progressive increases in prices of raw materials and increased wages and unavoidable increases in overheads, the net increase in standard costs/selling prices of finished products were to a large extent inevitable.

The Committee feel that in order to find out the financial viability of the undertaking the basic commercial principle of finding out product-wise actual costs for comparison with the selling prices should be followed and this should be done without any further delay.

J. Import Substitution

Recommendation Serial No. 39 (Paragraph Nos. 9.20 & 9.21)

The Committee found that the Company imported raw materials of the value of Rs. 296 lakhs annually. One of the important materials imported every year in large quantities, namely, the ferrites core used for transmission equipment, was valued at approximately Rs. 55 lakhs. The Committee also found that Government had issued licences to 5 Indian firms which were engaged in the

manufacture of ferrites based on the know-how developed by the National Physical Laboratory. The Committee urged that the Company should tap the indigenous resources in the field and meet their requirements instead of importing them.

The Government have stated in their reply that the soft ferrites required by I.T.I. consisted essentially of pot cores. The development work for the professional grade of ferrites essentially imported by I.T.I. was referred to N.P.L. in 1966. The National Physical Laboratory are stated to have now developed the know-how for this item. It has been agreed that the I.T.I. should be closely associated with NPL in this matter. It has been further stated by the Ministry of Communications that after the ferrites developed by the N.P.L. are tested and found satisfactory in all respects by I.T.I., commercial manufacture of this item would be taken up. The I.T.I. would then be able to get their ferrites requirements indigenously.

The Committee would like to emphasise that the Company should make all out efforts to achieve cent per cent import substitution of raw materials and thus save the much needed foreign exchange. The Government should also apprise Parliament about the result of tests and worthiness of the ferrites developed by the National Physical Laboratory and the extent of savings effected by ITI by way of import substitution.

The Committee feel that, now when the N.P.L. has developed the technical know-how for the manufacture of the ferrites required by I.T.I. all out efforts should be made to complete all the required tests in this connection as early as possible and the commercial manufacture of the ferrites taken up without avoidable delay so that the precious foreign exchange spent on the import of this item can be saved.

CHAPTER II

Recommendations that have been accepted by Government Recommendation (Serial No. 2)

The Committee also found (*vide* Chapter VI) of this report that sales performance of the Company revealed that the Company failed to achieve the budgetted sales from year to year mainly on account of non-achievement of quantitative targets. The Committee note that in some years the original targets fixed for some items by the Company exceeded even the capacity stated to be available. Even when the targets were revised taking into account the various factors they were found to be in excess of the available capacity in some cases and the actual production fell far short of targets as well as available capacity. The Committee cannot but conclude from all these factors that the targets were not being fixed on rational and scientific basis. The Committee feel that fixation of targets at a higher level earlier and slashing down later is not a healthy practice in production planning as it gives a misleading picture of the performance of the undertaking. The Committee, therefore, again stress that all out efforts should be made to fix the targets on a more rational and scientific basis taking into consideration all the factors concerned with production and the Company should take adequate steps to ensure that the targets are actually achieved.

(Paragraph 2.17)

Reply of Government

The Committee's recommendations have been noted. From 1972-73 onwards production targets are being fixed by the ITI on a more rational and scientific basis based on capacity and order position.

(Ministry of Communications O.M. No. U.54012/2|13-Fac. dt. 20-10-73)

Recommendation (Sl. No. 12)

The Committee also note that a team of the World Bank Consultants has made a number of suggestions for improving the production efficiency in the factory, procurement system, stock control of materials, closer coordination between P&T and ITI, creation of buffer stocks for strategic materials etc. The Committee

hope that these suggestions will be implemented and the production of the Company improved and efficiency enhanced.

(Paragraph 3.51)

Reply of Government

It is confirmed that the suggestions of the World Bank Consultants have been implemented by the ITI. As a result of these and the efforts made continuously by the Management, the volume of production has increased in recent years as also the efficiency.

[Ministry of Communications O.M. No. U-54012|7|73-Fac. dated 27-11-1973]

Recommendation (Serial No. 16)

The Committee note that because of the pricing formula adopted by the Company for calculating the selling price on the basis of a lower labour efficiency of 35 per cent during 1965-66 to 1967-68 and 50 per cent. in 1968-69 the Company has fixed the selling price at Rs. 1,243 per line during 1965-66 to 1967-68 and at Rs. 864.20 per line during 1968-69 as against the estimated evaluated rates of Rs. 883.30 and Rs. 651.00 during the corresponding periods. Consequently, the Company has recovered from the P&T, Rs. 312.03 lakhs more than what it should for the supplies made to it during the period from 1965-66 to 1968-69. The Committee were informed that from 1969-70, production of cross bar exchanges was executed in the form of equipments and charged as such. Even so, the average cost per line has been worked out as Rs. 1603 during 1969-70 and Rs. 2327 during 1970-71 which are again very much higher than the estimated cost as evaluated. The Committee are inclined to feel that if in spite of low efficiency and low utilisation of capacity, the Company is making profits, it is mainly because of the fixation of selling prices at much higher rates than what they should be. Under the procedure now followed by the Company and recovery of additional costs from its main consumers P&T and other Government Department the figures of profit shown by the Company are not true index of its efficiency. The Committee regret to observe that while this pricing procedure has enabled the Company to present a better financial picture, it has really proved to be an extra burden on the exchequer.

The Committee would, therefore, stress that merely judging from these higher profits the Company should not develop a sense of complacency and take undue advantage of their monopolistic position. The Committee recommend that aim of the Company should be to

manufacture their products at most economic costs by increasing their labour efficiency and maximising production and hereby supply the vital equipments at reasonable rates.

(Paragraph No. 3.69)

***Reply of Government**

The selling price per line of Rs. 1,243 for the period 1965—68 and Rs. 864.20 for 1968-69 applies to the Jorbagh pattern of production. On the other hand the average cost per line of Rs. 1603 during 1969-70 and Rs. 2327 during 1970-71 has been arrived at on the basis of actual equipment produced on P&T pattern of ordering and as such is the cost per P&T line. The comparable cost, therefore, per line of Jorbagh pattern of production amounts to Rs. 1069 for 1969-70 and Rs. 1551 for 1970-71 respectively, as against Rs. 1603 and Rs. 2327 mentioned in the report.

For a large proportion of the products of ITI, which are stabilised, for example, Strowger equipment, prices are fixed and profitability is dependent on ITI's ability to cut down costs by improved productivity and efficiency. Only in respect of non-stabilised new items of manufacture like Crossbar equipment, where it is recognised that the initial cost of production would be high, the ITI is allowed to charge the actual cost of production with a margin of 10 per cent towards profits. It would therefore be ITI's endeavour always to increase its productivity and reduce the cost of production by economies in labour and material and overheads. The ITI is also endeavouring to increase the efficiency of its operations.

[Ministry of Communications O.M. No. U. 54012/10/73-Fac.
Dated the 28th November, 1973]

Recommendation (Serial No. 17)

The Committee find that the percentage of total hours lost to total booked hours was 2.6 per cent in 1968-69, 2.15 per cent in 1969-70, which decreased to 1.99 per cent in 1970-71 and to 1.12 per cent in 1971-72. Although the Management considered this percentage as not unduly high, the Committee note that the loss has been mostly on account of lack of raw materials. As mentioned in the Chapter regard "Material Management", the Secretary of the Ministry of Communications conceded during evidence that inventory in ITI was very high. The Committee are surprised that while on the one hand ITI are carrying excessive inventories, on the other labour remains idle for want of materials.

The Committee, however, informed that in spite of the fact that ITI were engaged in production of one of the most important infrastructure items of equipment in this country, they are not listed by Government as a priority industry with the result that the production of the Company suffers. The Committee feel that ITI being the major industry meeting the increasing demands of telephones and transmission equipments in the country, should not be made to suffer on account of shortage of basic items of raw materials like steel sections and steel sheets. The Committee, therefore, recommend that the Government should make a correct assessment of the requirements of ITI for steel sections and steel sheets and treat them on high priority basis so that the Company has not to suffer on account of shortage or lack of essential raw materials and consequently the labour remaining idle.

The Committee would like Management to review the matter in the light of the study made by the Administrative Staff College, Hyderabad, and the suggestions made by the study team of the International Bank of Reconstruction and Development, Washington, and evolve a suitable system of store purchase and control so that production in ITI does not suffer at any time for lack of materials.

(Paragraphs Nos. 4.4 and 4.5)

Reply of Government

As has been pointed out by the Committee, the percentage of total hours lost to total hours booked has been steadily decreasing from 2.6 per cent in 1968-69 to 1.12 per cent in 1971-72. This reflects a gradual improvement in the availability of materials particularly of imported materials whose availability improved with the availability of foreign exchange through World Bank loans.

While it is true that the inventory of raw materials and components in ITI has been till recently high, shortages of certain essential scarce materials have always continued for one reason or other and when special efforts made to procure them, do not succeed, some man-hours would be lost for want of material. Large scale absenteeism in a shop has often resulted in material and assemblies not being made available in a subsequent stage and therefore loss in man-hours for want of sub-assemblies. By providing minimum stock balance and collection centres, the loss in man-hours due to this reason is being minimised.

The matter regarding the shortage of steel sections and steel sheets in the ITI is being examined in consultation with the Com-

pany and it will be taken up with the Ministry concerned, if necessary.

The ITI have modified the stores purchase and control methods to bring about improvements in Materials Management in the light of the Reports received from the Administrative Staff College of India, Hyderabad, and from the International Bank of Reconstruction and Development. Inventories in the ITI have been brought down by consistent efforts made by the Company and a strict watch is being kept to ensure that inventories are kept within reasonable limits.

[Ministry of Communications, O.M. No. U-54012|11|73-Fac. dated 29-11-1973]

Recommendation (Serial No. 18)

The Committee are unable to appreciate why prior to July, 1970, out of 3,046 machines spread over 35 shops, machine utilisation cards were maintained only in respect of 126 machines in the Auto Shop of Max Division. The Committee note that since July, 1970, records of machine utilisation are being kept in respect of machines which cost Rs. 20,000 in value and more. The Committee would like that the record of machine utilisation should be scrutinised in detail in order to identify the reasons for less than full utilisation and take effective measures like arranging timely supply of spares and materials, servicing of machines and maintenance and standardisation of product mix to get the best results.

(Paragraph No. 5.5)

Reply of Government

The observation of the committee has been noted. It is confirmed that machine utilisation cards have been carefully scrutinised and the reasons for non-utilisation analysed and corrective action taken in a continual manner to secure the optimum utilisation of Plant installed. The Company has strengthened the organisation for preventive overhauls and is also examining proposals for standardisation of product-mix in consultation with the main customers for whom products are manufactured in I.T.I.

Out of 3,046 machines mentioned in the report, nearly 2,000 machines are either in the nature of production aids to assembly operation or simple hand operated presses of small value and used in simple operations like flattening, deburring etc. Many of these are used only in batch operations.

[Ministry of Communications, O.M. No. N. 54012|12|73-Fac., Dated the 7th November, 1973]

Recommendation (Serial No. 19)

As regards the machines for which machine utilisation cards are not being kept at present, the Committee would suggest that an overall review should be made from time to time say—once a year—to make sure that these machines are really needed and to derive necessary guidelines to see that investment is not made in machines which would not be put to use.

(Paragraph No. 5.6)

Reply of Government

The recommendations of the Committee have been noted and have been implemented already.

[Ministry of Communications, O.M. No. N. 54012/12/73-Fac.,
Dated the 7th November, 1973]

Recommendation (Serial No. 20)

One of the reasons given for decrease in percentage of utilisation of machinery in 1971-72 as compared to 1967-68 is that percentage of absenteeism has arisen to 12.3 per cent in 1971-72 from 8.35 per cent in 1967-68. The Committee are not able to appreciate the reply of the undertaking that they have not worked out the percentage of absenteeism in the first and second shifts though they have a feeling that the percentage of absenteeism in the second shift is on the high side. The Committee would like the undertaking to analyse the matter in detail and take effective action to see that the percentage of absenteeism is reduced. The Committee need hardly stress that effective action should be taken to see that production and utilisation of machines do not suffer on this account.

(Paragraph No. 5.7)

Reply of Government

The Committee's recommendation that absenteeism should be reduced has been noted. Figures for absenteeism both in the first and second shifts are available. These substantiate the fact that absenteeism in the second shift is generally higher than the first shift. It is the experience in ITI as in other industries that the output in the second shift is generally lower than the output in the first shift. It may also be mentioned that under the ESI schemes

ample opportunities existing to avail of leave without serious financial penalties.

[Ministry of Communications, O.M. No. U. 54012/12/73-Fac.
Dated the 7th November, 1973]

Recommendation (Serial No. 21)

The Committee note that the overall actual sales fell short of both the budgeted and revised budgeted sales during 1966-67 to 1968-69 but the situation however, improved from 1969-70 to 1971-72. The Committee, however, note that the Company has not been fulfilling its targets for sales to P&T, during the years 1966-67 to 1970-71 except for a small excess over the revised target in 1968-69.

As the country depend largely on ITI for telephone and transmission equipment, the Undertaking should leave no stone unturned to meet the requirements of the P&T. The Committee find from the approach paper to the Fifth Plan of ITI that the estimated demand for telephone instruments during the 5th Plan period is 24 lakh instruments and the backlog during the 4th Plan is estimated at 5 lakh instruments. Similarly the P&T, have planned for installation of microwave equipment over 15,000 route kms., coaxial system on 10,000 route kms. and long distance transmission equipment over a number of open wirelines.

The Committee recommend that the Company should in consultation with the P&T, fix realistic targets of sales taking into account the demands of P&T, and ensure that such targets are actually achieved and the demands of public met to the maximum extent by improving efficiency and stepping up production.

(Paragraph 6.5)

Reply of Government

The recommendations of the Committee that ITI should leave no stone unturned to meet the requirement of the P&T and that realistic targets of sales should be formed in consultation with P&T and these should be actively achieved, have been noted and the following action has been taken:

- (1) The capacity for manufacture of 2.5 lakhs of telephone instruments in Bangalore would be maintained. In its second factory for manufacture of telephone instruments at Naini which is under construction, assembly of telephones has started in 1972-73 partly from piece parts

manufactured in Bangalore and partly from ancillaries and private manufacturers.

- (2) Proposals have been approved by Board of Directors for expanding the capacity of the Strowger Division in Bangalore from 1,50,000 to 200,000 lines in 1976-77.
- (3) The Board of Directors have also approved the expansion of the Crossbar Division from 100,000 lines to 200,000 lines of Jorbag pattern.
- (4) Proposals have been made in the 5th Plan period for establishing 2 additional factories for manufacture of main automatic switching equipment, one factory for manufacture of small automatic exchanges and two more factories for manufacture of transmission equipment. With the measures already introduced towards increasing the output in the existing unit and with the proposed setting up of new units, the ITI expects to meet the major portion of the demand generated during the 5th Plan period.

[Ministry of Communications O.M. No. U. 54012/13/73-Fac.,
Dated the 7th January, 1974]

Recommendation (Serial No. 22)

The Committee note that there has been shortfall in the exports by the Company as compared to the targets fixed during the years 1967-68 to 1969-70. The Committee were informed that export targets are fixed with due regard to the need for meeting the home demands particularly of P&T. The Committee also note that the value of the products exported by the Company has come down from Rs. 89.71 lakhs in 1969-70 to Rs. 32.088 lakhs in 1971-72. The Committee were informed that main reasons responsible for decrease in export is declining demand for strowger type equipment and open wire carrier equipment and unless ITI's cross-bar equipment and Microwave are available for exports, ITI will not be able to reverse the trend. The Committee were also informed about the difficulties in procurement of special raw materials required for export orders. The Committee, therefore, feel that the targets for exports have not been fixed on a realistic basis taking into account all the relevant factors like declining demand of its products outside, production possibilities etc.

The Committee, therefore, recommend that before fixing the targets for exports, a proper demand survey of the export market should

be undertaken and targets fixed consistent with the home demands for such products.

(Paragraph 6.8)

Reply of Government

The Committee's recommendation regarding fixing up of realistic target for exports after proper demands survey has been noted. Such a demand survey has since been undertaken with reference to East Africa and the Middle East. As a result, the Company has accepted orders worth Rs. 160 lakhs.

[Ministry of Communications O.M. No. U.54012/13/73-Fac.,
Dated the 7th January, 1973.]

Recommendation (Serial No. 23)

The Committee also recommend that Government should provide ITI special facilities for procurement of the requisite type of raw materials required for export orders to enable the Company to fulfil its commitments of exports.

(Paragraph No. 6.9)

Reply of Government

The recommendations of the Committee has been noted for compliance to the best extent possible.

[Ministry of Communications O.M. No. U.54012/13/73-Fac.,
Dated the 7th January, 1974.]

Recommendation (Serial No. 24)

The Committee regret to note that the total value of P. & T. orders outstanding as on 31st March, 1969 was 18.61 crores and year-wise break-up of these orders was not maintained till October, 1969 for one reason or other and control over execution of the order was being exercised only through periodical meetings between P. & T. and I.T.I. The Committee also note that the total value of orders outstanding as at the end of 31st March, 1972 was over Rs. 50 crores out of which the orders of P. & T. alone amounted to Rs. 35.58 crores and the value of outstanding orders has been increasing from 1969-70.

The Committee were informed that in respect of non-P. & T. orders through a record of orders with values was maintained. it was

not complete with full particulars. The Committee are unhappy to find that though a computer was installed by the Company in the year 1966, they did not assign the priority to get the data regarding the orders received and those outstanding computerised. The Committee are unable to understand how in the absence of vital information the management is able to exercise any effective control over the execution of orders. The Committee recommend that the position should be carefully investigated and responsibility for failure to maintain proper record of the orders received and executed before October, 1969 should be fixed. The Committee also recommend that the I.T.I. should exercise necessary control to see that the orders are accompanied by all the required specifications and other details in order to avoid delay later in execution.

The Committee were informed that long deliveries were due to lack of capacity and steps for decentralisation have also been taken from June, 1972. The Committee were also informed that the normal cycle-time for a major order to wait ranges from 18 to 24 months and in the case of minor orders for standard equipment, the waiting period ranges from 6 to 18 months.

The Committee need hardly stress that I.T.I. should endeavour to accelerate the pace of production by improving its efficiency and proper advance planning procurement of materials and thus reduce the waiting time for the orders to the minimum.

The Committee hope that with the coming up of new units of the I.T.I. and with improved efficiency and forward planning for materials, it should not be difficult for the I.T.I. to clear up the backlog of the orders and ensure timely execution of the new orders.

(Paragraph No 6.16)

Reply of Government

It would not appear correct to hold that in the absence of year-wise break-up of orders and therefore value, control over execution of orders was being exercised prior to October, 1969 only through periodic meetings between P. & T. and I.T.I. The position is clarified as follows:—

80 per cent of the capacity in I.T.I. is generally ear-marked for supplies to the P. & T. Orders are placed by the P. & T. as and when specific projects are budgetted and approved. *Inter se* priority

For manufacture and supply are based on actual needs, availability of buildings in the P. & T. Department etc. and are therefore reviewed periodically between P. & T. and I.T.I. As soon as each order is received and priority ascertained, the order is engineered and broken up into a manufacturing schedule for release to the factory in the form of a detailed specification listing every single item of equipment needed to complete the particular order. As manufacture proceeds and the equipment is despatched a running account is maintained in the production departments to monitor the progress of supply to various exchanges according to the priorities mutually discussed with the P.&T. Sales Department of the I.T.I. also reviews this information with production from time to time and brings to the notice of Management any exceptional slippage in the delivery schedule.

The value of the orders on the books of I.T.I. at any given moment could be expected to be equivalent to a value of sales of 1½ to 2 years of production, this being the present spread of deliveries. Every effort is being made to reduce this spread of deliveries to 1—1½ years by increasing the capacity for manufacture and by a mutually agreed forward scheduling between I.T.I. and its customers. The value of outstanding orders from the customers has however been increasing mainly due to the fact that the increase in capacity in manufacture has not been keeping pace with the growth in demand from the customers. This position has since been realised and a large outlay proposed in the Fifth Plan period for expansion projects in the I.T.I.

The suggestion made by the Committee that for purpose of control on the execution of the orders the computer should be utilised had been accepted and is in the process of implementation. It is expected that this would reduce the manual effort now being utilised in the production control section for watching the execution of orders according to the sequence required by the P. & T. The Committee's recommendation that orders must always be accompanied by all the required specifications and other details have been noted and brought to the notice of the P. & T. A system of advance forecasting and ordering has been evolved so that complete information for purposes of engineering and manufacture would be available in I.T.I. at least 18 months ahead of manufacturing period.

The Committee's recommendation that I.T.I. should endeavour to accelerate the phased production to reduce the waiting time for the orders to the minimum has been accepted and it is also being im-

plemented and every effort will be made to clear up the backlog of the orders and to ensure timely execution of the new orders.

[Ministry of Communications O.M. No. U.54012/13/73-Fac.,
Dated the 7th January, 1974.]

Recommendation (Serial No. 27)

The Committee note that the Company has been following a standard costing system based on labour efficiency of 100 per cent in MAX and 50 to 80 per cent in Transmission. The Committee were informed that the standard costs were varied from year to year consistent with the changes in labour-efficiency, along although, such variations were done with the concurrence of P. & T.

The Committee also note that actual percentage of labour efficiency in shops was in excess of the percentage adopted for standard costs in 6 shops of MAX and 2 of Transmission and less than the adopted percentage in 3 shops of MAX.

The Committee would like the undertaking to analyse in detail the factors inhibiting labour efficiency and take remedial measures to achieve 100 per cent efficiency.

(Paragraph 7.7)

Reply of Government

Prior to the revised agreement with the P. & T. implemented from April, 1972, the efficiency percentage to be reckoned for each shop for building up of standard cost was fixed in consultation with the P. & T. cost Check Unit, based on the actual trends of efficiency in the previous year. However, in terms of the revised agreement with the P. & T., efficiency has to be reckoned at 90 per cent in the building up of costs. The Company is at present engaged in a review in detail of all the factors inhibiting labour efficiency for taking remedial measures to achieve better efficiency.

[Ministry of Communications O.M. No. U.54012/13/73-Fac.,
Dated the 23rd October, 1973.]

Recommendation (Serial No. 30)

The Committee note that in the process of compilation of costs actual costs are not compiled produce-wise but are compiled in respect of shop orders only. The Committee further find that the so-called actual costs of shop orders cannot be considered as "actual"

since these are based on standard rates for labour, materials, and overheads and variation beyond 10 per cent in cost of materials, are only taken into account. When shop orders on completion are transferred to stores, these are again at standard rates and variations between these costs and the value "actually" determined at the shop level are taken to cost variation adjustment account.

The Committee were informed that the "actual" costs so compiled and standard costs are compared with reference to the total production on a quarterly basis.

The Committee feel that the present system does not provide an effective method of comparison of actuals with standard costs, since break-up of cost of final product into labour, materials and overheads is not available for cost control and the standard rates of materials are not revised with reference to variation in cost of materials. Besides, the actual costs compiled are themselves defective and do not represent the actual costs in the true sense of them. Since the practice adopted does not provide for an effective control on the cost of the products and affects the profitability of the undertaking, the Committee strongly recommend that the undertaking should put the costing system on sound footing and consider the introduction of a system of departmental budgeting and expeditions closing to shop orders. The Committee also recommend that the Company should take steps to review the standard rates by a careful analysis of the figures in the cost variation adjustment accounts, and revise the standard rates suitably. The Committee also recommend that the undertaking should study the costing system adopted by ATE of U.K./BTM who are the collaborators for the manufacture of the telecommunication equipments, with a view to evolve a better and more effective system of costing and management control.

(Paragraph No. 7.13)

Reply of Government

The system of costing followed by the Company provides adequate cost control at every stage of production. As already stated, large number of components, sub-assemblies etc., are manufactured on mass production basis for stocking and for withdrawal for use in subsequent stages of assembly. The direct material for the final assemblies will therefore, consist of raw-materials required for the final assembly and components/sub-assemblies already fabricated, kept in the stores and drawn therefrom. The production pattern is not designed to fabricate final assemblies for raw-materials right from the component stage. It would, therefore, not be possible to assess the actual costs in terms of total (1) raw materials (2) labour

and (3) overheads for the final product. Even the issue of layouts also conforms to the production pattern in vogue.

With regard to cost control, this is in-built in the system at every stage of production by engineering data and layouts for each stage of production i.e. standards are fixed for each stage of production and these are compared with the quantities of material and labour utilised and debited at that stage of production.

Since the entire system is working on the principle of standard costing, variations are tapped out at every stage of operation and analysed.

As regards the introduction of departmental budgeting, it may be stated that, as a first stage, division-wise budgeting has been introduced during the year 1973-74. The accounts for 1972-73 have been prepared on a divisionalised pattern. In the next stage, more detailed departmental budgeting will be progressively introduced.

Action has already been taken to close the shop orders as expeditiously as possible.

As regards revising the standards, it is at present being done on an annual basis and in accordance with the terms of the revised agreement with the P. & T. Frequent revisions during the course of the year based on the labour efficiency attained is likely to create confusion in actual working.

The Committee's recommendations to study the costing system adopted by A.T.E. of U.K./BTM would be considered.

[Ministry of Communications O.M. No. U. 54012/(14)/73-Fac.,
Dated the 23rd October, 1973.]

Recommendation (Serial No. 31)

The Committee note that in respect of MAX and Transmission Divisions standard Costs for Stabilised items were higher than the costs compiled by the Company by 177.31 lakhs during 1966-67 to 1968-69 while the position was the reverse during 1969-70 to 1971-72 when the costs compiled by Company were higher than the standards by 73.01 lakhs. The Committee note that under the present system of costing, cost variances only beyond 10 per cent in respect of orders value over Rs. 50,000, were analysed, and even such an analysis indicate a number of defects in the system. The Committee were informed the variations were primarily due to shop orders remaining current for larger periods than one year and the long time factor

in the closure of shop orders. The Committee were informed that a revised procedure whereby planning and scheduling is on a monthly basis broken down further into weekly scheduling is being gradually introduced and this will eliminate cost variation as have been occurring hitherto because of the long-time taken in the closure of shop orders.

The Committee note that master shop orders constituted the major portion of the overall cost variance in respect of completed orders and these were not susceptible of analysis under the present system. The Committee were informed that "under the revised production planning and shop scheduling procedure introduced in the MAX and Transmission Divisions, master shop order system is being applied for production of homogeneous codes only and as a measure of control the cycle time of master orders has been limited to a shorter period viz. about 6 months."

The Committee note that during 1966-67 to 1971-72 there was an overall under-recovery of overheads to the extent of 331.73 lakhs. Under recovery on account of volume variance Rs. 372.21 lakhs, was offset by net saving of Rs. 40.48 lakhs on account of expenditure variance. The Committee also note that under recovery of overheads under volume variance was also to under utilisation of capacity and also on account of non-employment of direct labour consequent on diversion of production work to ancillary industries and farming out of orders. The Committee were informed that diversion of ancillary units was done with a view to increase the overall production in the factory and such diversion did not affect the utilisation of existing machinery. The Committee are surprised to find that, in spite of this, there is shortfall in production and the utilisation of capacity is only of the order of 60 to 70 per cent resulting in under-recovery. The Committee urge that the reasons for under utilisation should be investigated by a team of experts so that production performance is improved by carefully deploying the labour and putting the machines to optimum utilisation.

The Committee would strongly urge that the system of costing and procedure for cost analysis should be streamlined and put on a scientific footing so that the variations in cost could be analysed at each stage in a comprehensive manner on all shop orders and reasons for variation pinpointed and remedial measures taken to overcome the defects. The Committee hope that the revised procedure of planning and scheduling being introduced, will enable closing of shop orders in

shorter intervals so that there is more effective cost control at shop levels.

(Paragraph No. 7.20)

Reply of Government

The Company has introduced a revised shop scheduling procedure under which more expeditious closure of shop orders has been prescribed. The effects of introduction of the new system are under review.

The lower output in the Company resulting in under-absorption of overheads and under-utilisation of installed capacity were due largely to difficulties experienced in obtaining critical raw materials mostly of imported origin. Special steps have been taken to overcome these difficulties to the extent possible. There has also been a decline in the labour efficiency due to go-slow tactics adopted by labour. This is under active review to improve the efficiency.

However, before an item is framed out, it is ensured that there is no spare capacity available in the factory's production units. Any capacity released by farming out is also duly diverted for increasing the factory's production.

The net cost variation for the year 1972-73 was Rs. 144.35 lakhs (Debit). This was mainly on account of pricing the purchased items for TAX at I.T.I. Standards in accordance with the revised agreement with the P. & T. which stipulates that, in case where one and the same item is both purchased and manufactured, it should be priced at the I.T.I. Standards of manufacture.

As per the revised procedure of Planning and scheduling, the position of outstanding shop orders as on 31st March 1973 has been satisfactory, since most of these orders relate to the current year 1972-73.

As stated earlier. Cost control is exercised at each stage of manufacture.

[Ministry of Communications O.M. No. U. 54012/(14)/73-Fac.,
Dated the 23rd October, 1973.]

Recommendation (Serial No. 33)

The Committee note that the number of pending shop orders has increased from 20,905 on 31st March, 1969 to 24,367 on 31st March,

1972. The age of these orders ranges from one to six years. Although all shop orders are required to be closed within a period of six months, out of the pending orders on 31st March, 1972, as many as 2,347 orders are more than one year old, 531 orders are between two and three years, 239 orders between two and three years and 2 orders each between four and five and six years. The Committee also note that out of the orders outstanding on 31st March, 1972, 531 shop orders valued at 194.98 lakhs have a credit balance of Rs. 5,000 and above and these include 223 physically completed orders. The Committee note that besides, these there are as many as 3,375 physically completed orders with a net credit balance of 52.43 lakhs. The Committee also note that the value of work-in-progress is arrived at on the basis of cost cards for pending shop orders and does not reflect the value of the works based on the physical stage of completion. The Committee find that the Management informed the Board of Directors in August, 1971 that the revised production planning/shop schedule scheme introduced in November, 1969 to achieve a better and more effective cost control did not yield the anticipated results mainly because of deficiencies in proper documentation at the shop level and difficulties in linking the debits/credits to the individual schedules. The Committee were informed that the problems arising from the introduction, of the revised production planning/shop schedule scheme are under examination with a view to taking necessary remedial action and if the difficulties/deficiencies encountered could be removed, the scheme would prove a success. The Committee strongly urge that the company should take expeditious action to identify the deficiencies and defects and the reasons therefor and take immediate remedial action to remove them so that a correct picture of the value of work in progress is available.

The Committee were also informed that efforts were being made to clear the old items by constant review. The Committee need hardly stress that the Company should adopt more business like practices to ensure timely execution of shop orders and strict adherence to delivery schedules.

(Paragraph No. 7.31)

Reply of Government

The observations of the Committee have been noted. With the introduction of the revised production procedure, almost all the old orders have been closed. Most of the shop orders that are outstanding as on 31st March, 1973, relate to the year 1972-73. The number of shop orders outstanding as on 31st March, 1973 is 21837

in spite of enormous increase in the number of shop orders numbering 67,293 issued in the year.

An investigation has been conducted by the I.T.I. to locate areas of deficiencies in the implementation of the revised production planning procedure. Steps to eliminate and minimise the deficiencies for successful operation of the scheme are presently under review.

[Ministry of Communications O.M. No. U.54012|15|73-Fac.,
Dated the 4th January, 1974.]

Further Information called by the Committee

Please refer to the last paragraph of the Government reply and state what steps have been taken to eliminate and minimise the deficiencies for successful operation of the scheme regarding implementation of the revised production planning procedure.

[Lok Sabha Sectt. O.M. No. 12-PU/73, Dated the
5th June, 1974.]

***Further reply of Government**

A Committee was appointed by the I.T.I. to review the implementation of the Revised Production Planning Procedure and to recommend suitable steps to eliminate the deficiencies for successful operation of the scheme. The recommendations of the Committee were under consideration of the ITI. Meanwhile, a cost consultant was also engaged by ITI to review the Cost Accounting system and to give comprehensive recommendations for making improvements therein. The revised shop scheduling procedure also form part of the study by the Cost Consultant who has been apprised of the deficiencies in the existing system, and the recommendations of the Committee mentioned above. His study is nearing completion.

[Ministry of Communications O.M. No. U/54012/1/73-Fac.,
Dated the 16th July, 1974.]

Recommendation (Serial No. 37)

The Committee also recommend that ITI should also take advantage of the computer for working out an effective system of inventory control.

(Paragraph No. 9.8)

Reply of Government

Inventory Control has already been put on computers for most of the Production stores. Stock Control System in computers takes

*Not vetted by Audit

care of editing order request, shortage report etc. to facilitate planning to raise purchase requisitions. Further, the order requests edited in computers take into account the annual requirements, procurement time and the minimum level of stock required for each item and only the items for which the stock falls below minimum level are listed out for the purpose of ordering.

Inventory status after updating the stores transaction is also provided to Production Planning every week to know about the status of all the materials.

Ordering of the material directly by computers is not taken up due to the manual interface required for the existing system. Computer also provides the following information to the Material Managers and the Production Managers for their review and necessary action:—

1. Inventory statistics of all the stores prepared every month is provided to the respective divisions.
2. Summary of the inventory status for the whole of ITI is also prepared every month.
3. Not moved for 1 to 3 years and slow-moving items are listed every year.
4. Annual statistics of Inventory.

[Ministry of Communications O.M. No. U.54012|16|73-Fac.,
Dated the 20th October, 1973.]

Recommendation (Serial No. 40)

The Committee also note that another field of indigenous manufacture where progress has been very slow compared to that in advanced countries is in the field of integrated circuits. Integrated circuits of various types are basic building blocks in digital communications as in other associate fields like computer application, desk calculators, electronic exchanges etc. The Committee need hardly stress that a well considered crash programme of Research and Development for establishing indigenous manufacture in this promising field should be implemented so that the ITI and other concerned public undertakings can exploit this latest technology in their production programme.

(Paragraph No. 9.22)

Reply of Government

The Department of Electronics have been consulted in the matter. They have intimated that a separate panel was set up by that Department who has submitted its Report. On the basis of the Panel's recommendations, proposals for the manufacture of Integrated Circuits have already been processed by that Department and necessary recommendations have been made. This will enable the establishment of capacities for the manufacture of various type of Integrated Circuits by the year 1978-79 to meet the internal demand as has been envisaged. As for the production of large scale integrated circuits, the Panel has recommended that Public Sector Undertakings should preferably be set up for this purpose. This aspect is now being examined by the Department in consultation with the other concerned authorities and a decision is likely to be taken by the Department of Electronics on the subject within a short time.

[Ministry of Communications O.M.No. U.54012|11|73-Fac.
Dated the 20th October, 1973.]

Recommendation (Serial No. 42)

The Committee regret to note that on the basis of the pricing policy followed by the Company in respect of stabilised items, debits to the extent of Rs. 34 lakhs and Rs. 26 lakhs during 1969-70 and 1970-71 respectively were retained by the Company resulting in reduction of profits. The Committee, therefore, suggest that the Management should take effective steps to secure economies in cost so that these do not overrun the prices to be paid by the P. & T. Department.

(Paragraph No. 10.9)

Reply of Government

The observations of the Committee have been noted for guidance.

[Ministry of Communications O.M. No. U.54012|10|73-Fac.
Dated the 20th October, 1973.]

Further information called by the Committee

Please state what specific steps have been taken to secure economies in cost.

[Lok Sabha Sectt. O.M. No. 12-PU/73 dated 5-6-74]

***Further Reply of Government**

The ITI have initiated action on production shop floor for economies in utilisation of men and material. This has resulted in better labour utilisation and higher factory efficiency. Regarding material utilisation, stricter control on the consumption of material, reduction in scrap and rejection, recovery of material from rejected components and sub-assemblies are being ensured by I.T.I.

[Ministry of Communications O.M. No. U|54012|1|73-Fac.,
dt. 16-7-74]

Recommendation (Serial No. 43)

The Committee also regret to note that there had been a declining trend in the profits of the Company during 1968-69 and 1969-70 although the profit showed a slight increase in 1970-71. The Committee were informed that manufacturing and trading accounts were prepared for all the products together and not separately for its main divisions-MAX, Transmission and Cross bar, with the result that financial results of each of the divisions could not be accurately assessed. The Committee are surprised that there should have been such a lacuna in the maintenance of accounts so far. The Committee feel that in the interest of identifying the deficiencies in the working of the different divisions of the project, separate manufacturing and trading accounts should be prepared for each of the main divisions to ensure rectification of such deficiencies in time and to achieve greater efficiency and economy in operation.

(Paragraph No. 10.10)

Reply of Government

The Organisational structure of the Company has since been modified on the basis of the main product lines (*viz.* Strowger, Cross bar and Transmission). The Company has started preparing separate manufacturing, Trading and Profit and loss accounts from the financial year 1972-73 for each of the divisions.

[Ministry of Communications O.M. No. U. 54012|18|73-Fac.,
Dated 20th October, 1973]

Recommendation (Serial No. 44)

The Committee note that the question of preparation of the proforma accounts more frequently (now being prepared annually) is under consideration of the Management. The Committee hope that a system of preparing the proforma accounts more frequently will

*Not vetted by Audit.

be introduced soon so that the division-wise working results are made known to the Management from time to time.

(Paragraph No. 10.11)

Reply of Government

The system of preparing proforma accounts quarterly, is proposed to be introduced on divisionalised pattern to review the division-wise working results.

[Ministry of Communications O.M. No. U.54012|18|73-Fac.,
Dated 20th October, 1973]

Further information called by the Committee

Please state whether the system to prepare the proforma accounts quarterly to review the division-wise working results has since been introduced and if not, what are the reasons for delay.

[Lok Sabha Sectt. O.M. No. 12-PU/73 dated 5-6-74]

***Further Reply of Government**

With the divisionalisation of the production units of the ITI, the Accounts Department was also divisionalised and division-wise manufacturing, trading and profit and loss accounts were prepared for 1972-73. Since such accounts were prepared for the first time in 1972-73, there were certain teething problems, which were resolved in 1973-74. It is proposed to prepare the finalised division-wise quarterly accounts from 1974-75 onwards.

[Ministry of Communications O.M. No. U.54012|1|73-Fac.,
dated 16-7-74]

Recommendation (Serial No. 45)

The Committee note that against the turnover of Rs. 2,504.58 lakhs the total book debts of the Company were Rs. 489.69 lakhs (18.9 per cent) and out of the latter Rs. 75.68 lakhs relate to debts outstanding for more than one year. The Committee regret to note that the bulk of the sales for which payments were outstanding relate to supplies made to Government. The Committee expect that the payments outstanding with Government Departments should have been followed up at the highest level and vigorous steps should be taken for their realisation. The Committee suggest that to have a deterrent effect on avoidable delays the feasibility of charging interest on delayed payments may be examined. The Committee also suggest that the procedure for billing and settlement of formal-

*Not vetted by Audit.

ties should be strictly followed to ensure that in no circumstances payments are allowed to be outstanding for more than two months.

(Paragraph No. 10.18)

Reply of Government

The amount of debts outstanding as on 31st March, 1971 for more than one year amounted to Rs. 57.68 lakhs. Out of this, the debts which were over one year and less than 2 years alone amounted to Rs. 35.19 lakhs. Major portions of the debts related to Railways. A very close watch is kept and periodical reminders are issued and personal visits also undertaken to various Railways units. The Railway Board has recently decided to sanction a paying unit stationed in ITI for checking and arranging payment on submission of bills.

The Committee's suggestion regarding charging interest on delayed payments will be examined by the ITI. The suggestion of the Committee for observance of formalities and procedures for billing and settlement has been noted.

[Ministry of Communications O.M. No. U.54012/18/73-Fac.,
Dated 26th December, 1973]

Recommendation (Serial No. 46)

While the Committee are happy to note that the Second Factory for manufacture of Long Distance Transmission equipment was started in Naini without any outside collaboration, they deprecate the delay of 2 years in even applying for an industrial licence for the project sanctioned in 1968. The Committee find that Government took another one year for granting the licence. The Committee are constrained to observe that such delays defeat the very object of starting a second transmission factory to augment their production.

The Committee note that the estimates originally sanctioned in 1968 for Rs. 248.60 lakhs have since been revised and the revised estimates for Rs. 340.53 lakhs are to be put up to Government for approval. The Committee expect that Government would critically go into the reasons for the excesses over the original estimates and take prior approval of Parliament in case of substantial revision. The Committee would like in this connection to draw attention of Government|ITI to para 5.18 of the Sixty-sixth Report of the Committee on Public Undertakings (Fourth Lok Sabha).

(Paragraph 11.6)

Reply of Government

The location of the New Transmission Factory at Naini was decided in April, 1969, and the Project Report outlining the capital investment and the production programme was approved in October, 1969.

The additional manufacturing capacity envisaged in this project was not more than 25 per cent of the then existing manufacturing capacity of the ITI Limited, Bangalore. Therefore, it was felt by the Company that a new industrial licence was not necessary and a clarification about this was sought from the Government in February, 1970.

The Government clarified in May, 1970, that a new manufacturing licence would be necessary under the Industries (Development and Regulations) Act of 1951. Therefore, an application for industrial licence was made on 16th May, 1970. There was no delay on the part of the Company in applying for industrial licence for the New Transmission Factory. The licence was granted to the ITI Limited in April, 1971, after examination of the application by the Ministry of Industrial Development and Department of Electronics. The Committee's observations are being brought to the notice of these two licensing authorities.

The revised Project Estimates were prepared by the ITI after the project had made appreciable progress and when final estimated cost could be assessed reasonably well and these were approved by the Board of Directors. Since the revised project cost, namely Rs. 347.52 lakhs, exceeds the sanctioned cost by more than 20 per cent, the approval of the Public Investment Board is required. The reasons for the excess in the revised project estimates have been gone into fully by the Ministry of Communications and the case is being processed accordingly for securing the approval of the Public Investment Board. The expenditure incurred on the project upto 30th September, 1973 is Rs. 233.34 lakhs, which is within the originally sanctioned amount of Rs. 248.60 lakhs.

After the approval of the Public Investment Board to the revised estimates has been received, these will be included in the budget proposals for approval of the Parliament.

[Ministry of Communications O.M. No. U.54012|19|73-Fac.,
Dated 29-11-1973]

CHAPTER III

Recommendations which the Committee do not desire to pursue in view of Government Replies

Recommendation (Serial No. 4)

The Committee note that on account of the changes in the actual specifications of equipment required by the P&T in variation of the Jorbagh pattern which was stipulated in the agreement entered into in May, 1964 with Bell Telephone Manufacturing Company of Belgium, the catalogue supplied at the time of entering into agreement for special machines, tools and test equipment and equipment units did not contain many items ordered by the Company with the result that the Company had to obtain a supplementary catalogue in December, 1966. The Committee note that even the original and supplementary catalogues together were not found exhaustive and consequently for items remaining uncovered pricing details were obtained as and when necessary. The Committee are at a loss to understand why the specifications required by P&T could not have been settled well in advance of concluding the agreement with the BTM.

The Committee regret to note that the matter regarding escalation terms applicable to the items covered by the supplementary catalogue and later quotations is still pending settlement and only provisional payments have been made for the supplies received. The Committee also note that the escalation terms prescribed in the supplementary catalogue were also different from the original as indicated in para 3.6. The Committee were informed that orders were not placed catalogue-wise or quotation-wise separately but as and when required as per P&T Production pattern and it is now difficult to assess the value of orders catalogue-wise or quotation-wise separately. The Committee fail to understand as to why the terms and conditions of purchase could not be settled in advance and why orders against different catalogues and quotations were not placed separately and the payments therefor were regulated especially when the escalation terms for supplementary catalogues and later quotations were different from the original.

The Committee need hardly stress that supplies against the different catalogues and quotations should be segregated at least now and terms of escalation and payments therefor finally settled without delay. The Committee also stress that the terms and conditions of purchases should be settled well in advance of placing the orders so that the Management may know the exact contractual liability and financial implications to avoid disputes at a later stage.

(Paragraph 3.9)

Reply of Government

Depending upon the size and traffic capacity of the telephone exchange, its location, the facilities required and other relevant factors, the production requirements in terms of components, sub-assemblies and accessories vary appreciably from exchange to exchange. It was not considered feasible to indicate exhaustively such variations in the collaboration agreement and hence it was decided to adopt, for the purpose of the agreement, the requirements for a typical exchange such as the Jorbagh Exchange. As and when the P&T schedules for the various exchanges were finalised subsequent to the execution of the agreement, additional items, if any, of components and sub-assemblies required for manufacture of such exchanges had to be procured on the basis of price lists furnished by the BTM.

Under Clause 5 of the agreement, the BTM was obliged to supply to ITI special purpose machines, tools, jigs, fixtures and crossbar frames, including components thereof at the prices enumerated in Annexure 'C' to the agreement. These prices were subject to escalation under Clause 6(C) based on the variations in wage and material indices taking place upto the mid-point between the date of the order and the date of delivery. The supplementary price list of 1966 covered additional requirements found necessary after the conclusion of the agreement. This list was furnished by the BTM, to be treated as a part of the agreement in the same way as the 1964—catalogue. The list also contained a notation that it was a supplement to the 1964 catalogue, consequently, the escalation formula contained in Clause 6(c) of the agreement became applicable in toto to the supplementary price list also. As and when quotations for individual items not covered by either of the two catalogues were obtained, the BTM used to specify in the quotations that these prices were based on 1964 catalogue and hence such individual quotations also became subject to escalation as in Clause 6(C) of the agreement.

During the period 1964—66, ITI observed that there were marked increases in the wage/material indices in BTM's factories warranting substantial increases in the escalation amounts payable for supplies ordered on BTM during the period. The matter was discussed by the ITI with BTM when the BTM agreed to apply a fixed escalation of 5 per cent over the 1964—catalogue prices for orders to be placed thereafter for components and tools in place of the variable escalation chargeable under Clause 6(C). This fixed escalation was current from December, 1966 to February, 1968. Between March, 1968 and June, 1970 the fixed escalation was revised to 10 per cent for components and 15 per cent for tools and gauges.

It would be seen from above that the escalation terms prescribed for the supplementary catalogue were not different from those applicable to the original catalogue. The variable escalation terms under Clause 6(C) of the agreement applied to the orders placed upto December, 1966, at which time the fixed escalation was agreed to. Thereafter the fixed escalation terms became applicable to all the orders placed under the 1964—catalogue or under the 1966—supplementary catalogue or against individual quotations received from time to time from BTM.

Later, in 1970 a further attempt was made by the I.T.I. to see whether the BTM could be persuaded to limit the claim for fixed escalation with reference to the 1964 price levels for items covered by the BTM catalogue. Pending further consideration of this issue, urgent requirements had to be ordered by the ITI on the BTM to meet the production targets. Prices indicated in the orders were treated as provisional till a decision was reached on the issue. During subsequent correspondence and negotiations, the BTM clarified the position that prices in the 1966—catalogue and the subsequent individual quotations had been worked back by then to the level of the 1964—catalogue prices to maintain uniformity in accounting the pricing and hence the three sets of prices were subject to escalation on the same basis. The BTM incidentally also pointed out that the adoption of the fixed escalation in place of the variable escalation under the agreement terms was agreed to as a special case and that this has resulted in considerable price advantage amounting to Rs. 10 lakhs (on major orders) to the ITI and that they were not prepared to grant any further concessions. The supplementary price lists and individual quotations having contained a notation to the effect that they represented the 1964, catalogue prices, the BTMs stand was ultimately accepted by the ITI and the matter was closed by them with the approval of their Board of Directors.

Although the orders placed on the BTM from May 1964 to December, 1966 were confined to the items covered by the 1964—catalogue, the orders subsequently placed by the ITI also included items covered by the 1966—supplementary price lists as also by individual quotations. Since the fixed escalation and other terms of the agreement were applicable in toto to (a) items covered by the 1964—catalogue, (b) the 1966—supplementary catalogue prices and (c) the individual quotations, orders were placed by the ITI in the sequence warranted by production requirements for one year or more at one time and not catalogue or price-list-wise. Such orders were numerous and often covered hundreds of items in each case. In view of the position explained in the earlier paragraphs and particularly as the issue relating to the escalation has been finally settled, it would be appreciated that effecting of the catalogue-wise segregation of the several order at this stage would be very difficult.

[Ministry of Communications, O.M. No. U.54012|11|73-Fac.,
Dated the 2nd February, 1974]

Recommendation (Serial No. 7)

The Committee are surprised to note that though the project estimate envisaged the manufacture of local exchanges, trunk exchange, rural exchange, PABX's concentrator line units for use with step by step equipment and pentaconta equipment, no time schedule was laid down either in the agreement which was to run till May, 1971 or in the Project Report or by the Company for taking up the production of these items individually.

The Committee were informed that production of various types of equipment referred to in agreement was taken up depending on priority requirements of P&T from time to time and, therefore, a time schedule for production of individual items was not necessary. The Committee were also informed that a detailed time schedule was made by Company only for manufacturing local and trunk exchanges as they were more concerned with larger exchanges than smaller one.

The Committee feel that had a time schedule of manufacture of the different exchanges been laid down in the agreements and designs for all the types and prototypes of all kinds of exchanges been done according to the schedule within the currency of the agreement, any defects/deficiencies in those areas would have come to their knowledge in time, before the extension of the agreement with the collaborators was decided upon. The Committee stress that even now it is not too late for the Government to take steps

to complete the trial of prototype Rural exchanges to assess their performance within the extended period of the agreement.

(Paragraph 3.26)

Reply of Government

The production schedules of ITI were drawn up based on the then requirements of the Posts and Telegraphs Department. The rural automatic exchanges, PABX's and Concentrator line units had not been included in the firm requirements of the P&T Department at that time.

The ITI have, however, the complete manufacturing information for manufacture of rural automatic exchanges and pentomats as also the concentrators, Prototypes have been made of the pentomats and concentrators which are on field trial. The ITI would be able to manufacture and supply the requirements of the P&T Department as and when orders are received by them, notwithstanding the termination of the collaboration agreement in May, 1973.

[Ministry of Communications, O.M. No. U.54012|6|73-Fac.,
dt. 2-1-1974]

Further information called by the Committee

The points mentioned in the last sub-para of paragraph 3.26 have not been covered in the reply. Please furnish comments and mention the specific steps that were taken to complete the trial of prototype Rural exchanges to assess their performance within the extended period of the agreement and the results achieved. Please also mention whether the collaboration agreement was extended beyond May, 1973.

[Lok Sabha Sectt. O.M. No. 12-PU/73 dated 5-6-74]

***Further Reply of Government**

The ITI has complete manufacturing information for the manufacture of Rural Automatic Exchanges. One prototype exchange has been proved in the laboratory and actual trial in the field is being planned. After the field trial is found satisfactory, ITI would supply the requirements of P&T of rural Automatic Exchanges.

The collaboration agreement was not extended beyond May, 1973.

[Ministry of Communications, O.M. No. I|54012|1|73-Fac.,
dated 18-7-74]

*Not vetted by Audit.

Recommendation (Serial No. 11)

The Committee also strongly recommend that Government should learn the lesson from this experience and ensure that agreements with collaborators include suitable clause providing for levy of penalties and recovery of liquidated damages in cases of delays or failure to fulfil the contractual obligation either in full or in part. The Committee would also like Government/BPE to issue suitable guidelines in this regard to all Public Undertakings.

The Committee were informed that with the addition of the machines which are now being received from BTM the Company would have the capacity to manufacture all the items that were mentioned in the agreement. The Committee, however, regret to observe that no revised parameters according to the P&T pattern were fixed corresponding to those included in the agreement for judging the actual performance with the result that no useful comparison could be possible with the agreement and the terms thereof enforced. The Committee view with concern the failure of the Management in not having intimated the revised production patterns, programmes to BTM in time and included them in a supplementary agreement to the main contract so that the terms of the contract could have been enforced and responsibility for shortages at several stages pin-pointed.

(Paragraphs 3.49 and 3.50).

Reply of Government

It is understood that this sort of penalty clause was not incorporated in foreign collaboration agreements entered into by other Ministries also. The Ministry of Finance (Department of Expenditure) in their Office Memorandum No. F. 12(5)-E(Coord)/72, dated 26th April, 1973, have issued instructions that "Ministries should provide for necessary safeguards in collaboration agreements so that the collaborator gets a stake in ensuring that contemplated production target are achieved according to the schedule."

The basic manufacturing plant and machinery supplied by BTM under the contract would be adequate for 1,00,000 lines of equipment based on the proportion of quantities of component equipment provided for in the Jorbagh Exchange. However, P&T places orders for new exchanges as well as expansion of existing, the quantities of different types of component equipment varying according to requirements of traffic to be carried by them which may not be the same as that catered for in Jorbagh. Under these circumstances, the question of revising the agreement based on any set P&T pattern.

of ordering did not arise, as the whole agreement was for producing a certain quantum of equipment, which could be used in any combination as required by the Posts and Telegraphs.

[Ministry of Communications, O.M. No. U.54012/4/73-Fac. Pt. dated 4.12.1973].

Further information called by the Committee

Please furnish two copies of Ministry of Finance (Department of Expenditure) Office Memorandum No. F. 12(5)-E(Coord)|72 dated 28th April, 1973.

[Lok Sabha Sectt. O.M. No. 12-PU/73 dated 5.6.1974].

***Further reply of Government**

Two copies of Ministry of Finance (Deptt. of Expenditure) O.M. No.F. 12(5)-E(Coord)|72 dated 26th April, 1973 are enclosed (Appendix I).

[Ministry of Communications, O.M. No. U.54012|1|73-Fac. dated 16.7.1974].

Recommendation (Serial No. 13)

The Committee regret to note that the decision to make use of the tool room facilities available for strowger type of equipment for crossbar production on the expectation that there would be tapering off of strowger production was not correct especially when the crossbar equipment was quite new to the country and there was no experience in the use of this type of equipment.

The Committee note that only when the Company was faced with critical situation of large number of breakage in tools during production that the Company thought of ordering a duplicate set of tools and establishing full tool-room facilities. The Committee also note that in the meantime the Company had to place orders for import of 4 tools from the very same collaborators, i.e. BTM for a CIF value of Rs. 1.25 lakhs and another set of 13 tools from BTM and other companies. Had the duplicate set of tools been procured in time, the Company would not have suffered the loss in production.

The Committee view with concern the lack of proper planning in the provision of tools, and tool-room facilities which has caused loss of production.

*Not vetted by Audit.

The Committee also take a serious view of the failure on the part of the Management in not having assessed the demands of strowger type of equipment in time before a decision about tool-room facilities for crossbar production was taken. The Committee hope that with the establishment of a full-fledged tool room, ITI would be able to overcome the difficulty of lack of tools required for the manufacture of crossbar type of equipment in future.

(Paragraph No. 3.55).

Reply of Government

As observed by the Committee, the decision not to order duplicate set of tools on foreign manufacturers was taken on the expectation that these tools would be made in the Strowger tool room which, however, did not materialise as the total strowger production did not taper off and there was thus no spare capacity in the strowger tool-room for manufacture of duplicate tools for crossbar. These tools being sophisticated could not also be made by other tool rooms in the country and, therefore, had to be ordered on BTM. A separate tool-room for Crossbar has been set up and tools required for duplication or replacement for the current production levels are now being made in Indian Telephone Industries Crossbar Tool Room.

[Ministry of Communications, O.M. No. U.54012|8|73-Fac., dt. 20th October, 1973]

Recommendation (Serial No. 14)

The Committee fail to understand how the ITI Management and the Government could ensure implementation of the agreement and that of the project as per schedule in the absence of any record being maintained to indicate even the actual dates of the receipt of know-how etc. The Committee are also surprised as to how the Management could state that the manufacturing know-how had been received in time, by and large in the absence of the record. The Committee emphasise the need for keeping a complete record of receipt of all type of know-how including production and engineering information vis-a-vis the scheduled dates to enable the Management and the Government to keep a close watch so that it can be ensured that the provisions of the agreement and the project are implemented as per schedule.

The Committee have already commented on the defective agreement with BTM in not having included a penalty clause in the agreement.

(Paragraph 3.56).

Reply of Government

In the agreement entered into with BTM, Government of India and ITI, the time schedule for delivery of know-how had been laid down *vide* Annexure 'D' of the Technical Part of the Agreement. According to this, the entire information should have been available by the end of Period IV.

The information in respect of Engineering was voluminous and covered various aspects of circuit design, design of equipment, preparation of drawings etc. A watch was kept on this by the Engineering Department of the ITI and by the time the first few exchanges were engineered, the full information as was available with BTM, had been transferred to ITI. However, due to modifications which were necessary on account of changes under field conditions, additional information and modifications, to the information already received, were necessary. A watch was kept on this also, and progressive completion of the receipt of this was ensured by ITI.

The agreement with the BTM expired on the 20th May, 1973. Regarding inclusion of penalty clause in the agreement with BTM, the comments of the Government are contained in their reply to Recommendations No. 8.

[Ministry of Communications, O.M.No. U. 54012/4/73-Fac. dt. 4-12-73]

Recommendation (Serial No. 25)

The Committee note that because the production in the crossbar Division is not yet established technical estimates are obtained for evaluation of the work in progress in respect of intermediate production in certain specified departments. The Committee feel that working out standard costs based on technical estimates only for intermediate production in certain specified departments will not ensure a scientific and realistic costing for evaluation of work in progress. The Committee, therefore, recommend that the correct standard costing practice should be adopted and the standard cost for the production of crossbar division fixed on a scientific basis. The Committee also recommend that these standard costs should be reviewed periodically and variations between standard costs and actuals analysed to take remedial measures to reduce the cost of production and effect adjustments as necessary.

(Paragraph. 7.0).

Reply of Government

In the Crossbar division, two systems of costing have been in vogue (i) the shop order scheme, and (ii) the departmental scheme. The former follows the same systems and methods as in vogue in the remaining production divisions of the Company. The latter is, however followed in the Crossbar Division alone to fall in line with the production methods and planning techniques in operation in the division. Unlike the other production divisions, the production units in the Crossbar Division covered by this scheme do not follow the multi-stage movements of semi-finished and finished components which are retained in the production centres called "Collection Centres". Materials are issued and accounted for against batch requirements, and the total labour utilised (including overheads) is booked to the departments as a whole. Finished products released from the departments are priced at (pre-determined) standard costs and their value credited to the department. At the end of each quarter, the value of semi-finished items and raw-materials lying in the department are physically verified and priced on the basis of standards as per a technical evaluation of the material and labour content in them, and such value credited to the department. The balance in the departmental account represents the cost variations in production and is transferred to cost variations account after examining and the elementwise variations. Under the production methods and planning techniques adopted in these departments of the cross-bar division, the method of costing in vogue has been found to be the most practicable one. It may be stated that the production pattern and consequently the costing system adopted in the Cross-bar division is similar to the pattern prevailing in BTM who were our Collaborators for establishing the Cross-bar project.

Standard costs based on Engineering data and lay outs have been fixed for all the items of manufacture.

[Min. of Communications O.M.No. U.54012|14|73-Fac. dt: 23-10-73]

Recommendation (Serial No. 26)

The Committee note that standard costs are fixed with reference to layout/drawings for materials and engineering estimates for labour. The Committee also note that the number of layouts has increased from 59,000 in 1969-70 to 77,000 in 1971-72. The Committee were informed that unless there is a change in process or design tool or work simplification or material substitution no revision of lay-outs is undertaken. The Committee feel that in view of the large number of layouts and the frequent changes in product mix designs

especially in Transmission Division, there should be a systematic time-controlled plan of review of layouts with a view to fixing the standard costs as accurately as possible and improve upon the performance. (Paragraph 7.6).

Reply of Government

Under the Costing procedure in vogue in the Crossbar division as well as in other Divisions, debits to the production account are based on the actual quantities of labour and material utilised in production and evaluated at (pre-determined) standard rates. Consequently, the debits should be deemed to be quantitative actuals. Credits in respect of the finished items released from production are also based on actual quantities but evaluated at standard rates which are pre-determined on the basis of technical lay-outs and engineering estimates. The differences in closed shop orders could therefore, be deemed to be the differences between actuals and estimates. On the closure of the Shop Orders these differences are analysed element-wise to enable remedial action wherever necessary including possibilities of cost control.

The standard rates for materials and labour for the purpose of debiting the Shop Order are reviewed and revised every year with reference to actual cost trends, so also the standard costs for finished products. In this manner, a periodical review of standard costs with reference to actuals is adequately established for cost control purpose.

The layouts would require review and revision only when there is a change in process or design, tool or works simplification or materials substitution. Layouts which represent basic engineering data are modified only depending upon customers' requirement or whenever there is a change in design production methods, substitution of materials etc. and do not otherwise require review on the basis of a time-controlled plan.

(Ministry of Communications O.M. No. U.54012/14/73-Fac.
dt. 23-10-73)

Recommendation (Serial No. 29)

The Committee also recommend that the standard costs should be reviewed and re-fixed taking into account the present trends in labour efficiency and material costs so that variations in costs may be kept to the minimum. (Paragraph 7.9).

Reply of Government

Standards Costs for labour and material are at present being reviewed on an annual basis. It is felt that frequent revision of standards, specially of labour, on the basis of actuals is not desirable, since they cease to be standards. In accordance with the revised agreement, standard costs for labour are based on 90 per cent efficiency; standard costs for material are based on weighted average rates of actual purchases of the previous year; and overheads are pegged to the actuals of an earlier year.

[Min. of Communication O.M. No. 54012(14)|73-Fac. dt. 23rd October, 1973]

Recommendation (Serial No. 34)

The Committee find that about 80 per cent of the products manufactured by ITI are supplied to Posts and Telegraphs Department under the pricing terms incorporated in an agreement between the Company and P & T. The Committee are, however, surprised to note that since inception no proper and fixed pricing policy has been evolved by the Government with regard to the sale of the stabilised and non-stabilised items for production. The *ad hoc* arrangements had to be revised on several occasions as they were found not working to the satisfaction of either the I.T.I. or the P&T. The Committee note that the pricing policy has been changed with effect from April, 1972 and new agreement has been entered into between P&T and ITI. Even the present agreement provides for adjustments of the payments/recoveries for cost variations. The excess or deficit in the estimates are to be made good by the P&T or refunded to P&T as the case may be.

The Committee note that conflicting statements have been made by the Management and the Ministry as to how far the cost variations under the standard costing system would affect the profitability of the Company. The Committee also note that in the new agreement it has been presumed that the Company would run at 90 efficiency. As the efficiency depends upon many factors, like labour-management relations, adequate supply of material, proper training of the workers etc., the profitability of the Company is likely to be affected by all the variable factors presumed in the new agreement.

Since the ITI have the benefit of latest machinery and equipment in their production on units and advantage of large captive market, the Committee need hardly stress that the undertaking should improve its efficiency increase output and effect economics

so as to bring down the cost of manufacture of their products to even less than the international prices so that the products of the ITI can benefit even the common man. (Paragraph 8.8).

Reply of Government

The Committee's observations in the concluding portion of para 1 of the recommendations apply only to sales of non-stabilised items to the P&T. In regard to stabilised items which are sold to the P&T no such adjustments with P&T are being carried out nor have they been provided for in the agreement.

In regard to the effect of cost variations or the profits and profitability, the position is as under:—

Under the revised agreement with the P&T (as also the position as it stood prior to the revision of the agreement), the cost variations in respect of non-stabilised items determined at the end of the financial year are adjusted with the P&T along with the proportionate profit amount. That is to say, if the cost variation is a debit variation the amount together with the proportionate profit amount is recovered from the P&T. Similarly, if the cost variation is a credit variation, the amount together with the proportionate profit amount is refunded to P&T. Thus under the arrangement relating to sale of non-stabilised items, the quantum of profit on the basis of standards (before taking into account the cost variations) is affected by the cost variations, the effect being to the extent of proportionate profit amount on the cost variation. However, the profitability (*viz.* percentage of profit) on the actual cost does not get affected by the cost variations.

In respect of sales of stabilised items to P&T, the cost variations determined after the close of the annual accounts are not adjusted with the P&T but are absorbed by the Company. Because of this, both profit as also profitability (percentage of profit) got affected to the extent of the entire cost variations.

The observations of the Secretary, Ministry of Communications, as referred to in the Committee's report relate to cost variations on sale of non-stabilised items to P&T.

The other observations of the Committee have been noted for guidance.

(Ministry of Communications O.M. No. U.54012/18/73-Fac.
dated 26th December, 1973).

Recommendation (Serial No. 36)

The Committee note that the stock of raw materials including installation and production stores as on 31.3.1972 was equivalent to 16 months requirements. Although the inventory level has been brought down from 19 months' in 1967-68 to 16 months' in 1971-72, the Committee feel that the inventory is still very high compared to the norm of 6 months' requirements recommended by the Committee on Public Undertakings in their 40th Report (Third Lok Sabha) on Material Management. Even according to the Management, the inventory holdings considered reasonable in terms of production requirements were 6 months in the case of indigenous items and 9 months in the case of imported items. The Committee also note that the inventory of raw materials has risen from Rs. 1,161.37 lakhs in 1970-71 to Rs. 1,531.71 lakhs in 1971-72 and the increase has been mainly due to purchased items.

The Committee note that the system of material management in the Company had been got examined by the Administrative Staff College, Hyderabad, who while giving their report and recommendations had observed that "ad-hoc decisions such as annual indenting, decentralising the purchase function etc. without adequate pre-planning show trends in dislocation of functions, crisis and inventory piles."

The Committee feel that the Company should have by this time implemented the recommendations contained in the report of the Administrative Staff College and taken appropriate action to streamline the purchase procedure which at present is stated to be causing considerable problems and ensure that the level of inventory is brought down to the norms, considered reasonable consistent with exigency of production so as to avoid unnecessary accumulation of stores resulting in locking up of capital.

(Paragraph Nos. 9.6 & 9.7).

Reply of Government

The inventory position in the ITI was reviewed on the 1st April, 1973. As against the model inventory level prescribed by the BPE of Rs. 27.49 crores, the actual inventory of the ITI was only Rs. 26.66 crores. The BPE have accepted the inventory figures furnished by the ITI and have commended the efforts made by the Company in this direction.

The progress of action on the recommendations of the Administrative Staff College of India is noted below:—

Organisation: The organisation proposed for the individual Division has been accepted in principle and action has been taken to appoint Materials Manager for each division. Materials Managers for Transmission and Crossbar Divisions have been appointed during December, 1972, while that for Strowger Division is to be posted. This being the transition period, it is excepted that the Divisions will take some time to reorganise on the lines proposed by the Administrative Staff College. Independent of the routine purchase activities, a separate organisation for market research has been proposed. Vendor location activity will be under this officer. This has been accepted in principle and will be implemented in stages.

Procurement Procedure: Administrative Staff College of India has recommended ordering of materials on a limited tender basis from amongst the list of vendors approved from time to time by the Divisional Vendor Valuation Committee. This recommendation has been accepted in principle. The preparation of list of approved vendors has been started and is likely to take some time. It has been decided to advertise for all items costing Rupees one lakh or above at least once a year to locate likely sources of supply.

Pending preparation of approved suppliers, list and their evaluation, suitable powers of purchase have been delegated to the Divisional Manager, the materials Manager and other in the line organisation—only orders above a value of Rupees ten lakhs come to Management for approval—stores purchase Committee have been reconstituted to bring these action levels and decision levels as close as possible so as to reduce delays in decision making and placement of purchase orders.

Vendor location has been divorced from purchase action as recommended by the Staff College and combined with import substitution.

General: Recommendations also include guidelines on Material budgeting, fixing of individual and Divisional Inventory Levels, order levels and quantities, building up of files on vendor liability etc. which

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are matters of detail and are being implemented progressively as the re-organisation proceeds and additional staff is made available.

An important step taken alongwith the implementation of these proposals is to appoint a Chief Materials Manager responsible for Inventory Control applications, who also monitors the requisitioning inventory and purchase of materials on behalf of the Management.

(Ministry of Communications O.M. No. U. 54012/16/73-Fac. dt. 20.10.73).

Recommendation (Serial No. 38)

The Committee note that the value of dormant and slow-moving stores increased from Rs. 234.4 lakhs at the end of 1967-68 to Rs. 286.5 lakhs at the end of 1968-69. Though it came down to Rs. 166.55 lakhs at the end of 1970-71, it again increased to Rs. 219.32 lakhs at the end of 1971-72 representing 16.81 per cent of the inventory. The Committee also note that the value of dormant stores alone ranged from 12.3 per cent of the inventory in 1967-68 to 6.65 per cent in 1971-72. The bulk of dormant and slow-moving stores was accounted for by the raw materials. MAX and Transmission stores which have shown an increase of Rs. 48 lakhs from 1967-68 to 1968-69 and again Rs. 46 lakhs from 1970-71 to 1971-72.

The Committee were informed that items had become dormant and slow-moving due to frequent changes in methods, processes and designs which had taken place in the factory especially in Transmission equipment. The Committee also note that against the accumulations of dormant items from the inception of the factory stores of the value of Rs. 37.42 lakhs had to be written off. The Committee are concerned to find that while on the one hand shortfalls in production are attributed to the shortages of raw materials and Transmission Stores, and machinery and labour remain idle on this account, on the other, there are accumulations of dormant and slow-moving equipment which are ultimately written off. The Committee recommend that purchase of materials especially Transmission Stores and Transmission Equipments which are susceptible to frequent changes in design, methods processes, etc. should be regulated after a careful assessment of the requirements to avoid accumulation of stores over long periods and ultimately becoming obsolete of warranting written off.

They have been informed that a Committee had been appointed to review the stores declared dormant/slow-moving. The Commit-

tee hope that a careful analysis of the dormant and slow-moving stores will be made so as to segregate items which are really surplus to requirements and action taken to dispose them of in the best interest of the Public Undertaking.

(Paragraph Nos. 9.15 & 9.16).

Reply of Government

As has been noted by the Committee the main items of dormant and slow-moving stores are accounted for by changes in methods, processes and designs particularly in Transmission equipment where the obsolescence of designs is very high. Every attempt is made by the ITI before actual procurement of components and materials to see whether any items of stores listed as dormant and slow-moving can be utilised in lieu. It is only after this check is made, procurement action is taken. The Committee's recommendation that a stricter vigilance should be exercised on procurement of transmission stores liable to frequent changes in design has been noted for compliance.

In realisation of this important aspect of inventory management a special organisation under the Chief Materials Manager has been created in I.T.I. As a result of work done by the Committee appointed for this purpose and by the materials Management Cell it has been possible to bring down the value of dormant stores to 5.5 per cent of the total inventory in 1972-73. This is expected to be reduced even further in future.

(Min. of Communications O.M. No. U.54012/17/73-Fac. dt. 28.11.73):

Recommendation (Serial No. 41)

The Committee note that as on 31.3.1972, a sum of Rs. 280.95 lakhs was outstanding towards loans from Government of India and ISEC, New York. The Committee also note that the amount outstanding against deferred credit was Rs. 227.73 lakhs on that date.

The working results of the Company are indicative of its healthy financial position. In view of this the Committee hope that it should be possible for the Company to wipe off its outstanding loans so that payment of interest charges thereon is avoided.

(Paragraph No. 10.5).

Reply of Government

The outstanding loans are being repaid on scheduled dates as per the terms of repayment and the company has not so far sought moratorium for repayment of loans.

(Min. of Communications O.M. No. U.54012/18/73-Fac. dt. 20.10.73):

CHAPTER IV

Recommendations in respect of which replies of Government have not been accepted

Recommendation (Serial No. 1)

The Committee regret to note that no serious effort has been made to determine precisely the capacity of the MAX and Transmission Divisions from year to year.

The targets and actual production have been indicated in the Transmission Division in terms of value alone. In view of the fact, that targets of production of the various items had to be varied from year to year depending upon the product-mix and in view of the fact that value of production could rise on account of price and quantity variance and other factors, the Committee feel that there was no clear-cut yardstick available to the Management for evaluating the efficiency in production performance. The Committee recommend that keeping in view the past performance and the likely types of orders to be received, it should be possible for the Company to make an accurate assessment and fix the capacity for evaluating the performance. The Committee find that, on the one hand, the Management stated that the production schedules were prepared taking into account the availability of machines, equipments and also the forecast of the orders, on the other hand the Management attributed the shortfall in production to the fixation of targets deliberately at a higher level as a measure of incentive for higher production.

(Paragraphs No. 2.15 to 2.16).

Reply of Government

The capacity in the Strowger and Transmission divisions as in any engineering industry must be reckoned in terms of man-hours and machine-hours which can be utilised for producing wide variety of products. The capacity available in any one year in these terms can be and is actually calculated with precision as also a schedule of physical quantities of equipment worked out that can be manufactured by utilising this capacity in the optimum. These are also expressed in value for any particular year for accounting purposes. There is thus always a known capacity both in physical terms and in value for the production in any one year against which performance can be monitored.

In drawing up a production schedule two constraints are to be reckoned with. Firstly, the desired product-mix, which would ensure the maximum utilisation of the man-hours and machine-hours already available, which is the available capacity for manufacture in I.T.I. Secondly, the product-mix which is based entirely on customer requirements which may require additional either of man-hours or of machine-hours or result in the capacity not being utilised in the optimum manner.

The physical targets laid down for production are, therefore, a compromise between these two requirements. While on the one hand, the production is scheduled to utilise the capacity to the maximum, action on the other hand is taken to set up additional-capacity so as to meet the requirements of the customers. In an ideal situation such a production schedule has to be laid down as target at least 18 months in advance of the production year. This would give sufficient time to balance capacities or to set up additional capacity, to plan for material, and necessary tools. In actual practice all these ideal conditions do not obtain. Wherever imported machineries are involved, the cycle time for setting up additional capacity is uncertain as it depends on availability of foreign exchange for capital imports. Similarly, setting up of additional tooling capacity also is fraught with several uncertainties for the same reason. While, therefore, the targets for production are set up on the requirements of the customers which can be met by setting up additional capacity, the actual realisation of the additional capacity is sometimes delayed and to this extent the targets are not met.

The capacity in Strowger and Transmission division which is normally planned on the basis of man-hours and machine-hours is also converted into specific products of a known mix. So long as the product-mix is maintained, the capacity is known and the performance is watched by Management by efficiency indices both of man-power utilisation and of machine-hour utilisation. The report on machine utilisation has been in vogue for the past 3 years.

In a system where incentive efficiencies work, the actual capacity that can be achieved is somewhat flexible. By additional effort and inducement, the output per man-hour can be increased under certain favourable conditions. During production, a continuous effort is made to achieve such increase and for this reason the targets are set at levels slightly higher than what can be expected as a routine. To the extent that the incentives are attractive such increase production can be achieved.

With the customer agreeing to a long-term planning of their requirement followed by placing of firm orders and with the many

improvements already made in procurement of materials, advance planning etc., I.T.I. expects to achieve quantitative targets and the budgetted sales to a large extent.

It may be added that the undertakings submit monthly production reports, which are scrutinised in the Ministry. Periodical task force meetings are also held which are attended by the Chairman of the undertakings under the control of the Ministry as well as senior officers of the Ministry, etc. The deficiencies in production, particularly with reference to the targets fixed, are discussed with a view to taking necessary action to remove the bottlenecks. For some time past, the monthly production reports are also sent to the Economic Adviser to the Government of India for consideration at the highest level. Forms in which production figures have to be furnished by the Undertakings have been laid down. It may, therefore, be observed that a continuous watch is kept on the production of undertakings and steps, where necessary, are taken to remove the deficiencies and bottlenecks in production.

(Min. of Communications, O.M. No. U.54012/73-Fac. dt. 22-1-1974).

Recommendation (Serial No. 3)

The Committee note that the actual production generally fell short of the targets both in the MAX and Transmission Divisions from 1966-67 to 1970-71. The Committee were informed that the shortfall in production were mainly on account of inadequate receipt of raw material|components|piece parts and of prescribed quality, non-receipt and non-availability of imported stores and the labour efficiency being less than 100 per cent. The Committee note that while the Company had already taken measures to ward off delays in obtaining import licences and to see that supply of indigenous components are received well in time, the labour efficiency had declined from 105.9 per cent in 1965-66 to less than 100 per cent in 1971-72, although the amount of labour incentives both direct and indirect showed an upward trend from 1965-66 to 1967-68 and again in 1971-72. The Committee note that out of 31 shops now functioning, 5 shops have not attended 100 per cent efficiency at any stage while 7 shops have fallen below 100 per cent efficiency at any stage while 7 shops have fallen below 100 per cent efficiency from 1969-70. The Committee are concerned to find that while the expenditure on labour incentives has increased, the efficiency has actually come down thus causing shortfall in production. The Committee note that the incentive scheme already in vogue was reviewed in January, 1970 and according to the Management, certain modifications would be called for in the Scheme and these are under active consideration. The

Committee recommend that the Management should finalise the modified scheme without any further delay ensuring that the modified scheme does not have any adverse effect. The Committee have also suggested that the Management should consider relating labour incentives to productivity so as to improve the efficiency and achieve better production performance. The Committee have also suggested that the reasons for decline in efficiency in the 7 shops should be gone into and suitable remedial measures taken to improve their efficiency.

(Paragraph No. 2.18).

Reply of Government

The labour efficiency while stood at 105.0 per cent in 1965-66, came down to less than 100 per cent in 1971-72 for the following reasons:

In all incentive schemes it is planned to include initially those groups where sufficient amount of margin exists in the industrial engineering timings to promote an improvement in efficiency with additional effort on the part of the operatives. As efficiency improves and crosses the base, the operatives start to earn incentive money. This momentum continues till it reaches an optimum efficiency above the base and nearer or exceeding 100 per cent. As the scheme gains momentum and the earnings become sufficiently attractive additional groups and shops are brought on the incentive scheme, as soon as conditions can be created for such an incentive scheme to work effectively.

2. During the period from 1965-66 to 1971-72 the emoluments of the workers were increasing while the rates paid for incentive earnings had not been matching the same rate of increase. Correspondingly the motivational element of the incentive has to some extent been eroded and this resulted in a decrease in the overall efficiency. This process has been aided to some extent by difficulties in keeping the operators supplied with materials all the time.

3. Due to delays and difficulties in making available materials in time in the earlier parts of the year, there has been a tendency to keep down employment of men and to compensate for this by employment of staff on overtime during the second half of the year. In an environment where overtimes and incentives operate simultaneously the incentives are generally less attractive.

The cumulative effect of these three factors has, therefore, been a gradual fall in efficiency of production. The revision of the incentive scheme is being negotiated with the workers' union. While

negotiating the new agreement, the recommendation of the Committee to relate labour incentives to productivity more directly would be borne in mind.

(Min. of Communications O.M. No. U.54012/3/73-Fac. dt. 3-1-1974).

Recommendation (Serial No. 5)

The Committee note that the agreement with the BTM which was to have expired on the 21st May, 1971, was extended first from May, 1971 to May, 1972, and again from May, 1972 to May, 1973 in spite of the problems of production as well as in the maintenance of cross-bar exchanges supplied by the collaborators. The Committee were informed that this extension was for the benefit of ITI in order to enable follow-up action for the removal of certain deficiencies in the equipment particularly in design most of which relate to defective spark quenchers, corrosion of certain parts due to climate conditions, circuit defects and common control equipment etc. While the Committee note that the cross-bar system of telecommunications is modern in design, concept and utilisation, they are constrained to point out that the type of cross-bar technology for manufacture in India has been found in actual practice not to be fully suited to our conditions. The Committee are at a loss to understand how such a serious shortcoming crept in when a technical team of senior officials had gone round different countries to examine and recommend the most suitable type of cross-bar equipment for manufacture in the country. The Committee was informed that the Company indicated to the collaborators, the pattern of traffic and other information which was sufficient only for the strowger system and without adequate data about the periodicity of calling which was an essential feature in this system and which has an important bearing on the design of the equipment. The Committee fail to understand why such an essential prerequisite as periodicity of calls was not identified in detail and the special feature of Indian conditions kept in view while selecting the collaboration for the cross-bar equipment. The Committee feel that at least at the time of preparing the Detailed Project Report, these features should have been gone into in detail so that the type of cross-bar exchange and the equipment which was manufactured really suited the Indian conditions. The net result of the serious omission has been that in the case of the cross-bar system installed in Bombay, as compared to 9,400 line capacity only 6,019 lines could be provided resulting in a recurring loss of about Rs. 30 lakhs per annum. This matter has been highlighted by the Public Accounts Committee (1971-72) in paragraph 1.1 of their 2nd Report (Fifth Lok Sabha) while examining the financial implications of the defective cross-bar system installed in Bombay. Since this equipment

has also been installed elsewhere, the Committee apprehend that the financial loss might be far higher. In view of the above, the Committee desire that the reasons for not keeping in view the peculiar conditions of Indian telephone operation while deciding foreign collaboration and later not rectifying this serious omission even at the time of preparing the detailed project report should be gone into and responsibility fixed.

The Committee note that Government claim now to have found solutions to overcome these shortcomings. The Committee wish that Government had taken concerted measures much earlier and had effected the necessary rectification without any loss of time. At any rate, the Committee desire that the cross-bar equipment already installed should be systematically rectified and the Committee informed whether it has, in fact, now been able to achieve the rated capacity in actual operations. The Committee would also like ITI to confirm that the cross-bar equipment now being manufactured at least conforms to the Indian requirements and is free from the defects which had earlier depressed its operating capacity/efficiency.

The Committee would also like Government to analyse in detail the shortcomings and handicaps which have been experienced in selecting this foreign collaboration and in its subsequent operation so as to learn the requisite lesson and advise all Public Undertakings how to avoid such pitfalls in future.

(Paragraph No. 3.15 to 3.17)

Reply of Government

The Indian Telephone Industries Limited, Bangalore, were manufacturing the strowger type of switching equipment in collaboration with M/s. Automatic Telephone & Electric Company of UK. In early sixties, the need for adding another type of switching equipment, which would be modern in design and also provide facilities contemplated in the context of nation-wise subscriber trunk dialling was felt. A high level Committee of technical experts of the Posts & Telegraphs Department was formed to go into the selection of a suitable new switching system. Member of this Committee visited various foreign countries which were manufacturing modern telephone switching equipment to make a on-the-spot study of the various systems in operation in those countries. The Committee recommended the cross-bar switching system for adopting in India. A tender for supply of 48,000 lines of local exchanges and 6,500 lines of trunk automatic exchange equipment and for collaboration in the setting up of the cross-bar switching

equipment of similar design was called for and the quotations received were considered by a Committee. Amongst the cross-bar systems put up before the Committee, the following three were considered for adoption in this country:—

- (i) IME system of Sweden;
- (ii) BTM system of Belgium; and
- (iii) NEC system developed by Japan.

For reasons of high price and difficult terms of collaboration, the offer of IME was ruled out. Between the two offers of NEC and BTM, the offer of BTM of Belgium was preferred for the following technical considerations:—

1. BTM, in conjunction with ITT, had vast experience in the manufacture of varied types of telecommunication equipment, and had set up production units in different countries. NEC's experience was limited to Japan.
2. BTM, as part of the ITT Group, had experience of what is known as the "compelled Sequence Signalling System", and their offer was for this type of equipment. NEC was yet to develop it. The then Director of Research, P&T Department and the officers in the Telecommunications Research Centre, were of the view that the new Cross-bar Exchange should, from the beginning, incorporate the "Compelled Sequence MF Signalling" system.
3. The process of manufacture of the BTM Cross-bar equipment was considered simpler than the NEC, according to the ITI Limited.
4. The BTM and ITT had experience in inter-working of cross-bar equipment with different types of automatic exchanges in different countries, including the strowger, which was the type then in use in India. The NEC's experience was limited largely to inter-working with equipment in use of Japan.

2. After detailed consideration of the report of the Committee of technical experts, the Government of India decided, after obtaining the approval of the Cabinet, in favour of the BTM system of Pentaconta switching equipment for this country, and collaboration agreements with ISEC and BTM were signed in 1964 for manufacture of Pentaconta Cross-bar switching equipment by the ITI Limited, Bangalore. The Signatories to these agreements from the Government's side were the President of India and the Indian Telephone Industries Limited.

3. The agreements were vailed for a period of seven years ending 20th May, 1971, during which period the ITI were required to reach a manufacturing capacity of 1,00,000 lines of switching equipment of Jorbagh pattern. Due to various reasons, which have been enumerated in brief in reply to Recommendation No. 8, the ITI could not attain the targeted manufacturing capacity before the expiry of the contract in May, 1971. The Government of India, therefore, extended the agreements for another year without payment of royalty so that the ITI could during this period attain the scheduled capacity provided in the agreements. The BTM offered fullest cooperation to the ITI and the scheduled capacity of 1,00,000 lines per annum was reached towards the end of March, 1972. In order to enable the ITI to stabilise its production of Pentaconta type of switching equipment at the scheduled capacity, it was felt that the agreements might be extended by another year beyond May, 1972. This was agreed to by the Government of India on the same terms as the first extension *viz.*, without payment of any royalty. The agreements were finally terminated on the expiry of the second extension *viz.*, 20th May, 1973.

4. One of the reasons attributed for the deficient and unsatisfactory working of the cross-bar equipment was different requirements of telephone traffic prevailing in Indian *vis-a-vis* other parts of the world where Pentaconta switching equipment had been installed. The traffic rate depends on (a) the actual communication needs of the communities; and (b) the state of efficiency of the cross-bar system. The aspect of telephone traffic could unfortunately not be assessed before the Pentaconta switching equipment was selected for adoption in this country. It is not actually the cross-bar system which has not been found suitable, but certain design deficiencies which subsequently came to our notice in the particular type of cross-bar manufactured by the BTM under the traffic conditions obtaining in the country. The reason for this was not that the decision was taken without foresight but due to lack of experience in the working of this system. Such a risk is inevitable in adoption of any new system. The selection was made after careful consideration and a thorough investigation in the matter has revealed that no individual office can be held responsible for selection of this system.

5. The defects in the working of the cross-bar equipment imported from BTM and installed at some stations have also been identified. A task Force comprising of BTM, ITI and the P&T Department was constituted and they drew up a planned programme for rectification of these defects. Some of the defects have been rectified and the others are being rectified as and when they are coming

to notice. In addition, the rectification work in general is also in hand. With regard to the cross-bar exchanges installed at Bombay, where about 60 per cent lines were commissioned initially, the working capacity has been substantially improved since then.

6. It is confirmed that most of the defects of the present equipment have been identified and solutions for these have been found. Arising out of these, changes have largely been incorporated already in the equipment now being produced except a few that are in the process of implementation. It may be mentioned, however, that besides modifications in the existing system design, which will considerably improve the service and the capacity that can be used in the exchanges, the overall systems concepts which will be most suitable for Indian traffic is also being examined afresh, and arising out of this, the necessary changes in system design as deemed necessary would be introduced in due course.

7. Regarding the crossbar equipment received and already installed in exchanges, rectification work has already been taken up. With the progressive implementation of these changes, the quality of service would improve and it would also enable fuller utilisation of the capacity of the equipment.

8. As indicated earlier, a number of changes have already been implemented in the equipment now being manufactured in ITI; for example, the contact material and spark quenches suitable for high intensity traffic have already been changed in the current production line. As more and more improvements are being conceived to improve the performance of this equipment on account of the continued efforts put in by the Telecommunication Research Centre, Posts & Telegraphs and the Research and Development Organisation of Indian Telephone Industries, the equipment in production is being modified accordingly. With these changes, the equipment is being remedied of the major defects that it had in the earlier design and due to this, the operating capacity of the equipment and its efficiency is progressively improving.

(Ministry of Communications O.M. No. U. 54012/4/73-Fac,
dt. 20-10-73)

Further information called by the Committee

(i) Please refer to para 4(b) of Government's reply to this recommendation and state the reasons as to why the important aspect regarding telephone traffic to be borne by the equipment was not taken into consideration before the pentaconta Switching Equipment was selected.

(ii) It has been stated that in the cross-bar system certain design deficiencies came to notice subsequently in the particular type of cross-bar manufactured by the BTM under the traffic conditions obtaining in the country. The reason for this is stated to be lack of experience in the working of this system. It has further been stated that responsibility could not be fixed for selection of this system.

Please state as to why none could be held responsible for the selection of the Cross-bar system working of which has been found far from satisfactory.

(iii) Please refer to paras 6 & 7 of Government's reply and state whether necessary modifications in the existing system design have since been carried out. If so, what is the amount spent thereon. Have any changes been introduced on the basis of fresh examination conducted taking into account the Indian Telephone Traffic and if so, with what results.

(iv) Please state the total amount incurred on the rectification work carried on the cross-bar equipment received and already installed in exchanges. What has been the experience regarding improvement in quality of service and utilisation of the capacity of the equipment after the implementation of the changes?

(v) Please state the cost of modifications of the equipment in production carried out on the basis of the efforts made by the Telecommunication Research Centre/Posts and Telegraph and the Research and Development Organisation of Indian Telephone Industries.

(Lok Sabha Secretariat O.M. No. 12-PU/73 dated 5-6-1974).

***Further Reply of Government**

(i) The P&T Department had gone in for Cross-bar type common control equipment for the first time. Before commissioning of the exchanges, it was not known that the periodicity of calling has such a critical influence on the performance of the cross-bar exchanges mainly due to lack of experience in the field of common control system and due to incidence of traffic on account of suppressed demands. As such these factors could not be taken into account before the pentaconta Switching Equipment was selected.

*Not vetted by Audit.

(ii) As already mentioned the selection of the common control system was made after careful consideration. In the absence of experience such type of defects were not foreseen and the defects were noticed only on the actual working of the system which have been identified and are being rectified. It will, therefore, not be correct to hold any individual officer responsible for the defects which were found later. The detailed project report only provided for the production of various equipments for 100,000 lines in the same proportion as given for Jorbagh Exchange which in turn had been designed by M/s. BTM. The inadequacies came to notice while operating the system and could not be foreseen either at the time of the selection of the system or at the project report stage.

(iii) Most of the defects in the existing cross-bar exchanges have been identified and the solutions for the same also been finalised. This work was done by a Task Force set up for this purpose with the representatives from the Telecommunications Research Centre, ITI Ltd. and the P&T Directorate. The expenditure incurred on the work has not been assessed. A redesign group has been set up recently in the T.R.C. to redesign the pentaconta system incorporating necessary changes most suitable for Indian Traffic.

(iv) As far as upgradation of BTM supplied cross-bar exchanges is concerned, M/s. Bell Telephone Manufacturing Company have supplied the entire modification material free of cost and also in addition, they have agreed to pay Rs. 80 lakhs towards the cost of manpower for executing the modification work. It is as yet early to say about the effect of implementation of the changes in the exchanges because the upgradation work is still in progress.

(v) The modifications to the equipment in production are being carried out progressively by the I.T.I. Ltd. The modifications consist mostly of improvement in the grade of Spark quenchers; improvement in protective finishing, slight increase in the size of the electrical contact and certain modifications to the circuits and mechanical components for improved performance. The cost increase is not expected to be substantial and would be known only after all the modifications are finalised.

(Ministry of Communications O.M. No. U/54012/1/73Fac.
dated 16-7-1974)

Recommendation (Serial No. 6)

The Committee note that though the original estimate for Rs. 127 lakhs sanctioned by Government in 1966 was exceeded as early as 1966-67 the Company prepared a revised estimate only after the

project had been fully set up in 1968 and submitted it to the Board of Directors in June, 1970. The Board approved the revised estimate in October-November, 1971 i.e. after more than one year and the revised estimates were sanctioned by Government in 1972 after another 10 months.

The Committee regret to note that the laxity of financial control both on the part of Management and Government in having allowed the Company to continue to incur expenditure on the project without a Revised Estimate being prepared and approved by competent authority. The Committee need hardly stress that the Revised Estimate should not be construed as a completion Report of the Project but it is an instrument of financial control and should have been prepared and got sanctioned when there was the slightest likelihood of the estimates being exceeded and not after the project was fully set up. The Committee feel that Ministry should also have taken steps to obtain the Revised Estimate even in 1966-67 when the expenditure exceeded the original estimate.

The Committee recommend that the procedural delays and various lapses which have caused the delay in the preparation and sanction of the revised estimates should be investigated and responsibility therefor fixed. (Paragraph 3.20).

Reply of Government

As against an estimate of Rs. 127 lakhs in the original Project Report, the revised estimates amounted to Rs. 201.36 lakhs representing an increase of Rs. 74.36 lakhs—vide para 3.18 of the Committee's report. It will be observed from the details mentioned in this paragraph that the excess in expenditure over the original Project Report occurred only under the head "Plant Machinery and Equipment"—to the extent of Rs. 75.48 lakhs. Out of this, Rs. 24 lakhs was accounted for by the effect of the devaluation of the Indian Rupee in June, 1966, and Rs. 18 lakhs was due to price escalation in the supply of equipments as laid down in the agreement. This could not have been foreseen as the amounts of escalation depended upon the time of placement of orders.

It may be mentioned, in this connection, that although the plant, machinery and other facilities had been received in the ITI Ltd., and installed by 1968, it took some more time for an accurate determination of their capacity in terms of production. It was only later that a precise assessment of this aspect could be made in consultation with BTM. Even this assessment was done in two stages, once in 1968 and again in 1970. As a result of the assessment and

discussions, BTM effected free supply of 21 machines for which the Company had to pay a total customs duty of Rs. 11.48 lakhs. This expenditure could not have been anticipated in full before 1970.

In the Project Report, it was anticipated that a separate Tool Room would not be necessary for the Crossbar Project as the requirements could be met by the tool room already installed for the Strowger division. The assessment of the capacity of the Machinery and equipment installed for the Crossbar revealed later that additional machinery estimated to cost about Rs. 22 lakhs would have to be purchased and installed for the project to enable achievement of the production targets as per the Project Report. Compilation of the necessary data for the finalisation of the revised Project Report was thus possible only after 1970 and the revised Project Report was put up to the Board in August, 1971 and after Board's approval it was forwarded to the Government in October, 1971.

The revised project report was examined in the Ministry of Communications and it was observed that the Company had not furnished the detailed break-up of the cost variation for the various causes which led to the increased cost of the project. Some discrepancy was also observed in the figures furnished in the revised project report and these were furnished by the Company subsequently. The correspondence exchanged with the ITI for obtaining the above information|clarification and consultation with the Ministry of Finance took some time and hence there was some time lag in sanctioning the revised estimates of the crossbar project of the Bangalore factory (the sanction for the revised project estimate was issued on the 28th September, 1972).

As desired by the Committee on Public Undertakings, the case has been investigated and it has been found that the time taken in sanctioning the revised estimate was caused mainly due to the reasons mentioned above. It has not been possible to fix responsibility on any individual officer.

[Min. of Communications, O.M. No. U.12012|2|72-Fac.
dt. 27-11-1973].

Recommendation (Serial No. 8)

The Committee note that according to the BTM agreement for setting up of the plant capable of manufacturing one-lakh lines on Jorbagh basis of contract equipment on a single shift working, the full capacity was to have been achieved in a period of 36 months

commencing from August, 1964 and ending July, 1967. The Committee regret to note that the actual performance in terms of output has been much lower than that programmed in the agreement. The shortfall ranges from 67 per cent to 100 per cent at the end of January, 1968. The Management has attributed various types of delays as reason for shortfall in Phase I and II (February, 1965—July, 1967). The Management have also admitted that there were delays in finalisation of facility schedules/specifications, etc. by the Posts and Telegraphs. Though for some of the delays pertaining to supply of know-how, semi-equipped assemblies etc, the BTM was also responsible, the Committee regret to note that absence of any provision in the agreement with the BTM for taking action against them for such delays or for claiming the damages from them. The Committee view with concern that these delays have ultimately affected the training and the production programmes. The Committee would like that the reasons for delays should be investigated.

The Committee also take a serious view of the lack of advance planning and the preparation of specifications by Posts & Telegraphs/ Indian Telephone Industries before entering into agreement so that the specifications could be made available to the BTM for completing the contractual obligations in time. The Committee see no reason why in a project of this magnitude which involves erection and commissioning of a sophisticated equipment, the progress which depends on scheduling at different stages, the Company should not have taken advantage of modern management techniques like "PERT" to review the programme, identify the delays and take timely remedial measures at different stages to achieve the targeted programme. (Paragraph 3.43 to 3.44).

Reply of Government

There was some delay in the finalisation of facility Schedules/ Specifications of the Exchanges by the Posts and Telegraphs Department. But the major reasons for the slippage in achieving the capacity for many years had been the continuous delays on the part of the BTM in supplying piece parts, components, tools and machines. Unfortunately, there were other factors which further added to this delay, for example, some machines shipped by them were received here in a damaged condition and some machines sent by them were impounded in Karachi during the Indo-Pakistan confrontation in 1965. There had been continuous correspondence between the Indian Telephone Industries and the BTM for expediting the supplies and keeping to the promised schedule. In spite of these, the delays occurred in supplies at all stages. From this it appears that since this was apparently the first major collaboration entered

into by BTM with any outside party, the great magnitude of work that was involved in the transfer of know-how and the supply of specially designed plant and machinery, jigs, tools and fixtures, had not been fully appreciated by them and thus BTM was not in a position to meet the very tight targets which were specified by them in the agreement.

There was no clause in the Agreement for taking action against the BTM for delays or claiming damages from them and generally it is not possible to get such a clause accepted by the Collaborator. It is understood that this sort of penalty clause was not incorporated in foreign collaboration agreements entered into by other Ministries also. The Ministry of Finance (Department of Expenditure) in their Office Memorandum No. F-12(5)-E (Coord)72, dated 26th April, 1973 (Appendix I) have issued instructions that "Ministries should provide for necessary safeguards in collaboration agreements so that the collaborator gets a stake in ensuring that contemplated production targets are achieved according to the schedule."

In regard to the "PERT" techniques, it may be mentioned that Indian Telephone Industries had a definite PERT chart covering various activities with regard to achieving the targeted programme. They also had a proper Gant chart giving specific time frames for transfer of know-how. With the help of these, the Indian Telephone Industries continuously monitored the different stages and where there were delays, cases were taken up suitably with the BTM.

[Ministry of Communications, O.M. No. U 54012/4/73-Fac. dt. 20-10-1973].

Recommendation (Serial No. 9)

Apart from the financial losses, the Committee would like to point out that at a time when the country is seriously short of telephone equipment and the waiting list runs into several years in metropolitan towns, it is unfortunate that we should not have been able to manufacture equipment of the requisite quality of ITI upto the installed capacity. The Committee are greatly dissatisfied with the lack of urgency with which the various manufacturing problems encountered have been tackled in ITI and desire that the matter should be looked into at the highest level in order to take concerted measures to overcome these deficiencies and reach production as per the installed capacity.

The Committee are greatly perturbed to note that as compared to the Fourth Plan target, the ITI would fall short by as much as 2.34 lakh lines including 70,000 lines of rural exchange.

The Committee note that though 60,000 lines of P&T were equated by the Management to one lakh lines Jorbagh pattern originally envisaged in the agreement with the collaborators, the optimum production could not be achieved by the Company even in 1970-71 due to certain deficiencies like short supply of machines, shortfall in foreign exchange and poor quality of indigenous supply of raw materials. The Committee regret to note that the short supply of machinery came to the notice of the Management only after two years of installation and running and when the factory could not achieve the quantum of production specified in the project report. The Committee find that:—

“...soon after the (present) Chairman and Managing Director took over charge in June, 1970, he had detailed discussion with the officers on the Audit Report and while going through the causes and the difficulties for attaining the rated capacity, it came to light that the machine capacity was still not sufficient. They pointed out that they could not make the correct and full assessment of the machine capacity earlier as the various machine operation timings had not been received in full from BTM”.

The Committee regret to note that even now information pertaining to know-how and standard time data has not been received by ITI from BTM for a large number of items, components, and assembly operations. (Paragraph No. 3.45 to 3.47)

Reply of Government

The main reasons due to which the desired capacity could not be achieved have been indicated in the reply against recommendation No. 8. This has been due to delay in the supply of components, plant and machinery, tools and jigs etc. by the BTM. All these items had continuously been pursued by ITI with BTM. In spite of this, there were delays in deliveries from BTM. Also, the total plant and machinery supplied by them failed to give the rated capacity which resulted in a series of discussions and the inadequacy of the plant and machinery was finally accepted by the BTM. Arising out of this, they supplied free of cost additional plant and machinery by the year 1972. With the supply of additional plant, ITI has now got adequate plant and machinery to manufacture 1,00,000 lines of Jorbagh type equipment as was envisaged in the Agreement. The production is coming upto the rated capacity.

The reasons for the ITI not manufacturing cross bar equipment of the requisite quality have been examined in great detail. The defects in the equipment arose out of the fact that the equipment was based on the designs supplied by the BTM Company which did not meet our requirements fully. The issue concerning rectification of the cross-bar equipment supplied by the Bell Telephone Manufacturing Company was taken up with them and the rectification work is under execution. The ITI engineers had during their study of the designs and as a result of the failed reports, noticed some defects on which they made references to the BTM. Based on these, a number of modifications and change notes were issued by the BTM and these had progressively been implemented in ITI. A task force consisting of the engineers of the Posts and Telephones Department and Indian Telephone Industries Limited has been working out solutions for further improvements to be adopted in future production by the Indian Telephone Industries.

Regarding rural exchanges, in view of the greater importance given to the main exchanges, Posts and Telegraphs has so far been ordering the cross-bar equipment for the main exchanges only, the rural exchanges being catered for by Strowger equipment.

[Ministry of Communications O.M. No. U.54012|4|73-Fac., dated 20th October, 1973].

Recommendation (Serial No. 10)

The Committee are surprised that though under the agreement with the Collaborators, the BTM were responsible for such defects and deficiencies, the agreement did not even included a penalty clause providing for claim for liquidated damages for any failure to supply the machines in a specific time. The Secretary of the Ministry, during evidence, admitting this lacuna stated, "when the collaboration agreement was reached, this question of compensation was discussed and it was finally decided not to include any penalty clause in the agreement." The Committee are not happy at the way in which things connected with BTM agreement had been handled. The Committee would therefore like that the whole matter regarding the agreement with the BTM should be thoroughly investigated and the responsibility for not only entering into such a defective agreement but also the failure to take follow up action at different stage during the implementation of the agreement be fixed.

(Paragraph No. 3.48)

Reply of Government

The position with regard to the circumstances leading to the signing of the agreement with the BTM Company has already been explained against Recommendation No. 5.

2. Regarding the absence of the penalty clause in the agreement, it may be mentioned that generally it is not possible to get such a clause accepted by the Collaborator. It is understood that this sort of penalty clause was not incorporated in foreign collaboration agreements entered into by other Ministries also. Ministry of Finance (Department of Expenditure) in their Office Memorandum No. F. 12 (5)-E (Coord)/72, dated 26th April, 1973, have issued instructions that 'Ministries should provide for necessary safeguards in collaboration agreements so that the collaborator gets a stake in ensuring that contemplated production targets are achieved according to the schedule.'

3. Follow up action on various matters connected with the implementation of the agreement was also taken. There was an indication in the BTM agreement about the number of machines to be supplied and, based on that, the collaborators supplied the machines to the Indian Telephone Industries' Ltd. In the beginning Indian Telephone Industries' efforts were in terms of assembly of parts supplied by the BTM. Production of components, bit by bit, was started in the Indian Telephone Industries. Initially, when the machines were being run at a low capacity, the optimum production was not known. It was only later when the Indian Telephone Industries wanted to get the optimum output that the deficiencies were discovered. In 1968-69 when an evaluation was made by the Industrial Engineering Department of the Indian Telephone Industries some machines were found short. M/s. BTM were contacted by the Indian Telephone Industries who, in turn investigated the matter and accepted the position. As the Indian Telephone Industries gained more experience with the machines that were brought and installed, they felt that there were still some machines short.

The BTM agreed to supply these additional machines also free of charge. It would be appreciated that the Indian Telephone Industries had taken up the manufacture of the cross-bar equipment for the first time and have had no previous experience. Therefore, they were guided and advised by the Collaborators. It was only when the Indian Telephone Industries installed these machines and ran them, the fact that these machines were inadequate to reach the specified capacity was assessed. Then the dialogue was started

with the collaborators and the BTM agreed to supply a total number of 21 additional machines free of cost towards inadequate provisions of machine capacity in the collaboration agreement.

[Ministry of Communications, O.M. No. U. 54012/4/73-Face. dated 20-10-73].

Recommendation (Serial No. 15)

The Committee find that against the staff requirement of 15 officers and 1235 operative and indirect staff on achieving 100 per cent efficiency envisaged in the Project Report for production of 1,00,000 lines, the Company has on 31st March, 1972 a strength of 31 officers and 1401 operative and indirect staff whereas the production was only of the order of 80,000 lines. Although the Committee were informed that the present strength is not more than the strength assessed by the Industrial Engineering Department, the Committee are inclined to feel that the staff strength is much in excess of the requirements especially when the production has not reached 100 per cent level. The Committee are concerned that the Company could not attain the expected level of efficiency in the Assembly and Manufacturing Divisions of the Crossbar Unit whereas the percentage of efficiency is only of the order of 60.87 and 50.72 in 1971-72. The Committee strongly recommend that Management/Government should go into the reasons responsible for low achievement of the required level of efficiency and should take suitable remedial measures to improve the efficiency and attain maximum production. The Committee also recommend that employment of staff should be strictly regulated to the needs of production and production pattern to avoid over-staffing at any stage.

The Committee have been repeatedly coming across instances where officers and other staff grossly in excess of requirements as envisaged in the detailed project report etc. are employed. What distresses the Committee most is that even when the requisite level of production or even a substantial portion thereof has not been reached, the officers and staff employed usually is far in excess of what would be even required for achieving 100 per cent level of production.

This is indicative of the laxity which the appointments of staff are made in the beginning which militates against disciplined hard work and thereby vital the atmosphere in Public Undertakings for achieving optimum production results. The Committee would like Government at the highest level to analyse in detail the reasons for

recurrence of such lapses and lay down guidelines to obviate their recurrence. The Committee would like Government to hold the Chief Executive squarely responsible for any such lapse in future so that production discipline is maintained all along the line.

(Paragraphs 3.63 and 3.64)

Reply of Government

Although the estimated requirements of 1339 operatives was mentioned in the agreement, a provision of 15 officers and 1235 operatives and indirect staff was made in the project report for production of cross-bar equipments keeping the requirements at that time in view. In the estimate included in the agreement, the following categories of staff had not been accounted for:—

1. Supporting staff like planners, staff for stores and stock control, labourers and services;
 2. Charge Hands and Supervisors;
 3. Operatives and supporting staff for manufacture of non-contract items which had been originally assumed as being diverted from Strowger Division on Strowger Production tapering off;
 4. Operatives required for operating additional machines/equipments since supplied by BTM in addition to the original schedule of machines/equipments.
2. The I.T.I. have been reviewing the requirements from time to time keeping in view the actual needs including the output on the various machines.
3. The shortfalls in production efficiencies have been mainly due to reasons, *e.g.*:—
1. Assembling processes involved are of a technology different from what was prevalent in I.T.I.;
 2. Frequent changes have to be made in the circuitry, in the wiring schedules etc. to solve many problems encountered in the field;
 3. On some of the common equipments there have been several changes with the result that completed equipments have to be retained on the floor pending changes to be made in wiring.

4. The actual requirements of staff is determined on the basis of analysis made by the Industrial Engineering Department of the Company. The recommendations of the Committee to employ staff strictly according to the needs of production and production pattern to avoid over-staffing have been noted. The observations of the Committee that Government should lay down guidelines to ensure that there is no over-staffing in any public sector undertaking and the chief executives of those undertakings should be held responsible for laxity in this behalf are being brought to the notice of the Bureau of Public Enterprises for issue of general instructions for guidance of all the public undertakings.

(Min. of Communications O.M. No. U.54012/9/73-Fac. dt. 3-1-1974).

Further information called by the Committee

Please refer to paragraph 4 of the Government reply to the above noted Recommendation and state whether the Bureau of Public Enterprises has issued suitable guidelines in this respect and if so, please send a copy thereof.

(Lok Sabha Sectt. O.M. No. 12-PU/73 dated 5.6.1974).

***Further Reply of Government**

The Bureau of Public Enterprises are yet to issue the guidelines.
(Ministry of Communications O.M. No. U.54012|1|73-Fac. dt. 16-7-74).

Recommendation (Serial No. 28)

The Committee were also informed that the costing system has been designed to conform to the multi-stage production pattern in vogue with an in built cost control system. The Committee, however, note that the system does not provide for determination of product-wise actual costs. While the Company has provision for cost-control/comparison at every stage of production of components against individual shop orders, the Committee do not see any reason why the data available cannot be utilised by the Company in working out the product-wise actual cost so as to provide a suitable basis for comparison with the standard cost. Such product-wise analysis of actual cost will be helpful in the fixation of prices for various products on a scientific basis. The Committee therefore, urge that the compilation of product-wise actual cost be undertaken early.

(Paragraph 7.8).

Reply of Government

As observed by the Committee, the present costing system is aimed at exercising adequate cost control at every stage of production which is regarded as the essence of standard costing system. Such multi-stage cost control necessitates a shop order accounting system under which it is not possible to collect elementwise costs on an actual basis as such and to compare the actual cost against the standard cost for the finished product.

So long as elementwise cost control is exercised at every stage of production, there is an automatic cost control on the finished product as well. A separate elementwise cost comparison between productwise standards and actuals at the finished product stage would therefore appear to be a duplication of effort not contemplated under the present system.

(Min. of Communications, O.M. No. U.54012|(14)|73-Fac. dt. 23-10-73)

Recommendation (Serial No. 32)

The Committee note that product-wise actual costs are not compiled by the Company to enable comparison of selling prices with such actual costs. From the comparison of the selling prices with the standard costs, the Committee find that the range of variation in the selling prices of the products of both MAX and Transmission Divisions has been wide. The range of variation in the standard costs also has been equally so. The Committee also note that there has been increase in selling prices and standard costs of several products of MAX and Transmission Divisions including the Telephones during 1969-70 to 1971-72. The Committee note that in the absence of break-up of standard costs into its constituents viz. labour, materials and over-heads the Management is not in a position to indicate specific reason for variation in standard costs from year to year.

The Committee need hardly stress that it is imperative to streamline the procedure of costing and that the Company should compile product-wise actual costs and also analyse the variations between the standard costs and the actuals and take suitable remedial action. The Committee regret to observe that the basic commercial principle of finding out product wise actual costs for comparison with the selling prices to find out the financial viability of the undertaking has not been followed. The Committee hope that this position would be set right without any further delay.

(Paragraph 7.25)

Reply of Government

It is no doubt true that the selling prices/standard costs of the finished products have registered increase during the period from 1969-70 to 1971-72. These increases have been analysed and investigated on the basis of statistical data at the end of each year. They have been found to be due to progressive escalations in the wage-bills of the Company and also in the purchased costs of materials. Having regard to the progressive increases in prices of raw materials and the increased wages paid to operatives and the unavoidable increases in overhead costs, the net increases in the sale prices/standard costs of the finished products are to a large extent inevitable. It may, however, be stated that the selling prices charged to the main customer *viz.*, the P&T have been found to be lower than the landed cost of the similar equipments imported from abroad and in some cases even lower than the FOB costs of such equipments.

In the production pattern prevailing at present, where components, sub-assemblies etc. are manufactured on various shop orders and the final assembly is done on another shop order after drawing these fabricated parts from the Stores, it is not possible to find out the actual cost incurred for a product in terms of total raw material, total labour and total overhead. If this has to be done, the production pattern will have to be changed and this change is considered not desirable.

[Ministry of Communications O.M. No. U. 54012(14)/73-Fac.
Dated the 23rd October, 1973]

Recommendation (Serial No. 39)

The Committee note that the Company has achieved import substitution of raw materials and components to the extent of Rs. 348.58 lakhs from 1966-67 to 1971-72. As conceded by the management themselves, "while the pace of import substitution has been fairly satisfactory, there is scope for improvement."

The Committee find that the Company is still importing 296 lakhs worth of materials annually. One of the more important materials imported in large quantities by ITI is the ferrite core used for Transmission equipment, the annual requirement of which is of the order of 10 tons valued at approximately Rs. 55 lakhs. In this connection, the Estimates Committee in their 103rd Report, (Third Lok Sabha 1955—66) had observed that, "...though two firms were licensed in August, 1963, and July, 1964 to manufacture soft ferrites with the

process developed by National Physical Laboratory, they have yet to go into full production, thus necessitating import of soft ferrites in addition to their production departmentally by the National Physical Laboratory. The Committee recommend that National Research Development Corporation should ensure that the parties, who are granted licences for commercial exploitation of the CSIR processes actually adhere to the stipulated schedules for commercial production and that the production targets are adhered to by them in actual practice.

The Committee should think that since soft ferrites can be manufactured with know-how developed by National Physical Laboratory there should be no occasion for allowing foreign collaboration for manufacture of this variety of soft ferrites. Effective measures should also be taken to ensure that production of soft ferrites is commenced immediately by the firms concerned, with the National Physical Laboratory process in order to meet all internal requirements so that the import of soft ferrites and departmental production by National Physical Laboratory could be stopped as early as possible."

The Government in their reply to this recommendation stated that the licences issued to these two firms became effective from 1st April, 1964 and the firms had gone into production from 1st October, 1965 and 15th September, 1965 respectively. One of these firms had also asked for expansion of its units and a letter of approval had been issued. In addition, licences to three more firms had also been issued. From the above it would appear that 5 firms are engaged in the manufacture of ferrites based on the know-how developed by the National Physical Laboratory. The Committee see no reason why in spite of the indigenous manufacturers in the field, this basic raw material should be continued to be imported at the expense of precious foreign exchange of Rs. 55 lakhs per annum. The Committee strongly urge that the Company should tap the indigenous resources in the field and meet their requirements instead of importing them.

(Paragraph Nos. 9.20 and 9.21)

Reply of Government

The process of production of soft ferrites developed at the National Physical Laboratory, New Delhi, has been licensed to several firms and 4 firms are already in production. However, the requirements of ITI for soft Ferrites which consists essentially of pot cores, were not developed by the NPL during 1963-64 as presumed in the

Estimates Committee's 103rd Report. Actually the development work for the professional grade of ferrites essentially imported by ITI was referred to NPL in 1966.

2. The NPL have been working on the development of professional ferrites for quite some time now with a view to enabling the manufacture of these ferrites in India.

3. The Technical Committee on Ferrites set up by the Department of Electronics have examined in a comprehensive manner the position regarding the ferrite industry and according to their recommendations the technology for professional type pot cores is yet to be developed satisfactorily to meet all the requirements of the industry.

4. The NPL have now stated that they have developed the know-how for this item. It has been agreed that the ITI should be closely associated with the NPL in this matter. After the ferrites developed by the NPL are tested and found satisfactory in all respects by ITI commercial manufacture of this item will be taken up. The ITI will then be able to get their ferrites requirements indigenously.

[Min. of Communications O.M. No. U. 54012/11.73-Fac., Dated
3rd January, 1974].

CHAPTER V

Recommendations in respect of which final replies of Government are still awaited.

Recommendation (Serial No. 35)

The Committee also note that in the case of non-stabilised items the present policy is to refund credit variation before expiry of the following financial year after determining the amount of cost variations on the finalisation of the accounts for the earlier year.

The ITI are proposing to request P&T to waive the claim for interest on cost variations. The Committee would like to be informed of the development. The Committee would however stress the need for settling the credit variations soon after the close of the financial year so that payment of interest charges to P&T can be avoided.

(Paragraph 8.9)

Reply of Government

The matter is still under correspondence between the ITI and the P&T Department.

[Ministry of Communications O.M. No. U.54012|18|73-Fac.,
Dated 26th December, 1973]

Further information called by the Committee

The matter was stated to be under correspondence between the ITI and the P & T Department. Please intimate the latest position.

(Lok Sabha Sectt. O.M. No. 12-PU/73 dated 5-6-74)

Further reply of Government

The matter is still under consideration ITI and the P & T Department.

(Ministry of Communications O.M. No. U.54012|1|73-Fac. dated
16-7-74)

NEW DELHI;
March 4, 1975.

Phalguna 13, 1896 (S).

NAWAL KISHORE SHARMA,
Chairman,
Committee on Public Undertakings.

APPENDIX I

(*Vide* further information called in respect of recommendation No. 11 p. 110)

Copy of the Ministry of Finance (Department of Expenditure) O.M. No. F. 12(5)-E(Coord)72, dated the 26th April, 1973, to all Ministries/Departments of the Government of India.

SUBJECT: 26th Report of the PAC (Fifth Lok Sabha)—Recommendation at S. No. 3 (Para 1.11) regarding safeguards in collaboration agreements against possible delay and consequent shortfall in production.

The Public Accounts Committee, while dealing with the slow progress in the manufacture of an improved model of a weapon and related ammunition have observed in para 1.11 of their 26th Report (5th Lok Sabha) as follows:—

Recommendation No. 3 (Para 1.11)

“The Committee feel that while Government may have reasons for not holding the collaborator responsible for the delay in production in this case, they should have a built-in safeguard in future collaboration agreements against possible delay and shortfall in production attributable to the collaborator. Accordingly, they wish to reiterate that Government should examine forthwith what safeguards should be provided for in such agreements so that the collaborator gets a stake in ensuring that contemplated production targets achieved according to the Schedule. The Committee have pointed out that necessity of issuing instructions in this regard to all the Ministries elsewhere in this report.”

The Ministry of Home Affairs etc. are requested to bear in mind the observation of the Committee and provide for necessary safeguards in such agreements so that the collaborator gets a stake in ensuring that contemplated production targets are achieved according to the schedule. In this connection a reference is invited to the Bureau of Public Enterprises O.M. No. 1(7)DAR(R)69, dated 2nd March, 1971, addressed to all Ministries/Departments wherein the Ministries were advised *inter alia* that no final payment to foreign collaborators should be made unless sustained performance at the designed capacity is achieved during commissioning test or guarantee period.

Sd/- V. K. PANDIT,
Deputy Secretary to the Govt. of India.

APPENDIX II

Analysis of the action taken by Government on the recommendations contained in the 34th Report of the Committee on Public Undertakings (5th Lok Sabha) (*Vide* para 5 of the Introduction).

I. Total number of recommendations.	46.
II. Recommendations that have been accepted by Government (<i>Vide</i> recommendations at Serial Nos. 2, 12, 16, 17, 18, 19, 20, 21, 22, 23, 24, 27, 30, 31, 33, 37, 40, 42, 43, 44, 45 and 46) :	
Number	22
Percentage to total	48%
III. Recommendations which the Committee do not desire to pursue in view of Government's replies (<i>Vide</i> recommendations at Serial Nos. 4, 7, 11, 13, 14, 25, 26, 29, 34, 36, 38 and 41)	
Number	12
Percentage to total	26%
IV. Recommendations in respect of which replies of the Government have not been accepted by the Committee (<i>vide</i> recommendations at Serial Nos. 1, 3, 5, 6, 8, 9, 10, 15, 28, 32, and 39) :	
Number	11
Percentage to total	24%
V. Recommendations in respect of which final replies of Government are still awaited (<i>Vide</i> recommendation at serial No. 35) :	
Number	1
Percentage to total	2%