

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1981-82)**

(SEVENTH LOK SABHA)

FORTY-NINTH REPORT

ON

**PUBLIC UNDERTAKINGS—MANAGEMENT AND
CONTROL SYSTEMS**

*Presented to Lok Sabha and
Laid in Rajya Sabha*

} on 30-4-1982



**LOK SABHA SECRETARIAT
NEW DELHI**

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**COMMITTEE ON PUBLIC UNDERTAKINGS
(1981-82)**

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3. Shri S. P. Chanana—*Senior Financial Committee Officer*

*Ceased to be a Member consequent on his appointment as Deputy Minister on 15th January, 1982.

**Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April, 1982.

INTRODUCTION

1. The Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Forty-ninth Report on Public Undertakings:—
Management and Control Systems.

2. Evidence of the representatives of Planning Commission was taken by the Committee (1980-81) on 4 February, 1981 and of the representatives of the Ministry of Finance (Department of Expenditure) on 7 February, 1981. Evidence of Shri Prakash Tandon, President, Board of Governors, National Council of Applied Economic Research and of the representatives of Standing Conference of Public Enterprises was also taken by the Committee (1980-81) on 4 and 6 February, 1981 respectively.

3. The Committee considered and adopted the Report at their sitting held on 29 April, 1982.

4. The Committee wish to express their thanks to the Ministry of Finance (Department of Expenditure) and Planning Commission for placing before them the material and information which they desired in connection with the examination of the subject. They wish to thank in particular the representatives of the Ministry of Finance (Department of Expenditure) and Planning Commission who gave evidence and placed their considered views before the Committee.

5. The Committee also wish to thank the representatives of Standing Conference of Public Enterprises and Shri Prakash Tandon, President, Board of Governors, National Council of Applied Economic Research for furnishing memoranda, giving evidence and making valuable suggestions.

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

NEW DELHI;
April 29, 1982

Vaisakha 9, 1904 (Saka)

BANSI LAL,
Chairman,

Committee on Public Undertakings.

PART-I

BACKGROUND ANALYSIS

I. INTRODUCTORY

The investment in the Central Public Undertakings has gone up from Rs. 29 crores in 5 undertakings at the commencement of the First Five Year Plan on 1 April, 1951 to Rs. 13,389 crores at the close of the Fifth Five Year Plan on 31 March, 1978 and increased further to Rs. 21,126 crores in 185 undertakings at the end of March, 1981. These do not include investments made by the Holding Companies in their subsidiaries. The number of undertakings as on 31-3-1981 was 219.

2. According to the Public Enterprises Survey 1980-81, 74 undertakings suffered a net loss (after tax) of Rs. 752.59 crores and 94 enterprises earned a profit of Rs. 570.58 crores, resulting in an overall net loss of Rs. 182.01 crores against overall net loss of Rs. 74.24 crores suffered by these enterprises in 1979-80.

3. One of the disturbing features of the loss making enterprises is the fact that some have had continuously been incurring losses at a stretch over the years. In this process 33 of them have wiped out their share capital base including free reserves. The accumulated losses made by these 33 enterprises amount to Rs. 1970.25 crores.

Capacity Utilisation

4. In view of the massive investment made in the public sector, capital utilisation assumes great importance as a factor for judging the performance of an enterprise. Analysis of capacity utilisation trend during the last three years is given below:

	1976-79	1979-80	1980-81
(1) Units under production	147	149	164
(a) Units which have recorded capacity utilisation of more than 75%	62 (42%)	62 (42%)	69 (42%)
(b) Units whose capacity utilisation has been 50 to 75%	42 (28%)	45 (30%)	39 (24%)
(c) Units whose capacity utilisation was less than 50%	43 (29%)	42 (28%)	56 (34%)
TOTAL	152	156	160
(d) Units in regard to which data is not available for various reasons	16	16	11

Employment

5. There has been a three fold increase in the total work force employed by the Central Public Enterprises. As on 31-3-1981, public sector enterprises had on their rolls 18.38 lakh employees. In addition to 181 Chief Executives and 201 full-time Directors at the top level there were more than 1 lakh technical, managerial and supervisory personnel helping in execution of management of policies. Additionally there are 2.27 lakhs of educated and trained personnel in varied clerical cadres, 4.21 lakh of skilled operators and 4.31 lakhs semi-skilled workers.

619-B Companies

6. Government companies as a separate class of companies were recognised for the first time in the Companies Act, 1956. Section 617 of the Act defines a government company as a company in which not less than 51 per cent of the paid-up share capital is held by the Central Government or by any State Government or governments or partly by the Central Government and partly by one or more State Governments and include a company which is a subsidiary to the government company thus defined.

7. There are, however, some joint ventures where more than 51 per cent shares are held by public financial institutions either by themselves or alongwith government or government companies. Such ventures are not regarded strictly as government companies in terms of Section 617 of the Companies Act. Pursuant to a suggestion of the Central Public Accounts Committee, the Act was amended in 1975 by inserting a new Section 619(B) empowering the Comptroller and Auditor General to give directions to the auditors and to conduct supplementary audit as if they were government companies. Section 617 of the Act was, however, not amended to declare them as government companies and requiring them to lay their annual reports on the Table of Parliament. A High-powered Committee on the Companies and MRTP Act (Sachar Committee) in its report submitted in August 1978, recommended suitable amendment to Section 617 in this regard. If the amendment is carried out these companies (52 as on 31-3-1980) will automatically come within the purview of the Committee on Public Undertakings for the purview of examination of the entire working.

II. OBJECTIVES AND OBLIGATIONS

8. There is a persistent problem of assessing the effectiveness of the public sector which requires immediate attention. The Committee on Public Undertakings had pointed out in their Report of 1973 on 'Role and Achievements of Public Undertakings' that "the performance of public undertakings continues to be judged by a

variety of vague objectives and consideration which affords scope for uninformed criticism and makes for dilution of managerial accountability." In the modern context of 'management by objectives' it is necessary to lay down clearly the economic, social and financial objectives of each enterprise.

9. In a somewhat generic term, what should be measured can be defined as productivity, profitability and contribution to the social good. This arises out of economic, financial and social obligations of an enterprise.

10. Emphasis on profitability brings forth a stress on certain factors which are commercially viable in preference to certain others which are technically feasible and socially desirable but are not commercially rewarding. Assignment of weights for these factors and calculation of economic rates of return rather than purely accounting rates of return are warranted. This analysis of investment proposals of public undertakings is done by the BPE/ Planning Commission. An economic rate of return of 12 per cent is normally expected. It is, therefore, necessary to compare the actual economic return with the anticipated return to ascertain the reasons for the shortfall, if any. According to guidelines issued by Bureau of Public Enterprises in January 1968, a dividend of at least between 10—15 per cent in the case of trading enterprises may be considered reasonable while in the case of manufacturing enterprises, they should aim at a dividend of at least 6 per cent going upto 15 per cent. The government nominees on the Boards of public enterprises were expected to ensure that the interest of the government as a share-holder is fully kept in view by the Boards at the time of considering appropriation of profits towards internal resources and for declaration of dividends. However, the guidelines are too general and it is essential to have clear financial targets for each public undertakings. The public undertakings are generally required to act on business principles. Therefore, if an activity which is commercially unviable has to be taken up, it could be only on the basis of specific directives by government in public interest. The relevant Acts setting up statutory corporations and the Articles of Association of the government companies make provision for issue of directions by government binding on the public undertakings. As an instance in this connection it may be stated that Section 34 of the Air Corporation Act, 1953 provides for reimbursement of losses on the operation of any service established, altered or continued on the specific directions of the government.

subject to the condition that there was overall loss on the working of the Corporation. Thus, it should be possible to assess the efficiency of the public undertakings in relation to the activities taken up on their own and activities taken up on the directions from government in public interest separately. In U.K., government have reviewed the manner in which the general principles—and, in particular, the economic and financial principles—which were established in the nationalisation statutes have been applied in practice and presented several White Papers to Parliament. According to Government's general policy, although the industries have obligations of a national and non-commercial kind, they are not, and ought not, to be regarded as social services absolved from economic and commercial justification. Investment projects must normally show a satisfactory return on capital in commercial terms unless they are justifiable on wider criteria involving an assessment of the social costs and benefits. The importance of setting before the industries clear financial targets which would serve both as an incentive to management and as one of the standards by which success or failure would be judged has been stressed. The government have decided that the financial targets should be supplemented by publication of key performance indicators, including valid international comparisons in the annual reports of the nationalised industries. It is the responsibility of each board to monitor performance and efficiency within its industry but it is also essential for the industries to account effectively to Parliament and to the public. The U.K. Government have, therefore, asked each of them to include in its annual report a statement summarising and bringing together the governments main instructions and guidance, and also information on how it is measuring up to its objectives. In general the statement would include, for example, the financial target; the cash limit; suitable aims in terms of performance and service; and any general or special directions given to it. In its statement of how well it was measuring up to these objectives, the industry would compare its financial performance against its target and also its progress against its published performance and service aims. The systematic and regular publication of this information will be one which will be helpful to Parliament and its Committees, in examining and monitoring the performance of the industries, and of the departments which deal with them.

11. The Administrative Reforms Commission had recommended that Government should make a comprehensive and clear statement on the objectives and obligations of public undertakings. This statement should clearly lay down the broad principles of determining the precise financial and economic obligations of the

enterprises in matters such as creation of various reserves, the extent to which enterprises should undertake the responsibilities of self-financing, the anticipated return on the capital employed, and the basis for working out rational wage structures and pricing policies. These governing principles should be formulated in consultation with the public enterprises. This recommendation of the Administrative Reforms Commission had been accepted by Government. When this was subsequently discussed at a seminar on 'Public Sector Accountability and Management' which was convened by the Bureau of Public Enterprises a view was expressed that any statement of objectives and obligations will have to be primarily formulated by the individual enterprises themselves, with the approval of government. Action was to be taken on these lines by the administrative ministries in consultation with the Ministry of Finance before finalising the financial aspects of such statements.

12. In November 1970, Ministries were asked by BPE to initiate action to have the objectives and obligations of individual public enterprises laid down on the lines indicated above. Ministry of Finance was to be consulted before finalising the financial aspects of such statements.

13. The Committee enquired whether the statement of objectives and obligations if the public undertakings had been finalised. Replies received from the Ministries/Departments indicated that most of the Ministries/Departments seemed to be under the impression that if objectives of an enterprise have been laid down in the Memorandum of Association, no further action was called for on their part.

14. Only six public undertakings were reported to have prepared statements of objectives and obligations and sent to administrative Ministries/BPE. These enterprises are:

- (1) Central Warehousing Corporation.
- (2) Indian Telephone Industries.
- (3) Hindustan Teleprinters Ltd.
- (4) Neyveli Lignite Corporation.
- (5) Indian Petro Chemical Ltd.
- (6) India Tourism Development Corporation.

15. A document entitled 'Public Sector Enterprises—A Memorandum', the only one of its kind was presented by the Ministry of Finance to Parliament in February 1969. It was a report on

various measures taken by Government for improving the performance of public enterprises. It covered relevant subjects under two heads, viz. (i) Measures for fuller utilisation of capacity; and (ii) improvements in managerial and operational efficiency.

16. Explaining why no document on public sector was brought out by Government after 1969, the Ministry of Finance stated (September 1980) that the coverage of the Annual Report on Central Government industrial and commercial undertakings has since been substantially widened to include apart from the financial results of operations such aspects as generation of internal resources, management inventories, capacity utilisation, sales, production, exports-imports etc. By extending the coverage of this report, the Parliament and the public are informed of the performance, problems and measures taken to tackle them in various sectors of public enterprises.

17. The Committee pointed out that Annual Report of the BPE did not throw any light on whether public undertakings had achieved the objectives for which they were set up and if so, to what extent. The Committee, therefore, wanted to know if it would not be a good idea to bring out occasionally, if not regularly, a document similar to the White Paper in giving the objectives—financial economic—and achievement and future plans. Agreeing with this idea in principle, the Finance Secretary said in evidence: "Yes (as) a sort of stock taking."

III. PLANNING FOR PUBLIC SECTOR

A. Plan Targets

18. Public undertakings are important instruments of planned development. Plan targets and achievements in relation to (a) production in physical terms; (b) value added correlated to the sectoral rate of growth indicated in the plan; (c) capital investment; and (d) generation of internal resources for capital investment correlated to the resources forecast of the plan are important indices for assessing the performance of manufacturing public undertakings. These targets and achievements are not clearly brought out either in the Annual Reports of the public undertakings or in the Annual Reports and Performance Budgets of the administrative Ministries.

19. The Committee desired to know how targets for investment, production and returns are assessed and indicated to the public undertakings for a Plan period. The Planning Commission intimated (October 1980) that at the macro level, the formulation of

the industrial plan is an integral part of the preparation of the national plan of the entire country. Long-term perspective plan and the broad outlines of the Five Year Plan which are initially drawn up by the perspective Planning Division of the Planning Commission provide the starting point for marking out detailed programme and target in the important national groups in the industrial and mineral sector. The detailed formulation of targets and programmes is undertaken by Working Groups/Task Forces, set up by the Commission. These Working Groups/Task Forces consist of representatives of the administrative Ministries, Planning Commission, Technical Advisors as well as the representatives of the industry. Programmes in respect of other industries of lesser importance are generally drawn up by the Development Councils set up under the Industries (Development and Regulation) Act.

20. The reports of these Working Groups/Task Forces as well as of other organisations are examined in the Planning Commission and targets for major industries are reviewed taking into account the priorities envisaged in the Plan, linkages between different sectors, availability of resources, organisational capabilities, etc. Simultaneously with the formulation of the industry-wise programme, studies are undertaken by different Ministries on project identification. In the light of these discussions the outlay earmarked for each project/scheme under each Ministry is decided and incorporated in the Five Year Plan document. While detailed targets for public sector undertakings are set by administrative Ministries concerned, input-output matching at the macro level is attempted by the Perspective Planning Division of the Planning Commission.

21. The Committee wanted to know the total investment planned for the public undertakings and the actual investment during 1974—79. The Planning Commission intimated subsequently (February 1981) that as against the outlay of Rs. 9033 crores provided for large industries and minerals in the Central Sector in the Fifth Plan (1974—79), actual expenditure during the four year period 1974—78 (the Fifth Plan was terminated in 1978 itself) amounted to Rs. 6396 crores. After including the actual expenditure for 1978-79, total expenditure during the five year period amounted to Rs. 8349 crores and reveals a shortfall of Rs. 684 crores (in nominal terms). The shortfall in real terms has been estimated by the Commission as Rs. 1020 crores.

22. From the details of production targets and achievements in respect of public undertakings belonging to the core sector industries

furnished by the Planning Commission (October 1980), the following position for the year 1979-80 emerged:—

Sector	Target	Achievement
	₹. (In lakh tonnes)	
Fertilizer (Nitrogenous)	15.71	10.32
Fertilizer (Phosphate)	3.42	2.51
Petroleum (crude oil)	103.00	95.00
Salable steel	59.7	46.5
Pig iron	16.3	9.5
Aluminium	0.5	0.295
Blister copper	0.3	0.235
Zinc ingots	0.59	0.446
Paper	0.103	0.061
Lignite	47.0	29.0

There have also been heavy shortfalls in production of public undertakings in engineering industries, viz., Braithwaite, HEC, Jessops, MAC, Scooters India Ltd. etc.

23. In evidence, the Member Secretary, Planning Commission attributed (February 1981) the shortfall in achievement of production targets in 1979-80 to shortage of power, transport facilities, raw materials like coal and steel and also due to strained industrial relations.

24. Giving an idea of how such shortfalls in achievement of physical targets of production affected the economy, the witness said:—

"If the production targets are not realised, the aggregate growth rate of the economy is bound to be affected. Non-realisation of targets affects our ability to control prices. It also affects balance of payment. If we do not produce adequate quantities of steel, cement and fertilizers, to that extent import pressure increases. There is no doubt that slippages in production and non-completion of projects in time have a very severe consequence, for the economic health of the country."

25. Asked whether the Planning Commission got a clear picture of input-output co-efficient and what was their assessment of average and incremental capital-output ratio of public undertakings, the Committee were informed that detailed study on input and output co-efficients and capital output ratios in respect of each public sector undertaking is not done by the Planning Commission. However, in the process of Plan formulation and macro balances capital output ratios for aggregate public sector are estimated. Expressing their concern over high capital output ratio, the Planning Commission stated (October 1980) in a note:

"They (i.e. capital output ratios) are very high. A large part of it can be attributed to unused capacity. This is of great concern for the Planning Commission when scarcity of resources is severely felt. GDP Growth can be improved if capital efficiency is increased through reduction of ICOR."

26. The Committee pointed out the need to bring out the capital output ratio for each public undertaking and enquired if a study could be undertaken by the Planning Commission in the interest of improving the capital output ratio in the public sector. In reply, the Member Secretary, Planning Commission assured: "We will discuss it with the BPE."

27. Asked if administrative Ministries had set up Planning Cells in their Ministries, the Member Secretary, Planning Commission said:—

"I am not aware of this cell existing in various Ministries I do feel that if this process can be streamlined by integrating planning and monitoring systems (in Ministries), that would certainly be an improvement. We are not satisfied. It is precisely for this reason that we have been suggesting that a more vigorous monitoring system ought to be set up. Today it does not exist in most Ministries. It has only been recently set up in the Department of Fertilizers. We are in touch with the Department of Coal to set up such a system. We hope that this process can be extended to other Ministries in the years to come."

28. The Committee wanted to know whether in view of the shortfalls in production, persistent overall losses and increase in capital output ratios, not to speak of 'infrastructural and unmatched' input output problems, the planning for Central public sector

undertakings and its implementation can be said to be quite sound. In reply, the Member Secretary, Planning Commission admitted during evidence that:—

- (i) there are gaps both in terms of planning and in terms of implementation. The Planning and implementation machinery needs toning up;
- (ii) when we start a new plan, we do not have a complete shelf of projects. Many of the projects are merely in the form of ideas. It takes quite some time before these ideas are converted into concrete project reports;
- (iii) our experience shows that in many cases construction schedule of the projects does not proceed according to expectation which in turn gets linked up with the performance of the supplies of equipments and other related areas. There is obviously great scope for more effective project implementation, laying down timetable, undertaking critical reviews, etc.
- (iv) there have been problems of inadequate availability of infrastructural items like power;
- (v) deficiencies in management and lack of continuity do affect project implementation;
- (vi) preparation of inter-sectoral plan to take care of all inputs essential for completion of a project does not get adequate attention.

29. Asked whether at the time of assessment of the investment need of a project at the beginning of the plan period the Planning Commission provided for cost escalation during the Plan period. The witness admitted:

"We have been trying to grapple with this problem but I must be very honest in saying that we have not turned an effective mechanism for this. When we frame a Five Year Plan, we do it in terms of current prices. But the prices do not remain constant and we have not as yet evolved an effective mechanism to take care of price changes....They (i.e. inflationary trends) are taken into account in the process of annual Plan formulation, but not in the 5 year plans...There are no short cuts for this. If we take our plans seriously, obviously we have

to ensure that adequate financial resources are provided in time."

B. Micro Planning and Project Appraisal

30. The three stages of investment scrutiny which are followed are:

- (i) Project formulation,
- (ii) Feasibility study,
- (iii) Detailed Project Report.

31. After examination and detailed discussion of the working of the micro planning and project appraisal system, two institutions were created by Government in the second half of 1972, viz., Public Investment Board and the Project Appraisal Division in the Planning Commission.

32. Public Investment Board is responsible for (a) examining the broad contours of an investment proposal in the project formulation stage based on which a decision to prepare feasibility report would be taken, (b) taking investment decisions on proposals for central sector public investment, and (c) considering proposals for revision of cost estimates which exceed those approved at the time of investment decision.

33. The functions of the Project Appraisal Division are to (i) suggest standard formats for submission of projects and procedures for their techno-economic evaluation; (ii) conduct actual techno-economic evaluation on the strength of social cost benefit analysis of major projects and programmes posed to the Planning Commission; (iii) assist State Governments and Central Ministries in giving effect to standardised formats and procedure for project evaluation; and (iv) undertake and support research leading to progress in refinement of methodology and procedure of project evaluation.

34. Originally, the financial limit beyond which cases had to come up before PIB was Rs. 1 crore. It was raised to Rs. 5 crores* in 1976. Investment proposals costing more than Rs. 1 crore and less than Rs. 5 crores are considered by the Expenditure Finance Committee.

*The limit has been further raised to Rs. 10 crores from 1-9-81. From 3-11-81 limit for EFG has been raised from Rs. 1 to 2 crores.

35. Under the present system, at the stage of project formulation, the Planning Commission, the Administrative Ministry and, if necessary, the Department of Economic Affairs are associated. At the second stage, copies of feasibility reports are circulated by the Financial Adviser concerned to the following:—

1. Bureau of Public Enterprises.
2. Plan Finance Division of the Department of Expenditure.
3. Project Appraisal Division (Planning Commission).
4. Subject Division concerned (Planning Commission).
5. Ministry of Finance (Department of Economic Affairs).

36. The Financial Adviser holds inter-ministerial meetings, but the number is kept to the minimum. The appraisal notes prepared by the Project Appraisal Division in consultation with the Subject Division of the Planning Commission and comments of other appraisal agencies such as BPE are made available to the PIB before investment decisions.

37. The feasibility report is required to be backed up by a detailed project report within a year of the sanction of the project. In case the firmed up cost estimates exceed 20 per cent of the original amount approved, revised cost estimates have to be submitted to the PIB/EFC, as the case may be, for fresh consideration.

38. Asked about the assessment of the Planning Commission of the micro planning in regard to reliability of feasibility studies, soundness of the system of estimation of costs and benefits etc., the Planning Commission intimated (October 1980) the following shortcomings in the existing system of micro planning and project appraisal:

- (a) Feasibility Reports submitted for appraisal have revealed shortcomings like inadequate consideration of options etc., inadequate investigation of factors affecting capital, in adequate treatment to marketing and sales promotion aspects, costs, length of construction period, operation costs etc., capital and operating cost estimates are either incomplete or not up to date, inadequate justification for critical choices, inadequate data for analysis of economic impact.
- (b) The revised estimates suffer from the defects such as inadequate explanation of cost escalation, inadequate justification for changes in basic project parameters, inadequate

data for financial and economic viability of the revised cost estimates.

- (c) Though there are a large number of project ideas, a shelf of fully worked out alternative projects is not available when an investment decision is taken.
- (d) Preliminary analysis of alternatives before project reports are finalised is not undertaken in a formal and well defined manner.
- (e) Quality of the data used for analysis at the decision making stage is unsatisfactory.
- (f) Capital costs exceed original estimates by substantial margins even excluding effects of inflation.
- (g) Time taken for construction turns out, in most cases, to be much longer than anticipated.
- (h) Capacity utilisation and operating performance turn out to be poorer than the assessment given at the decision making stage.

39. In a memorandum submitted to the Committee, SCOPE pointed out:

"The decision making process at various points in the Government involves repetitive scrutiny of investment proposals by various agencies and causes delay in decisions. It involves a minimum of five points of scrutiny."

40. The Member Secretary, Planning Commission explained during evidence:

"In our view there is no repetitive scrutiny. It is true that the project appraisal of the Planning Commission, the Bureau of Public Enterprises and the Plan Finance Division of Finance Ministry look at the project proposals, but they do so simultaneously. There is rough and ready division of labour between the three. The Project Appraisal Division looks at the overall economic viability of the proposal, BPE looks at the cost estimates systems particularly construction costs. Plan Finance Division looks minutely into the financial aspect of the proposals."

41. Asked if it is not a fact that despite the division of labour among projects appraisal agencies, a lot of delay takes place in clearance of a project, the witness conceded:

"Before a project matures and comes before the PIB there is considerable delay in preparing the project report. A lot of time is wasted on issues relating to location of a project, choice of technology, the size of the plant etc."

42. The Committee asked if to cut short such delays, it was not possible to lay down a time limit for various processes involved right from the conception of the project to its final clearance. In reply, the Member-Secretary said:

"This can be done. We will consider this suggestion in the Planning Commission. We welcome it."

43. As regards comparative study of operational results of projects with anticipations made at the time of clearance of the projects, the Member-Secretary informed the Committee:

"Recently we have ourselves initiated a sector-wise review of various projects to see what was our anticipation when we undertook them and what is the difference between the results and anticipations that process is underway in our Project Appraisal Division. We propose to undertake sector by sector review of various projects in this year."

44. Asked since the Project Appraisal Division was set up in the Planning Division in 1972, why it had taken more than 8 years to undertake such appraisals, the witness said:

"Most of the industrial projects take 5 to 7 years. We have not done this in systematic way in the past."

C. Investment Criteria

45. The Committee were informed in evidence (February 1981) by the Member Secretary, Planning Commission, that in assessing the economic viability of a project, they go by a cut off point that the project must yield 12 per cent of return. Asked if at the time of clearance of a project, financial return as distinct from economic return is also laid down, the Finance Secretary explained in evidence:

"At the time of the clearance of the project, there is no minimum laid down but what we do is both the financial return and the economic return are worked out for the Board as part of the appraisal work."

46. Director General, BPE was of the view that laying down of "any minimum return may not be possible in view of the administered prices which cover approximately 70 per cent of goods and services produced by the public enterprises if we include both formal as well as informally administrated prices."

47. Referring to the U.K. Government's latest thinking of bringing to bear the opportunity cost of capital on the industry's programme as a whole, the Director General, BPE opined:

"An opportunity cost of capital approach may not be correct methodology because in the British context there is an opportunity for taking capital from the public sector to the private sector. But here transferring investments from the public sector undertakings to the private sector may not at all be possible."

A non-official witness (Shri Tandon) urged during evidence:

"I firmly believe that the national funds employed in the public sector should get a return; there must come a stage in the life of each company after three or four or five years when it should not only give a good return to the investor, namely, the Government, but also generate enough surpluses to develop its own growth to finance its own growth... I feel that the public sector, over a period should give a rate of return between 15 to 20 per cent... If it gives a return of 20 per cent, 10 per cent would go, roughly speaking, to tax, the company would retain the other 10 per cent in the form of reserves and dividends... In the absence of inflation accounting, the depreciation is a liability today."

D. Basic Economic Research

48. In a memorandum submitted to the Committee, SCOPE pointed out that "enough attention is not being paid to basic economic research on problems being faced by public sector enterprises." According to SCOPE, one important area which such research could cover is the effect of the pricing policy on the growth of public enterprises. It has pointed out that FICCI does this type of research for the private sector. There is no one doing this work on behalf of public enterprises.

49. Agreeing with the need for research into the problems of the public sector, the Member Secretary, Planning Commission stated in evidence:

“It is certainly possible and desirable to encourage more research into the problems of the public sector.... There are a large number of management institutes in the country which have developed and which have done finance and economic analysis. There are a large number of research institutes. There is an Institute of Public Enterprises at Hyderabad which has rather languished.... At an earlier stage, the Planning Commission had a Research Programme Committee which financed research in various aspects of development and planning. After the setting up of Indian Council of Social Science Research a major part of research in development and planning in the universities and other institutions is being financed by the Council. The Planning Commission has limited funds at its disposal. We do undertake research which is of relevance for the purpose of planning.”

IV AUTONOMY AND CONTROL

A. Government Control

50. Since the goal structure of public enterprises are shaped by the developmental priorities and objectives determined as embodied in the National Plans, it is through the instruments of control that the enterprises are geared towards the realisation of the stipulated enterprise-wise targets. The main instruments of formal control by government are: (1) appointments and removal of top management; (2) involvement in decision making through the Ministerial nominees on the Boards; (3) issuance of directives by the Ministry; and (4) approval or veto of specific actions and policies of the Boards by the Ministry. These are clearly provided for in the relevant statutes in the case of statutory corporations and in the Articles of Association in the case of government companies.

51. Under the Articles of Association it is the President who makes the appointments to the Boards of Directors of a government company. The Chairman of the company shall generally reserve for the decision of the President any proposals or decisions of the Directors in respect of (1) winding up of the company; (2) Five Year Plan and Annual Plan of the company; (3) capital budget of the company showing also the sums, if any, which may be required from the Central Government by way of equity or loan

during the financial year; and revenue budget if it is a deficit budget; and (4) any other matter which the Chairman may think important enough to be kept for decision by the President. A company may undertake works of capital subject to the conditions that all cases involving a capital expenditure exceeding specified amount needs approval of the President. It has also been provided in the Articles that if estimates of a project already approved by the Central Government rises beyond 10 per cent of the original estimates, it requires approval of the President. Articles further provide that increase, reduction and alteration of share capital, transfer of shares or borrowings of funds, etc. are always subject to approval of the Government. The President may from time to time issue such directives or instructions as may be necessary in regard to conduct of business and affairs of the company. His directives and instructions are required to be given immediate effect.

52. The Administrative Reforms Commission in their report on public undertakings have emphasised the need for evolving management control in respect of public enterprises which would strike a balance between autonomy and control. Excessive control will weaken the initiative of the management. Government, on the other hand, must have the power to exercise strategic control for implementation of the socio-economic programmes of the country. Control by Government should not be diffused and dispersed over detailed items but should be concentrated on key points. In pursuance of these, Government have enlarged the autonomy of the public enterprises by greater delegation of authority in appointment to posts below the Board level, and in capital expenditure.

53. While enhanced powers have been conferred on the management of enterprises, the Government will have to continue to be responsible for the performance of the enterprises, in accordance with broad programmes and policies. In order to make the concept of accountability of the enterprises to Government effective and purposeful, within the framework of greater delegation of powers, it has been decided in 1969 that the Government control would be oriented more to the overall performance of the enterprises, without going into matters of detail, in the following directions: (1) suitable briefing of government Directors on the Boards of Management of Public Enterprises; (2) effective reporting system followed by Performance Review Meetings; and (3) periodical analysis by the Bureau of Public Enterprises with the Administrative Ministry.

54. It is said that the public enterprises suffer from overdirection and overcontrol by government, choking creativity of management at all levels. There are legal and executive controls, even over pri-

vate sector and in the case of public sector there is administrative control also. However, though Government have the powers to issue directives which have to be implemented by the management, such occasions rarely arise. Ministries, however, issue frequently guidelines which are general in character and the top management has much flexibility in following these guidelines although there is a tendency to treat such guidelines as instructions and comply with them in several cases.

55. A High-powered Committee on Companies and MRTP Acts (Sachar Committee) has recommended certain safeguards by prescribing certain model regulations which could be compulsorily incorporated in the memorandum and articles of association of government companies. The suggested model regulations seek to delineate areas of powers and authority between the government companies and administrative Ministries.

56. In their memorandum to the Committee, the Standing Conference of Public Enterprises (SCOPE) pointed out:

"The control of the Ministry, visible, latent or even camouflaged, over the enterprises left little freedom of action for the management of public enterprises....It is no doubt recognised that a public enterprise should enjoy managerial autonomy but neither has the degree of autonomy been defined nor have safeguards been built into the system which would ensure autonomy. There is, therefore, considerable erosion of the autonomy. What is needed is a degree of insulation from 'external pressure' by Ministerial support. The Government as the owner has the unquestioned prerogative on giving directive on policy, but such directives should be in writing stated as such and not disguised as 'guidelines'. A directive, when issued, not only casts a duty on an undertaking but also places a responsibility on government for having issued it. An informal advice or guideline while seeking the same effect clouds the responsibility. And such 'informal guidelines' pour forth as constant streams in the form of memoranda, demi-official letters and even telephonic instructions."

57. Asked about areas where Government's interference takes place resulting in erosion of autonomy, the representative of SCOPE pointed out in evidence:

"The areas of autonomy (of public undertakings) have been prescribed for all the undertakings in the Articles of

Association. The problem is that in practice they do not confine themselves to those areas. The entire spectrum is open... They (i.e. managers) do not like people questioning them on their delegated sphere of activity. Suppose certain undertakings make certain promotion or transfers. If queries on these matters are raised later, it takes away their freedom and it appears that they are not the masters of the situation. Even now, complaints and petitions are taken note of and explanations have to be given by undertakings with regard to promotions, transfers and appointments... They (public undertakings) have been given the authority to fix the terms and conditions of service. This is often a matter in which we require the Government's approval... It is felt (by Government) that these enterprises are parts or extensions of government."

58. Another representative of the SCOPE told the Committee that he had to resist requests and instructions to transfer people. There were instances where undertakings were asked how to do business and give or change priorities. He felt that this Government practice of backstage driving ought to stop.

59. It was urged by another representative of SCOPE that award of contracts should be left to be decided by the technical judgement of the undertakings except where Government feels otherwise on grounds of public interest, credit availability etc.

60. When the Committee pointed out that if autonomy is given to incompetent Chief Executives it would not help, whereas a really competent Chief Executive could manage well with whatever degree of autonomy he has, the representative of SCOPE conceded that apart from the system or degree of autonomy the personality of the Chief Executive also matters.

61. The Committee pointed out that sometimes Government may receive complaints or allegations of corruption against an enterprise. Asked if investigation of such complaints is viewed by public enterprises as erosion of autonomy, the representative of SCOPE suggested:

"Where there is an allegation of corruption certainly it must be investigated. It is not our case that we will stand on 'autonomy' and say 'no investigation'. The matter should be referred to the Board unless it refers to the Chief

Executive himself in which case Government is free to investigate. If it is against any officer at the junior level, lower than Chief Executive, that must be left to the Chief Executive and the Board to take appropriate action."

62. Explaining how accountability of public sector enterprises can be ensured without impinging on their autonomy, a non-official witness (Shri Tondon) said during evidence:

"Accountability in the public sector is very weak at the moment. If the accountability was strong, many of the problems that we are discussing today would not arise.... To my mind, much of the problem arises and I reiterate my faith in this argument—because there is no regular well defined accountability system through budgeting, planning, reporting etc.... We have built up a system (in STC) where on the 29th of March we publish our provisional accounts by 15th of next month.... I send a monthly profit and loss account which I think should be made compulsory in public enterprises."

63. Referring to the delays in decision making, the non-official witness suggested setting up a Committee of Management so that all important decisions are taken jointly by a committee rather than by an officer howsoever highly placed he may be. He was also of the view that decisions should flow from top to the bottom level. He felt that once a budget or a plan for say 3 or 5 years has been approved by Government, enterprise should be left free to implement it.

64. Asked if under the present system of Government taking crucial decisions and exercising the kind of control that they are exercising, the accountability of the Government for the performance of public undertakings is fully secured by outside appraising agencies, the representative of SCOPE opined:

"Accountability of the Government is not obviously complete. These things are difficult because of the harm done to the unit by delayed decisions. It is very difficult to assess. The final result and the ultimate responsibility for it are attributed to the enterprises."

65. The Member-Secretary, Planning Commission, expressed the following view on the problem of accountability vs. autonomy:

"The balance between accountability and autonomy would vary from enterprise to enterprise, but in my view, this is an area where some rethinking is necessary in order to ensure that public sector enterprises do their job properly."

66. Reacting to the aforesaid views during evidence, the Finance Secretary felt that "the government, as the owner, should have the freedom to discuss any thing with the undertaking. It is not necessary that every such communication should be treated as an order or it should be interpreted as putting pressure on them. It is always open to the undertaking to come forward with their views."

67. As regards guidelines issued by BPE, the Finance Secretary said:

"BPE has not issued any informal guidelines. When BPE issues guidelines, these are decisions taken by government at various levels invariably in consultation with all the concerned Ministries."

68. Analysing the BPE guidelines, the Finance Secretary stated during evidence that BPE guidelines fall in two broad categories. First category consists of guidelines which deal with decisions taken by Government covering public enterprises as a whole which the managers of the enterprise have to follow. Second category is of guidelines which are in the nature of model rules for the guidance of public enterprises. The latter type of guidelines are not mandatory. There are instances when such guidelines were modified, withdrawn or revised.

69. Asked what is the distinction between a 'Directive' and a guideline, the Finance Secretary explained that while a directive is issued by the administrative Ministry to an enterprise under its administrative control for which it is answerable to Parliament, a guideline covers the entire range of public sector and is issued by the BPE. Responsibilities for any guideline is that of the BPE who issues it.

70. Referring to plethora of guidelines that emanate from BPE, a representative of SCOPE said:

"If it is realised that these guidelines are mandatory, I suppose a great deal of thought will be put into it. Once the guidelines are mandatory, proliferation will not be there."

Then probably when a less number of instructions are given, may be greater degree of economy is left."

B. Performance Reviews

71. The Administrative Ministry are required to hold quarterly performance review meetings of the enterprises under their control. These meetings are to be attended by the Chief Executives of the enterprises, representatives of the Planning Commission and the Bureau of Public Enterprises. The Minister, or in his absence, the Secretary of the Ministry is to preside over the meetings. These meetings help to focus attention on key areas requiring action either by the enterprises or by the government. The controlling Ministry also does the monitoring and continuous evaluation of the operations of the enterprises under its control.

72. From the analysis of information received from various administrative Ministries in respect of 133 public enterprises with regard to frequency of performance review meetings, the following position has emerged:—

	1977-78	1978-79	1979-80
(i) No. of public undertakings in respect of which performance appraisal meetings were not held by the administrative Ministry at all	92	61	46
(ii) No. of public undertakings in respect of which only one performance meeting was held during the year	35	44	37
(iii) No. of public undertakings in respect of which two performance review meetings were held during the year	4	27	28
(iv) No. of public undertakings in respect of which 3 performance review meetings were held during the year	2	1	7
(v) No. of public undertakings in respect of which 4 performance meetings were held during the year	..	..	15
	133	133	133

C. Accountability to Consumers

73. In U.K. the Minister responsible for each industry is required, by statute, to take steps to see that the interests of the industry's consumers are protected. This is usually done by setting up representative consumers' councils or consultative committees to consider complaints and suggestions made to them and to advise the board or the Minister of the changes they think desirable.

74. A non-official witness (Shri Tandon) expressed the view before the Committee that accountability of the public enterprises to consumers in a non-competitive situation and in a state of choicelessness is important. He elaborated his view saying that if consumers had no choice, they must have voice. This he thought could be brought about by setting up Consumer Consultative Committees. He urged in evidence:

"Consumers consultative committees must be there. Through market research and surveys, one should find out now and again what is the consumers thinking. I know in my firm, in the older days, we used to have constant market surveys to find out what the consumers thought of our products compared to other products. We used to get in touch with the consumers opinion. I would, therefore, strongly support your suggestion of forming consumer consultative committees in the public enterprises."

75. Accepting the idea of each public sector enterprises in India organising a Consumer Consultative Council, so as to receive advice from them and to be responsive to the needs of the consumers, a representative of SCOPE said in evidence:

"I think the basic idea behind an effective organisation is interacting with customer and taking note of the feelings and difficulties and of the problems of the customer...."

76. It came out in evidence that MMTC and BHEL had evolved some mechanism to get to know the consumer reactions. Asked why public undertakings should look up to government for organising such councils, the representative of SCOPE assured the Committee: "We will take steps from SCOPE. Even if they don't have it, we are going to give instructions to our new members."

77. Ministry of Family Welfare and Department of Steel have intimated that they have set up separate cell to attend to complaints/suggestions from consumers. Other Ministries/Departments have intimated that they have no separate cell but sections concerned with the public sector undertakings in the Ministries/Departments also attend to complaints/suggestions from consumers.

V. PRICING POLICY

78. There is a common criticism that unrealistic pricing policies pursued by Government are partly, if not wholly, responsible for huge losses incurred by the public enterprises. About 70 per cent

of the products (value-wise) manufactured in public sector enterprises are subject to prices administered by the Government—formally or informally.

79. Profits depend on pricing policies and costs. According to the instructions issued by the Bureau of Public Enterprises in December 1968, the pricing policies for public enterprises were considered by the Government at the highest level. It was decided that public enterprises should be economically viable units and an all out effort should be made to increase their efficiency and establish their profitability at the earliest. It was considered neither necessary nor advantageous to lay down guidelines in regard to pricing policies to be followed by enterprises which produce goods in respect of which the prices are subject to regulation of a binding type either voluntarily by mutual arrangements or due to domestic and international regulations. It was also considered not necessary to prescribe any guidelines for trading organisations like State Trading Corporation, Minerals and Metals Trading Corporation etc. So far as the enterprises which produce goods and services in competition with other domestic products, the normal market forces of demand and supply would operate and their products would be governed, by and large, by the competitive prices prevailing in the market.

80. In regard to pricing policies to be adopted by those enterprises which operate under monopolistic or semi-monopolistic conditions certain guidelines were issued for the consideration of their Board of Directors. According to these guidelines, the pricing of products should be within the landed cost of comparable imported goods (not on the basis of c.i.f. prices). Within the ceiling it would be open to the enterprise to have price negotiations and fix price at suitable levels for their products which would give them a reasonable return on the capital invested. It was desirable that the prices so fixed should be operative for a period of 2-3 years. In circumstances where the import prices are artificially low and where our own cost of production is very high, and it becomes necessary to have the prices higher than the landed cost, the matter should be referred to the administrative Ministry concerned for examination in depth in consultation with the Ministry of Finance, Bureau of Public Enterprises.

81. A non-official witness (Shri Tandon) agreed that some control on prices of products manufactured by public sector enterprises is necessary, but it should be a one which is justifiable. He felt that the price control should be on what he called "sun-set basis" i.e. enterprises should be told not only about Government's justification for the price fixed but also how long the price fixed by Government would stay. There should be a review of the price after the stipulated period is over. The witness was also of the view that public enterprises should have flexibility to fix prices. Government should not, he felt, have the last word on prices.

82. The Member-Secretary, Planning Commission informed the Committee during evidence that since 1972-73 Government had accepted for a number of industries in the private sector a formula which gives the enterprises a rate of return of 12 per cent or more. But this had not been done in the case of a large number of public enterprises. The result, according to him, is that the public enterprises capacity to generate internal resources suffered very greatly and in the process the economy's capacity to undertake further investment is impaired.

83. Pleading for greater flexibility for public sector enterprises to adjust their prices, the witness said:—

"Why are prices not adjusted? Because there is a mistaken view that if you increase the prices, there would be inflation. In my view, this fear of inflation as a result of prices can be highly exaggerated. Take the case of coal, for example. The users of coal are paying Rs. 1,000, but the public sector collieries are not allowed to charge more than Rs. 101 per tonne. The result is that the difference is siphoned off, not for the benefit of our economy—but God knows for what purpose. The benefit of shortages goes to the black marketeers. The country has to pay the price, but the public sector is not allowed to charge rational prices which is essential if public sector is to perform its historic function of being a base sector in capital accumulation. The tax ratio in our country is already as high as 22 per cent of our gross national product; it cannot be raised so much further. If we have to sustain the tempo of investment in face of a stable

taxation, the only mechanism is that public sector must generate more internal resources and one essential condition is that public sector must have greater freedom to adjust its prices in face of rising costs."

84. The Member-Secretary, Planning Commission, felt that "where for a wider socio-economic reasons, the Government considers that the commodities should be sold below the cost of production it is preferable in this case that Government should give a direct subsidy to the enterprises." He was, however, not in favour of wide-spread adoption of the practice of subsidising sales of public sector enterprises because that would strain our fiscal system. The witness pointed out that it was easy to introduce it but difficult to withdraw it.

85. Asked if there should be an independent body like the U.K. National Board on Income and Prices, the witness said:—

"I think it is a worthwhile suggestion. We do need an independent mechanism to go into the whole question of costs of productions of public enterprises so as to enable them to change economy prices."

The Finance Secretary explained in evidence:

"....when the price to be fixed is worked out, the agency concerned adopts the norms of capacity utilisation, consumption norms and so on. For instance, in the fertilizer plant, the retention price fixation system calls for 80 per cent plant utilisation. If any one produces up to 85—90 per cent capacity, then there will be more profit, if someone uses 50 per cent or 60 per cent or 70 per cent, then there is a loss. We do expect that the pricing system will keep the units on their toes....."

86. The Committee pointed out that fixation of price of a product by Government takes an unduly long time and by the time the price is announced the cost of production goes up with the result that an enterprise continue to incur losses. The Finance Secretary conceded:

"As far as coal is concerned, there have been successive price fixations from 1974 onwards. There is no doubt that there has been a time lag between the increase in the cost of production and the fixation of coal price."

87. The Committee referred to the fact that some consumers buy coal from the colliery at Rs. 100 per tonne but by the time it reaches their factory by road it costs them Rs. 1000 per tonne. Consumers who can afford to pay Rs. 900 or so by way of transport can easily afford to pay Rs. 50 per tonne more to the colliery. In this context, the Committee asked if Government had considered introduction of system of dual pricing to help the coal industry to wipe out its losses, the Finance Secretary said: "I am not aware of it."

88. The Committee referred to criticism that by fixing prices of steel and coal, Government is only subsidising black marketing at the cost of tax payer. The Finance Secretary assured:

"We will take that into consideration. I am not able to react one way or other straightaway. We will examine it."

89. The Committee pointed out that when losses of an enterprise are financed by Government it is the tax payer who suffers. Director General, BPE said in reply: "It is a point well taken."

VI. PROJECT CONTROL

90. An analysis of replies furnished to the Committee by the administrative Ministries of public undertakings shows that there were 49 more projects costing over Rs. 20 crores each commissioned/expected to be commissioned during the five year period 1974—79.

A. Time overrun

91. Out of 49 Projects costing over Rs. 20 crores each commissioned/expected to be commissioned during 1974—79, 5 projects were completed on schedule. The rest are running behind schedule. The time lag is between one to two years in 10 projects, two to three years in 10 projects, 3 to 5 years in 13 projects and 5 years and more in 8 projects. The projects where delay was more than 5 years are:—

Name of Project	Original schedule of commissioning	Latest Revised Schedule/Actual	Delay in years/months
1	2	3	4
1. Hindustan Fertiliser Corporation Ltd., Haldia	Oct. 1976	1981 anticipated	5 years
2. Indian Petro Chemicals Corporation Ltd. Olefins project	Naptha cracker in 1973	1978	5 years

1	2	3	4
3. Bongaigaon Refineries & Petrochemicals Ltd., Petrochemicals Units			
(i) Xylenes	End 1975	May 1982	7 years
(ii) DMT	Do.	March 1983	8 years
(iii) Polyester Fibre unit	Do.	Dec. 1984	9 years
(iv) Offsite Phase II	Do.	Jan. 1982	9 years
4. Cochin Shipyard Ltd.	1975	Ship repair facilities expected to be completed by 1981-82	7 years
5. Bharat Aluminium Co. Ltd.			
(i) <i>Smelter</i>			
Phase IV	August 1975	Sep. 78 (ready for commissioning but not commissioned so far)	6 years
(ii) Profile & Tube Shop 3150 T Extrusion press	Sep. 75	Dec. 1980 (expected)	5 years and 3 months
(iii) Sheet Rolling Shop Cold Rolling Mill	March 76	April 1981	5 years and 1 month
Steel Authority of India			
6. Bokaro Stage II	Dec. 77 except C.R.M	Blast Furnace No. 5 Dec. 82 CRM— Sep. 83 other units— Sep. 82	5 years } 5 years
7. Expansion of Bhilai Steel Plant from 2.5 m.t. to 4 m.t.	Dec. 76	1982 (all units except 7th Blast Furnace)	6 years
		June 83 — 7th Blast furnace	7 years
8. Second sintering plant at the Bhilai Steel Plant.	1975	Sintering Machine II 1980-81	6 years

B. Cost overrun

92. The cost escalation in respect of these 49 projects showed the following position:—

(i) No. of projects where there has as yet been no escalation in cost	8
(ii) No. of projects where escalation in projects is below 50%	9
(iii) No. of projects where escalation in project cost estimates was between 50 and 100%	15
(iv) No. of projects where escalation in project cost estimates was between 100 and 200%	17
(v) No. of projects where escalation in project on estimates was more than 200%	6
	49

93. Out of the 49 major projects 6 have registered an increase of more than 200 per cent each. These projects are:—

	Original Estimate	Latest Revised Estimates	Percentage increase
(Rs. in crores)			
1. Mine Expansion Project (Neyveli Lignite Corpn. Ltd.)	36.00	137.83	280%
2. Kerala Newsprint project (Hindustan paper Corporation)	30.08	133.49	343%
3. Nagaland Project (Hindustan paper Corporation)	18.72	62.12	230%
4. Bongaigaon Refineries & Petrochemicals Ltd.			
(i) Crude distillation unit and offsite phase			
(ii) captive power plant	80.91	310.75	280%
(iii) Petrochemical units and 4 other small units			
5. Main Shipyard (Cochin Shipyard Ltd.)	45.42	139.00	205%
6. Khetri Copper Complex (Hindustan Copper Ltd.)	24.44	138.36	466%

VII BUDGETARY CONTROL

A. Union Budget in relation to public undertakings

94. The annual budgets of public undertakings as such do not come up before Parliament for approval. However, the Union Budget presented to Parliament for approval includes proposals for

financing of public undertakings. The undertakings are financed by Government either through investment in share capital or through loans. Annexure V to the Explanatory Memorandum on the Budget shows at one place the estimates of capital and loan disbursements to all public sector undertakings in the current year and the budget year.

95. While obtaining approval of Parliament to an investment on a new public undertaking through the annual budget or supplementary demands, detailed information as far as possible on the objective, scope, capital cost, foreign participation if any, profitability and other financial obligations are incorporated in the 'Notes on Important Schemes' which are appended to the volumes of Demands for Grants of the ministries concerned or in the explanations below the Supplementary Demands as the case may be.

96. In each volume of the Demands for Grants of the Ministries concerned, a separate section is added which specifically contains the list of all 'New Service' and 'New Instruments of Service' items included in the budget documents relating to public sector undertakings. This section shows the details of investment either by way of loan or equity indicating also the references where full details are given. Similar information is given in the introductory note to the Supplementary Demands.

97. The form in which Budget Estimates are presented to Parliament is dictated by the need of accountability. The Committee on Public Undertakings have to exercise the functions of the Estimates Committee and the Public Accounts Committee in relation to public undertakings. However, the details of proposals for investments in public undertakings are not available at one place.

98. A non-official witness (Shri Tandon) suggested in his evidence:

"There should be a sectoral enterprise budget as also a national public enterprise budget every year. The public sector budgeting should have, with all its total capital as in a multi-national company, a consolidated budget."

99. Asked if it would not be desirable to bring out an additional document entitled "Budget in relation to public undertakings which will give Parliament a comprehensive idea of investments in the public undertakings at one place" the Ministry of Finance had intimated (September 1980) that "it is felt that adequate information is already available in this sphere both in Demands for Grants and

Explanatory Memorandum on the Budget, as well as the Annual Report of the Bureau of Public Enterprises." When it was pointed out that if investments in public sector are clubbed with various other items in the Demands for Grants for each Ministry separately, they do not attract attention but if a separate document on public sector was brought out and circulated alongwith Budget papers it would attract attention of Parliament, help parliamentary scrutiny of the overall performance of public undertakings and enable Parliament to have a discussion on it, the Secretary, Ministry of Finance assured the Committee in evidence:

"A separate publication you are thinking of, you feel, would facilitate a discussion. We will examine this. It is mainly the time constraint. The time factor is there if it has to come in February alongwith other budget documents. And we have to be accurate. We cannot give anything which is approximate. We will see what we can do."

100. In U.K., Expenditure Plan contains a separate section on Nationalised Industries which deals with the industries' capital investment and financing. The financing is split up into two parts—internal resources and external resources. Cash limit is fixed for the total external financing as an anti-inflationary measure. The Secretary, Ministry of Finance stated during evidence that though he was not familiar with the details of the U.K. system, he would look into it in consultation with the Planning Commission and see whether and if so, that can be followed in India.

B. Re-appropriation

101. At present, re-appropriation of funds provided for public undertakings in the Budget is subject to the following restrictions:

- (i) funds provided for 'charged' expenditure cannot be appropriated or re-appropriated to meet 'votable expenditure' and vice versa;
- (ii) funds cannot be appropriated or re-appropriated to meet expenditure on a 'New Service' or 'New Instrument of Service' not contemplated in the Budget;
- (iii) no funds can be re-appropriated from 'Revenue Section' of a Grant to 'Capital Section' thereof or vice versa;
- (iv) funds cannot be re-appropriated from the Plan provisions to meet non-Plan expenditure without prior concurrence of the Ministry of Finance.

102. The Committee wanted to know whether re-appropriation should be only within the provision made for the public undertakings and not between the public undertakings and the rest of the activities of each Ministry or Department. In reply, the Ministry of Finance have expressed (February 1981) the view that "the existing restrictions would appear to be adequate as Parliamentary approval or reports to Parliament becomes necessary for re-appropriation of funds beyond the prescribed limits within a Grant."

C. Appropriation Accounts

103. Though at present an Annexure to Explanatory Memorandum on the Budget shows the estimates of capital and loan disbursements to all public undertakings in the current year and the budget year, actual disbursements for no previous year are mentioned. Further, Appropriation Accounts do not bring out at one place the utilisation of funds against amounts voted in relation to public undertakings. The details lie scattered under various grants Ministry/Department-wise. The Committee desired to know if such details could be grouped at one place. In reply, the Ministry of Finance intimated (September 1980) that no difficulty is envisaged in making this information available to the Committee on Public Undertakings in the form of a consolidated statement to be annexed to condensed Appropriation Accounts. The Secretary, Ministry of Finance indicated in evidence that they would consult the Comptroller and Auditor General of India before introducing the consolidated statement in terms of Article 150 of the Constitution.

104. The Comptroller and Auditor General of India, however, stated:

"There should be no procedural difficulty in getting this introduced. Once a reference is made to us, I am sure we will be able to make our comments on it and then the Government may present the document to the PAC for their approval. So far as Appropriation Accounts are concerned, the examination is made by the PAC. A view has to be taken between these two Committees as far as this is concerned."

VIII. ANNUAL ACCOUNTS AND REPORTS

105. The provisions relating to the finalisation and presentation of the Annual Reports and Accounts of the public undertakings are laid down in the Companies Act, 1956 in respect of the government companies and in the respective Acts in respect of the statutory

corporations. According to Section 210 read with Section 217 of the Companies Act, 1956, balance sheet and profit/loss accounts of a company together with the Audit Report thereon and a report of the Board of Directors should be placed before the annual general meeting of that company within a period of six months of the close of the year. According to Section 619(A) of the Act, Annual Report of a government company should be prepared within three months of the annual general body meeting and laid soon before Parliament/Legislature, together with a copy of the Audit Report and any comments upon or supplement to the Audit Report made by the Comptroller and Auditor General of India. Generally, there is no prescribed time schedule for the finalisation and presentation of accounts of statutory corporations vide extracts of the Food Corporations Act, 1964 and the Air Corporations Act, 1953, reproduced below:

- (1) A Food Corporation shall, as soon as possible after the end of each year, submit to the Central Government an annual report on the working and affairs of the Corporation.
- (2) The Central Government shall, as soon as may be after the receipt of such report, cause such report and the Audit Report received under section 34 together with any comments thereon or supplement thereto by the Comptroller and Auditor General of India to be laid before both Houses of Parliament."

[Section 35 of the Food Corporation Act]

- (4) The accounts of the Corporations as certified by the Comptroller and Auditor General of India or any other person appointed by him in this behalf together with the Audit Report thereon shall be forwarded annually to the Central Government and that Government shall cause the same to be laid before both Houses of Parliament."

[Section 15(4) of the Air Corporations Act]

106. There have been serious delays in the laying of the Annual Reports and Accounts of public undertakings. These have been gone into critically by the Lok Sabha Committee on Papers Laid on the Table (1975-76) in their 1st and 2nd Reports and the Committee made the following recommendations suggesting that the Annual Reports should be laid before Parliament within 9 months. These have been accepted by government.

"With a view to avoid delays in laying of reports and accounts of autonomous organisations and in order to achieve some uniformity in this regard the Committee recommend that after the close of the accounting year every autonomous organisation should complete its accounts within a period of three months and make them available for auditing. Auditing of the accounts and furnishing replies to audit objections, if any, and also translation and printing of reports should be completed within the next six months so that the reports and audited accounts are laid before Parliament within nine months after the close of the accounting year unless otherwise stipulated in the relevant Act etc. under which the body has been set up. If for any reason the report and audited accounts cannot be laid within the stipulated period of nine months, the concerned Ministry should lay within 30 days of the expiry of the prescribed period or as soon as the House meets, whichever is later, a statement explaining the reasons why the report and accounts could not be laid within the stipulated period."

[Para 1.16 of First Report (5th L.S.)]

"The Committee, therefore, recommend that as in case of the Reports of the autonomous organisations, reports of government companies should also be laid within 9 months of the close of the accounting year. The Committee further recommend that where it is not possible for the government to lay the report of any company within that period they should lay on the Table a statement explaining the reasons for not laying the reports within 30 days from the expiry of the period of nine months and if the House is not in session, at that time the statement should be laid on the Table within seven days of re-assembly of the House. However, to give some more time to the government to lay the reports of the government companies pertaining to the periods upto the end of 1974-75 which were in arrears, the Committee recommend that these reports along with the delay statements should be laid on the Table by 31 December 1976. Reports for the year 1975-76 and subsequent years should be laid on the Table within 9 months of the close of the accounting year."

[Para 4.16 of Second Report (5th L.S.)]

107. However, the delay still persists. The delays in finalisation of accounts are being brought out by the Comptroller and Auditor General of India in his Report on Union Government (Commercial), Part I, Introduction and by the BPE in the Public Enterprises Survey, Volume I. According to the C&AG's Report (1981) accounts of 27 government companies for the year 1979-80 have not been received by him upto February 1981. According to the BPE's Survey (1980-81), 67 public undertakings could not finalise their accounts for the year 1980-81 and get them audited before the prescribed date, viz., 30 September 1981, though 12 of them could finalise the accounts subsequently between 1 October and 29 November 1981.

Reports of C&AG

108. The first separate conventional Audit Report on public enterprises entitled 'Audit Report (Commercial)' appeared in 1963. From the year 1970, the Audit Report (Commercial) of the Central Government which is now entitled C&AG's Report, Union Government (Commercial)" is being prepared in parts. The first part—Introduction, contains a general review of the overall working of all government companies and statutory corporations and summarised financial results of these undertakings. Each subsequent part contains the results of comprehensive appraisal of performance conducted by the Audit Board of the selected undertakings during that year. The penultimate part of the report contains a resume of the company Auditor's reports and comments on accounts of government companies. The last part of the report contains miscellaneous topics of interest noticed in audit of the undertakings not taken up for comprehensive appraisal by the Audit Board.

109. Replies furnished by administrative Ministries indicate that while the comments of the C&AG incorporated in the Annual Reports of public undertakings are taken note of by Ministries, there is no system in the Ministries to monitor follow-up by public undertakings on the conventional Audit Reports of C&AG.

110. The Finance Secretary stated in evidence that the BPE had not issued any circular to public undertakings to examine the Audit Reports and take action on them. BPE had not also called for any feedback from public undertakings in this regard. BPE had a Finance Division but it did not look into all the Audit Reports. They did so on selective basis only. On Committee pointing out that Audit Reports were expected to be gone into in Performance

Review Meetings held by administrative Ministries but these meetings were neither action oriented nor held regularly, the Finance Secretary reacted:

"If the administrative levels in the Ministry which are supposed to hold the performance review meetings turn out to be talking shops, and do not get the results, I can only say, I am sorry. Our representative is there but we can't go further..... Beyond that, one takes over the Ministry's function, which is not possible."

IX. BUREAU OF PUBLIC ENTERPRISES

111. With the expansion of the Public sector, a number of Ministries and agencies of the government are concerned with work relating to public undertakings. In the Centre, the Bureau of Public Enterprises was set up in April 1965, to act as a service, coordination and evaluation agency in pursuance of a recommendation of the Estimates Committee. In their 52nd Report (1963-64), the Estimates Committee, who were then examining the public undertakings, recommended *inter alia* that it should be ensured that any such agency does not become unwieldy and a further cog in the wheel or a mere critic of the undertaking."

112. The basic nature of the Bureau is one of assistance to the public enterprises and the Ministries concerned. Clarifying the role of the Bureau, the Administrative Reforms Commission in their Report on Public Undertakings in 1967 observed "we envisage its role as one that will keep the machinery (of the public undertakings) in trim and enable its efficiency to be assessed and kept". A systematic critical appraisal of performance of public undertakings in the context of ensuring accountability of the Executive to Parliament is, however, not envisaged for the Bureau, which is a body inside the Government.

113. The Finance Ministry occupies a crucial position in the control system of public enterprises. The Bureau of Public Enterprises is, therefore, appropriately placed under the Finance Ministry. It was made an independent administrative unit in 1969 within the Ministry of Finance (Department of Expenditure) and its functions were considerably enlarged on acceptance of recommendations of Administrative Reforms Commission. While it works in close cooperation with the administrative Ministries controlling the public enterprises in various production and service industries, its role is primarily to provide management consultancy service in various

facets of public enterprises management. The main functions of the Bureau of Public Enterprises at present are:—

- (i) To prepare and furnish periodical reports, e.g., annual report, mid-year report and quarterly reports of production, progress of construction and financial data, to Parliament and government, evaluating the performance and working of public enterprises. Wherever in-depth studies of public enterprises are considered necessary, the Bureau of Public Enterprises undertakes studies with a view to assisting concerned Ministries/public enterprises to improve the managerial performance.
- (ii) To coordinate the work relating to the examination of public enterprises by Parliamentary Committees.
- (iii) To act as Data Bank and as a clearing house of information in respect of important matters of common interest including information about organisational structure, delegation of powers, pricing policies and other management aspects of public enterprises in India and in other countries.

114. The Bureau of Public Enterprises is organised in nine constituent divisions namely, (1) Production Division (2) Finance Division (3) Management Division (4) Information and Research Division (5) Construction Division (6) Investment-cum-Indepth Studies Division (7) Wages and Salary Administration Division (8) Administration and Coordination Division and (9) P.E.S.B. Secretariat. At present there was about 78 officers with a supporting staff of 216 persons.

115. According to SCOPE, the BPE which was intended to be a service agency should perform as such and should not become another agency for supervision and control of public enterprises. It is pointed out that in practice the BPE has taken over some of the regulatory functions of government. It issues guidelines, sanctions wage agreements and in various other respects regulates the functions of the public enterprises.

116. Bureau has, in a Note, explained that SCOPE's view is misconceived because, as owner, Government has to have a modal agency for coordinating, monitoring and policy formulation for the public sector, maintain a degree of consistency between public undertakings in respect of wage settlements, act as a centralised machinery in the Government, compile and present information to Parliament and its Committees, assist in project appraisals, etc.

117. A non-official witness (Shri Tandon) opined during evidence:

"I do not think the Bureau should have the controlling function: it should have the servicing function the control must be with the Ministry and not with the Bureau."

118. In a Note submitted to the Committee the Department of Steel urged that the BPE should confine itself to coordination and development functions only. According to the Department, the number, scope and coverage of guidelines issued by the BPE should be substantially reduced and limited to major policy objectives and performance parameters rather than minute details of day-to-day functioning and administration. The Department of Steel and the Department of Chemicals & Fertilizers expressed the view that since it is the administrative Ministries which are responsible for the overall control of the public enterprises under them and are accountable to Parliament, BPE should invariably consult the Ministries before formally issuing any guideline applicable to public enterprises as a whole. BPE has, however, in a Note, assured that in issuing guidelines "it is not the intention that the responsibility of any administrative Ministry for or its overall control of public enterprises under it should be circumscribed." BPE has claimed that Administrative Ministries concerned are consulted before issue of guidelines.

119. According to the Ministry of Energy and the Department of Chemicals & Fertilizers, the role of the BPE should be in the nature of a consultant to the public sector undertakings rather than taking an active role in decision-making process in government. BPE has, however, in a Note, pointed out that such a view would deny to Government the information and advice of the centralised machinery and that BPE's active role in the decision making process will make for consistency of approach.

120. On the need to redefine the role of BPE the Ministry of Finance in a Note (Feb. 1981) opined that:

"There appears to be no need to redefine the role of the BPE which flows from the need for Government to have a centralised machinery for policy matters concerning the public sector for primarily translating into practice the decision of Government an owner of public enterprises in general, etc."

121. The Ministry of Finance, have in a Note, pointed out that if BPE is made an independent body outside Government or an independent Department with no links with the Ministry of Finance

which is the Ministry primarily concerned with providing investment funds, its utility and effectiveness as a centralised machinery for Government would diminish. It feels that BPE should continue to be a link under the Deptt. of Expenditure in the Finance Ministry.

Annual Reports of BPE

122. The Bureau of Public Enterprises presents its Annual Report to the Parliament. The Report entitled "Public Enterprises Survey—Annual Report on the working of Industrial and Commercial undertakings of the Central Government" is presented in three volumes. The Report covers all the undertakings falling within the purview of the Committee on Public Undertakings as mentioned in the Fourth Schedule to the Rules of Procedure and Conduct of Business in the Lok Sabha.

123. In his letter dated 6 September, 1979, the Director General, Bureau of Public Enterprises, had indicated certain improvements proposed to be made in the Annual Report 1978-79 on the working of Industrial and Commercial Undertakings of the Central Government.

- 124. The following new Chapters were proposed to be added in Volume I of the Report:—

- (i) A Decade of Progress—1969-79. This is intended to bring out the trends of financial and physical performance of public enterprises under Central Government in the last 10 years.
- (ii) An early assessment of the current year. This Chapter would give an idea of the emerging picture for 1979-80 based on available financial and physical performance, possibly for the first six months of the year 1979-80 which may become available by October end.
- (iii) Managerial succession in Public Enterprises. Further it was proposed to introduce bar charts, graphs and new ratios wherever feasible to make the document more interesting.

125. Earlier, on the basis of a recommendation contained in the 73rd Report of the Estimates Committee (2nd Lok Sabha), the first Annual Report on the working of Industrial and Commercial Undertakings of the Central Government was prepared for the year

1960-61 by the Ministry of Finance. Since then the form and contents of the Annual Report were reviewed from time to time and improvements made in the light of the observations of the Estimates Committee/Committee on Public Undertakings.

126. In order that the Parliament may be given information on all vital aspects affecting the public undertakings in a properly analysed manner, the Estimates Committee in their 24th Report (5th Lok Sabha) recommended certain further improvements and suggested that detailed proposals for improving the report and presentation of data in a meaningful manner and its timely submission to Parliament should be drawn up and submitted to the Committee on Public Undertakings for approval before implementation. This was reiterated by the Committee on Public Undertakings in their 40th Report (5th Lok Sabha) on the 'Role and Achievements of Public Undertakings'. In compliance with this the BPE furnished a note for the consideration of the Committee in October 1973 and the Committee in their 46th Report (5th Lok Sabha) had generally concurred in the proposals of the Bureau.

127. While clearing the earlier proposals of the BPE in 1973, the Committee on Public Undertakings in their 46th Report (5th Lok Sabha) had suggested certain other improvements in the Annual Report, such as, a separate chapter on productivity, a resume of the activities of the R&D organisations in the various public undertakings etc. In a recent Report, 28th Report (6th Lok Sabha), the Committee suggested that the management ratios as already evolved for production enterprises and to be evolved for the rest should be brought out in the Annual Reports and that the reviews by the Bureau should clearly relate the achievements of the Undertakings in different sectors to the plan anticipations both in regard to generation of internal resources and the value added, highlighting the gaps in achievement.

128. During evidence, Director General, BPE assured the Committee that:

- (i) Productivity is also an area where a lot of work has been done recently in the Bureau. Some issues which are involved in the problems of production and productivity will be mentioned in this year's Annual Report. These will be elaborated in the next year's annual report.
- (ii) As far as R&D is concerned there is at present a small section on management of technology. BPE will try and give some more in the future Annual Reports.

129. As regards Management Ratios, Advisor (Finance) BPE stated in evidence that in the circular issued by the Bureau in 1975, several management ratios were indicated but the matter was not vigorously pursued over the years. BPE has since re-activated the system. 1978-79 Annual Report of BPE has published 6 management ratios. In the next year, the Report will, it was indicated, contain 16 management ratios.

130. The Finance Secretary assured the Committee during evidence that in future BPE's Annual Reports would incorporate plan projections, actual achievements of public undertakings and shortfalls, if any.

131. In paragraph 1.19 of their 46th Report (Fifth Lok Sabha), the Committee had stressed that the Annual Report on Public sector enterprises brought out by the BPE should be made available alongwith the Budget papers as it would facilitate ready reference by Members. The Finance Secretary assured the Committee that in future they would try to bring out their Annual Report alongwith the Economic Survey at the latest, if not earlier.

X. MANAGEMENT

A. Recruitment and Promotion

132. Prior to 1958 appointments to top management posts were made by the Administrative Ministries concerned. In 1958-59, Government of India constituted the Industrial Management pool of professional managers to fill the senior and top posts in public sector. In 1965 a major policy reform was effected in the selection procedures. A Screening Committee of Secretaries was constituted. To improve the system some changes were effected in 1970. An Empanelment Board was set up. The next major change in the policy for top management was made in 1974. Government by its Resolution dated 30 August, 1974 announced its new managerial personnel policy. The Public Enterprises Selection Board was set up for advising Government on appointments to top Posts.

133. The Board had the following main functions:

1. Selection of persons for appointment to posts of part-time chairman and full-time chairman|Chairman-cum-Managing Director|Managing Director.
2. Selection of persons for appointment to posts of full-time Executive|Functional Directors, General Managers, etc. (second level).

3. Association of Secretary, PESB as a member of the Selection Committee for third level posts in the public enterprises.
4. Advise on appointment of part-time non-official Directors.
5. Recommendation to Government on pay Categorisation of top posts and organisational structure.
6. Advise on creation/categorisation of top posts in the public enterprises.
7. Review of performance of appointees to top posts in the public enterprises.
8. Maintenance of a Centralised Personnel Data Bank.

134. Consequent on the reconstitution of the Board in September 1981, it has been decided by Government that the PESB will, as a whole, have the responsibility for selection to all Board level posts viz. (i) top level appointments of part-time Chairman, full-time Chairman, Chairman-cum-Managing Directors and Managing Directors as well as of (ii) Second level appointments of all full-time Executives/Functional Directors on the Board. It has also been decided that PESB need have no responsibility for recruitment for appointments below the Board level. Selection for all such posts will be made by the Board of Directors of the companies themselves. The Public Enterprises Selection Board will continue to be associated with the appointment of part-time non-official Directors, in rendering advice on creation/categorisation of top posts, review of performance of appointees to top posts, etc.

135. The Committee were informed by Director General, BPE that total managerial group in the organised services of Government was of the order of 35,000 or so. Defence services had 65,000 officers. As against this, public enterprises had 1,15,000 managers out of a total work force of 18 lakh employees as on 31-3-1980.

136. From the information regarding promotion policies received from the public undertakings through BPE, it was seen that 13 public undertakings have not drawn up recruitment, promotion, discipline and other service conditions rules. These are: NTC (DPR); Lubrizol India Ltd.; Cycle Corporation of India; ETTDC; Braithwaite & Co. Ltd.; Richardson & Cruddas (1972) Ltd.; Bharat Process & Mechanical Engg. Co. Ltd.; IRCC; Semi-conductors Complex Ltd.; Indian Road Construction Corporation Ltd.; Maruti Udyog Ltd.; Bharat Leather Corporation; Jute Corporation of India

As analysis of the recruitment made in 1980-81 showed that recruitment by promotion of personnel having scales of pay 700—1300 and above account for 57 per cent, recruitment by deputation/transfer from other public undertakings accounted for 2 per cent, deputation/transfer from government accounted for 4.5 per cent and direct recruitment accounted for 36.5 per cent. It was stated that direct recruitment might include managers from other public undertakings also.

137. Some public undertakings have a system of recruiting management trainees for induction at the junior level after training. About 40 public undertakings have in-house training facilities. These facilities cater mainly to junior level in most cases. Others depend on external training organisation. 13 public undertakings reported that in-service training qualifications have been made a pre-condition for promotion, viz., PEC, NMDC, IOB, Cement Corporation, CIL, HOC, IDPL, IAC, PCF, HISCO, ECIL, HPC and CWC.

138. As regards criterion for promotion, 14 public undertakings took into account merit alone. 2 undertakings took into account seniority and majority of public undertakings followed seniority-cum-merit basis. Generally weightage is stated to be given to the annual reports on the officials while considering promotion. However, in a few public undertakings the exact weightage was found to be ranging from 20 to 60 per cent.

139. According to the BPE, there were instances where Government made appointments to posts which fell within the purview of the public undertakings. In this connection appointments of Chief Vigilance Officers in ITDC, IAAI and Air India were cited. The Ministry of Tourism & Civil Aviation is reported to have stated that these appointments were made "due to oversight."

140. According to a non-official witness (Shri Tandon) the public sector culture in India followed the familiar family owned private sector culture and was not professional enough. The need, according to him was to inculcate "a merit based and result oriented management culture." He felt that there should be a common pool of top management for the public enterprises to serve as a common denominator service and to take care of not only recruitment but also training management development and placement. He favoured interchange of personnel between Ministries and the public sector service and induction of officials of Indian Foreign Service into public sector service.

141. In a note furnished to the Committee (March, 1981), SCOPE has put forward the following suggestions for management development:—

1. Public Enterprises Selection Board, which is only an advisory body at present without any organised institution base, should be made permanent and independent body having powers over service matters. Recommendations of the Board should carry similar weight as those of UPSC whether or not PESB is given any statutory status.
2. PESB should be consulted by Government in considering cases of removal, punishment and rewards by way of extension or otherwise of the executives appointed by Government.
3. A cadre or pool of senior executives should be created and the performance of the executives in this cadre or pool be carefully watched to provide feedback for selection for top posts.
4. Public sector suffers a great deal because many managers do not have the same degree of commitment and appreciation of the ethos and culture of public sector. A National Academy of Management should therefore be constituted to train public sector personnel at various levels but mainly at the top level. (BPE is understood to have constituted a special group to work out a scheme).
5. An objective and fair appraisal system should be devised and all awards and punishment based on such a system.
6. Scheme of profit sharing and national awards of merit should be introduced and public sector executive should also be considered for national reconstruction in the form of awards of Padma Shri and Bhushan etc.

142. As regards frequent changes of Chief Executives of public enterprises, a representative of SCOPE said in evidence:

“He (Chief Executive) is the kingpin of the enterprises. On his resources and dynamism depends the entire fate of the enterprises. Every time the top man is changed, the entire philosophy is changed. If you bring an Army man he will have Army ethos. If you bring a civil man, he will have civil ethos and like that. It is not advisable to make frequent changes of these Chief Executives.”

143. The witness thought that the minimum tenure of a Chief Executive should be five years.

144. Recalling the unhappy experience of IMP, the Finance Secretary stated:

"The old industrial management pool had 100 odd people and that included the people who were below the Board level. I gather that over the years with the enterprises stabilising or growing, every one found it more and more difficult to accept the people of the pool."

145. Director General, BPE however, agreed to examine the possibility of forming an all-India management service at least for 400 odd posts of full-time Chief Executives and Directors for which the Government is the executive authority. He indicated that inclusion of lower posts recruitment which is made by public enterprises were not impossible.

146. Explaining why there is so much delay in filling up top posts in public enterprises, Director General, BPE said in evidence:

"The procedure is that every time a post is vacant we prepare the job description of the post. The names have to be shortlisted. Discussions have to be held by the PESB with the Ministry. Interviews have to be held. Recommendations go from the PESB to the Government. Then the Government have to process it further."

147. From the information received from the BPE in respect of 172 public undertakings it was seen that in 100 undertakings there were more than 2 part-time official directors on each Board. In the following undertakings Secretaries have been nominated as part-time directors:

1. Computer Maintenance Corporation.
2. Trade Fair Authority of India.
3. Bharat Electronics Ltd.
4. Bharat Dynamics Ltd.
5. Hindustan Aeronautics Ltd.
6. State Trading Corporation
7. National Research Development Corporation
8. Indian Airlines.
9. Maruti Udyog Ltd.
10. State Chemicals & Pharmaceuticals Ltd.

B. Salary Structure

148. According to the Report of Study Group on Wages. Incomes and Prices under the chairmanship of Mr. Boothlingam, emoluments of top most executives of public sector compared to executives in other sectors were as under:

(Rupees per annum)

Sl. Nos	Particulars	Central Government	Public Sector	Bank	Private Sector
1	Salary	42,000 (32,685)	48,000 (35,925)	48,000 (55,925)	90,000 (53,460)
2	House	14,412	14,400	12,000	30,000
3	Car . . . . .	..	10,800	10,800	18,000
4	Medical	5,000	5,000	5,000	5,000
5	L.T.C.	630	630	420	7,500
6	Contributory Provident Fund	..	4,000	4,000	9,000
7	Commission on profits . . . . .	..	..	..	45,000 (14,725)
8	Pension	4,469	..	..	13,500
9	Gratuity	910	910	3,714	3,750
10	Other perks . . . . .	..	..	..	1,600
		67,421 (58,106)	83,740 (71,665)	83,934 (71,859)	2,23,350 (1,56,535)

Notes 1. Figures in brackets are post-tax taking into account standard deductions only. Tax element has not been worked out in respect of housing and other taxable perquisites.

2. The data shown against private sector are as per guidelines of the Company Law Board.

3. For Central Government officers, the value against Sl. No. 2 related to a typical Type VII residence in New Delhi.

149. In 1971, Government decided that there should be no general revision of wages or increase in fringe benefits in the public enterprises without prior consultation with the Central Government. Bureau of Public Enterprises was made the central coordination point for the scrutiny of such proposals.

150. Pointing out glaring disparities in managerial remuneration in the public sector, a non-official witness (Shri Tandon) said during evidence:

"I think the problem in the public sector is that there have been glaring disparities within the public sector. There are some concerns in which a Director gets Rs. 2500 to 3000 but a clerk will get 3400.... This is an inverted kind of discrimination which is coming in, i.e., the more you rise to the top the less you get... I would, therefore, submit that we need to re-examine the salary structure of the public sector, make the salaries uniform for the entire public sector, but it should be the result of a national wage policy for the public sector..... I think a wage policy for the public sector may be more towards a national policy. There should be a national public sector wage commission, a permanent body, which should be looking what the disparities are...."

151. The Committee asked if the ceiling of Rs. 4,000 on the pay of a top in Schedule 'A' introduced sometime in 1965 needs to be continued any longer, the Finance Secretary said: "I do not think there need be any ceiling." His recollection was that while fixing this ceiling the pay of Rs. 3500 that a Secretary to the Government of India gets was kept in view.

152. On the question of managerial remuneration, SCOPE in a note furnished after evidence suggested (March 1981):

1. In Britain, France, Germany, Yugoslavia and many other countries the public sector executives are given emoluments comparable to private sector. The equation of emoluments with Government scales of pay is entirely irrelevant. The higher degree of professional skill to run a public enterprises on sound business lines by far outweighs the qualifications required to run a government office.
2. With the spiralling rents in the metropolitan cities, house rent allowance admissible to the managers of public sector has become rather ridiculous. Instead of fixing a percentage of pay as H. R. A. certain scales of accommodation in terms of area should be prescribed for different class of employees as is done in Armed Forces.

3. Dearness allowance entitlement of Government offices should be made applicable to senior executives of public enterprises as well.
4. Emoluments of middle level managers should be doubled so that they are in the range of Rs. 2000 to Rs. 5000 in appropriate grades alongwith fringe benefits like accommodations/adequate house rent allowance, recreational and superannuation benefits etc.

153. Explaining the general parametres which are kept in mind when administrative Ministries consult the Finance Ministry on wage revisions in public undertakings, the Finance Secretary said during evidence that an important aspect of component of the approach has been to try to reduce the disparity between what one may call the better-paid people or better paid undertakings and no so well-paid undertakings. Another has been to give Rs. 1.30 per point for neutralisation of cost of living index. The third aspect is the capacity to pay. An attempt has also been made to link the increase in wage with increase in productivity.

154. Commenting on the suggestion for appointment of a standing commission for removal of wide disparities and glaring anomalies in the wage structure of public enterprises, the Finance Secretary said in evidence:

"It is a difficult proposition. Even in England, they have been trying it. It has not worked...at the moment there is no wage policy as such nor there is any idea that there would be a body which would be set up to evolve a wage policy. Therefore, we have got to do it over a period, by way of successive negotiations by gradual evolution which may take 3 to 4 years."

PART—II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

After independence with the advent of the planned era, the country has witnessed a vast growth of public undertakings. At the commencement of first Five Year Plan (1-4-1951) there were 5 undertakings under the Central Government and the number has increased to over 200 as on 31-3-1981. The investment has grown from Rs. 29 crores to Rs. 2,126 crores during this period. Public Undertakings being important instruments of planned development, the economic progress of the country depends considerably on their efficient functioning. Without underrating their achievements the Committee are constrained to point out that the overall financial performance has not been good in recent years. The net loss went up from Rs. 74.24 crores in 1979-80 to Rs. 182.01 crores in 1980-81. Further, as many as 33 undertakings have already wiped out their share capital base including free reserve. The cumulative losses of these undertakings were of the order of Rs. 1970.25 crores. Out of 150 undertakings under production during 1980-81 for which data were available, 42 have recorded capacity utilisation less than 50 per cent. In this context the Committee went into the management and control systems of the public undertakings. Their examination of these aspects and their study of about 40 undertakings (including subsidiaries) during the last two years revealed that there is an urgent need to improve the management and ensure that the control systems—internal and external work well. The Committee hope that action would be taken early as indicated in this Report.

2. Public undertakings take the form of either statutory corporations or government companies. These are largely in the nature of government companies. Government companies as a separate class of companies were recognised for the first time in the Companies Act, 1956. Section 617 of the Act defines a Government Company as one in which not less than 51 per cent of the paid-up capital is held by Government(s), and it includes a company which is a subsidiary of a Government company thus defined. However, there are joint ventures where no less than 51 per cent shares are held by public financial institutions either by themselves or along with Government are Government Companies such ventures (52 as on

31-3-1980) are not regarded as Government companies. The Committee recommend that as suggested by the Sachar Committee, Section 617 of the Companies Act should be amended to treat them as Government companies so that their Annual Report could come up before Parliament and the Committee on Public Undertakings could examine them.

3. Public undertakings are given a degree of autonomy, financial and administrative, in order to enable them to function efficiently. This autonomy carries with it an accountability but the accountability is not for the day-to day functioning. In order to have a proper assessment of efficiency it is necessary to make the objectives and obligations clear to the undertakings. The Committee (1972-73) have urged this. Unfortunately this has not been done yet. The general guidelines about the dividend expected of the undertakings issued by the BPE in 1968 would not serve the purpose. The Committee urge that economic, financial and social obligations of each undertaking should be clearly spelt out.

4. The Committee understand that in U. K. the Government have reviewed the manner in which the general principles—and in particular, the economic and financial principles, which were established in the nationalisation statutes have been applied in practice and presented several White Papers to Parliament. In our country a document entitled 'Public Sector Enterprises—A Memorandum' the only one of its kind was presented by the Ministry of Finance to Parliament in February 1969. It was a report on various measures taken by Government for improving the performance of public undertakings. As a periodical stock-taking it is necessary to bring out White Papers as are brought out in U. K. The Committee hope that as agreed to by the Finance Secretary this would be done soon.

5. The Committee feel that it is essential to fix clear targets to measure the performance there against. These targets could be easily derived from the National plans. In future plan targets, both annually and for the Plan period, should be fixed for each undertaking by the administrative Ministry in consultation with the Planning Commission. These should be: (i) production in physical terms; (ii) value added correlated to the sectoral rate of growth indicated in the Plan; (iii) capital investment; and (iv) generation of internal resources for capital investment correlated to the resources forecast

of the Plan. These targets and achievements should be clearly brought out in the Annual Reports of the undertakings with an explanation for the shortfalls.

6. The capital output ratio of public undertakings is very high. According to the Planning Commission a large part of it can be attributed to unused capacity. The GDP growth rate can be increased if capital efficiency is increased. The Committee, therefore, suggest that as agreed to by the Member-Secretary, Planning Commission, there should be a critical study of the capital output ratio in each undertaking by the BPE to identify the problems and take steps to improve the efficiency.

7. In view of the shortfalls in production, persistent overall losses and increase in capital output ratio, not to speak of infrastructural and unmatched input-output problems, it cannot be said that planning for the public undertakings and implementation of Plan schemes and projects are sound. Of 49 major projects each costing over Rs. 20 crores commissioned or expected to be commissioned during 1974—79, 8 were delayed by more than 5 years. In 6 cases the cost escalation was more than 200 per cent. Similar cost and time over runs were brought out by the Committee in earlier years. The position needs toning up. The Committee recommend that there should be a Planning Cell in each Ministry/Department and this Cell should integrate planning and monitoring systems.

8. The major investments by public undertakings require prior approval of Government. The proposals in this regard are scrutinised by various agencies including the BPE and the planning Commission. There are admittedly shortcomings in the system of micro planning. A shelf of fully worked out alternative projects is not available when an investment decision is taken. The estimation of costs and benefits, both economic and financial, requires refinement. The Committee desire that on the basis of experience gained and the feedback on implementation obtained, revised guidelines should be issued to ensure reliable project formulation.

9. There are serious delays in formulation of project proposals by the public undertakings and in clearance of project proposals by Government. The implication of the delay in decision making in terms of cost escalation and denial of timely benefit to the country is seldom realised. The Committee have drawn attention to this in their various Reports. The Committee desire that as agreed to by the Member-Secretary Planning Commission a time-limit should

be laid down for various processes from conception of projects to its final clearance.

10. At present an economic internal rate of return of 12 per cent is adopted as criterion for clearance of projects by the Planning Commission. The Committee feel that there ought to be a minimum of financial return also. The public undertakings ought to function on business principles. If, however, Government desires in public interest that a project or a scheme or a service should be taken up although it involves loss, a specific directive should be given to the undertaking concerned and the loss made good by subsidy. The details in this regard should be clearly brought out in the Annual Reports.

11. There is need for basic economic research on problems being faced by the public undertakings as urged by the Standing Conference of Public Enterprises. An important area is the pricing policy and its effect on the growth of the undertakings. The researches, need-based and problem-oriented, should be organised by the Planning Commission or BPE either by themselves or through other recognised institutions in various fields.

12. The autonomy of the public undertakings is limited by government control. The government control is formally exercised through top appointments, nominee directors, prior approval to major investments and power to issue of directives etc. The administrative Ministry has inherent power to monitor and review the performance. There are other informal controls exercised. The Committee have also come across cases of needless intervention of administrative Ministry in matters that are clearly within the autonomous jurisdiction of public undertakings. The Standing Conference of Public Enterprises have urged before them that there should be no such interference. The Committee agree with this. As suggested by the Administrative Reforms Commission and the Sachar Committee it is necessary to clearly delineate areas of powers and authority between the public undertakings and administrative Ministries and the former should be allowed to function in full freedom within their sphere. Thereafter the guidelines issued by the BPE should be reviewed to clarify which of these ought to be regarded as mandatory and where the public undertakings have flexibility in following them.

13. The most important ownership function which the Ministries ought to exercise is the monitoring and review of the performance of public undertakings. In exercising this crucial function the Ministries have not by and large, acquitted themselves creditably. The Committee examined the position earlier for the three year period 1977-80. Their examination revealed that although there should have been quarterly reviews, 92 undertakings in 1977-78, 61 in 1978-79 and 46 in 1979-80 did not at all come up for review by their Ministries. Herein lies the lack of accountability of undertakings which is allowed to thrive. The Committee have dealt with this lapse in a number of Reports presented during the past two years. The Committee trust that in future the Ministries would discharge this responsibility diligently...

14. The Committee regret that the accountability of public undertakings to the consumers has not been recognised well and no machinery for ensuring it has been set up. In this connection the Committee learn that in U.K. the Minister responsible for each nationalised industry is required by statute to take steps to see that the interests of the industry's consumers are protected. This is usually done by setting up representative consumer's councils or consultative committees to consider complaints and suggestions made to them and to advise the board or the Minister of the changes that they think desirable. In India in some cases of statutory corporations the relevant Acts provide for advisory bodies. These have, however, not been set up. The Committee have dealt with these in the Reports on Food Corporation and Damodar Valley Corporation. The Committee recommend that suitable machinery in this regard should be evolved to make the undertaking responsible to the consumers and responsive to their suggestions.

15. About 70 per cent of the products (value-wise) manufactured by public undertakings are subject to prices administered by Government, formally or informally. Profits depend on pricing policies and costs. The guidelines issued by the BPE in 1968 are too general. The price and wage policies ought to be spelt out in detail. Frequent changes in policy should be avoided. The prices administered by Government ought to allow reasonable return to the undertakings having regard to the need to avoid needless budgetary support to them and the need to generate internal resources as according to the Member-Secretary, Planning Commission, tax ratio (to GDP)

in the country which is already high cannot be raised much further. For socio-economic reasons if the price is pegged at an unremunerative level direct subsidy to the undertakings would be justified. The Committee recommend that there should be an independent body as in U.K. to which the major price increases could be referred, to ensure cost efficiency.

16. The budgets of public undertakings as such do not come up before Parliament for prior approval. But the Union Budget includes proposals for financing of public undertakings either through loans or share capital contribution. Although the Explanatory Memorandum on the Budget shows the estimates of capital and loan disbursements to all public undertakings the details of the proposals lay scattered in the Budget documents under various Ministries. The Committee recommend that an additional document entitled 'Budget in relation to public undertakings' should be brought out collecting all the details together which would help Parliament to have a total view and facilitate meaningful discussion.

17. The Committee feel that no reappropriation of funds within the powers of administrative Ministries should be allowed between public undertakings and the rest of the activities. The Committee further recommend that there should be a consolidated statement bringing out the utilisation of funds voted in relation to public undertakings and this statement should be annexed to the Appropriation Accounts. As agreed by the Finance Secretary, this should be done in consultation with the Comptroller and Auditor General of India.

18. There have been serious delays in presentation of Annual Accounts and Reports of public undertakings to Parliament. The Lok Sabha Committee on Papers Laid in their Reports (1975-76) had recommended that the Accounts and Reports should be laid within 9 months of the close of the year to which these related. Yet as per the C&AG's Report (1981) accounts of 27 government companies for the year 1979-80 have not been received by him even by February 1981 and as per the Public Enterprises Survey, 67 undertakings could not finalise their accounts for 1980-81 and get them audited by the prescribed date, viz., 30 September, 1981. These reflect the failures of the relevant Boards of the public undertakings. It is the responsibility of the administrative Ministries to ensure timely submission of the Accounts and Reports to Parliament. There should be no delay in future.

19. The C&AG's Report (Commercial) is presented in several parts in addition to his comments on the accounts published in the Annual Reports of the undertakings. There should be some automatic follow up action on these by the Ministries. These should be reviewed for suitable action at the periodical performance review meetings and at the time of review of the working before laying the annual Reports before Parliament.

20. The BPE was set up in 1965 on the basis of recommendations of the Estimates Committee (1963-64). That Committee had warned that it should be ensured that the agency suggested by them did not become unwieldy and a further cog in the wheel. The Committee on Public Undertakings (1973-74) had taken exception to the expenditure incurred by the 'top heavy' Bureau and suggested that it should be made compact. The Administrative Reforms Commission envisaged its role to be one that would keep the machinery of the public undertakings in trim and enable its efficiency to be assessed and kept. There is a feeling that the BPE is exercising control functions that rightly belong to the administrative Ministries. It is time that an assessment of the working of the Bureau is made independently, say, by Planning Commission. On the basis of this assessment the Bureau should be streamlined as an effective monitoring and consultancy agency to help "on-course correction" of deficiencies in public undertakings.

21. The Committee find that the Public Enterprises Survey of the Bureau does not bring out the nexus between the Plans and the public undertakings and highlight the shortfalls in achieving Plan targets. Further, no reliable interfirm comparison national and international is attempted. The Committee have earlier given a number of suggestions to improve the quality of this survey. The Committee hope that necessary improvements will be made early.

22. The BPE is at present an independent wing of the Department of Expenditure of the Ministry of Finance. Having regard to the nature of its functions the Committee suggest that after an independent assessment of its functions and making such improvements as are needed the desirabilities of making it a separate department of the Ministry of Finance may be considered.

23. The success of public undertakings depends to a large extent on the quality of its managerial personnel. The Board level appoint-

ments are made by Government on the advice of the Public Enterprises Selection Board. As promised by the DG, BPE, the desirability of forming an All India Management Service for the top posts within the purview of Government should be examined. Further the advisability of converting the Public Enterprises Selection Board as statutory independent authority capable of going into also the service and disciplinary matters to advise Government should be considered. A national academy should be created to re-orient the top level executives to meet the challenges of running the public undertakings efficiently. Frequent changes of Chief Executives should be avoided and there should be a minimum tenure of 5 years subject of course to satisfactory performance.

24. The appointments below board level are made by the public undertakings themselves. The Committee regret that 13 undertakings have not drawn up recruitment, promotion, discipline and other service condition rules. Not all undertakings have a system of recruiting management trainees. Only 40 undertakings have in-house training facilities and in most cases these cater to mainly junior levels. As regards criterion for promotion, 14 undertakings take into account merit alone, 2 go by seniority alone and a majority of undertakings follow the principle of seniority-cum-merit. The basis for assessment of merit varies from undertaking to undertaking. According to a non-official witness the public sector culture in India followed the familiar family-owned private sector culture and was not professional enough. The need according to him was to inculcate 'a merit based and result-oriented management culture'. He favoured interchange of personnel between Ministries and the public sector service. The Committee consider that the present position calls for a critical review taking into account these suggestion to evolve an effective personnel policy.

25. The salary structure is an important determinant of attracting talent and retaining it in the public undertakings. The Committee have referred to the problem of brain drain owing to unattractive service conditions in a few Reports recently. It appears that the salary structure of public sector executives is linked to that of government servants. The Committee after hearing the views of officials and non-officials have come to the conclusion that the salary structure of middle and top level executives of public undertakings and officers of government requires an upward revision. Of late there has been a serious erosion of post-tax real income of the

senior officers and executives. The present salary structure is clearly unjustified. The Committee hope that their salary structure and service conditions would be improved commensurate with their responsibilities and needs.

26. There are nearly two million employees in the public undertakings under the Central Government. The public undertakings aim at being model employers in providing for the welfare of their employees and their families. In this context the Committee suggest that BPE may consider issue of suitable guidelines to the public undertakings on the following:

- (i) Having regard to the persisting high incidence of tuberculosis in the country there ought to be screening of all employees and the members of their families with a view to detecting signs of tuberculosis and ensuring treatment and care.
- (ii) There is good deal of preventive blindness in the country due to nutritional deficiencies, disease or cataract. The public undertakings could organise intensive programme of examining the eyes of their employees and their family members and undertaking curative treatment including surgical treatment for cataract etc. wherever needed so as to cover all persons within a year.
- (iii) There is a need for extending welfare measures of the public undertakings for the improvement of health and nutrition for children of their employees. There ought to be annual health check up of the school going children and if possible, supplementary nutrition should be provided to the young ones in the form of mid-day meals at the schools run by the public undertakings.

BANSI LAL,
Chairman,

Committee on Public Undertakings.

April 29, 1982.

Vaisakha 9, 1904 (Saka)