

HUNDRED AND TWENTY-THIRD REPORT

PUBLIC ACCOUNTS COMMITTEE (1982-83)

(SEVENTH LOK SABHA)

REDUNDANCY IN MATERIALS PROCURED FOR THE MANUFACTURE OF AN AIRCRAFT

MINISTRY OF DEFENCE

[Action Taken on Sixty-sixth Report (Seventh Lok
Sabha)].

25th Feb., 1983



सत्यमेव जयते

Presented in Lok Sabha

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(1982-83)

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INTRODUCTION

I, the Chairman of Public Accounts Committee as authorised by the Committee, do present on their behalf this 123rd Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 66th Report (7th Lok Sabha) regarding redundancy in materials procured for the manufacture of an aircraft.

2. Dealing with a case of indigenous manufacture of an aircraft, the Committee had in their Sixty-sixth Report (Seventh Lok Sabha) observed that two successive upward revisions of the requirement followed by a sudden downward revision of the same, necessitated short closure of the order on a public sector undertaking resulting in huge redundancy of materials costing nearly Rs. 16.73 crores. According to the Committee this could have been avoided had the Ministry and the Air Force subjected the long term requirements to closer scrutiny. Reiterating the earlier observations that this case reflects ad-hocism in taking decisions, the Committee have desired Government of draw suitable lessons from their experience in this case so that the long term planning of requirements is done on a more realistic basis in future.

3. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 10 November, 1982.

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

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

NEW DELHI;
November 18, 1982
Kartika 27, 1904 (S).

SATISH AGARWAL
Chairman
Public Accounts Committee.

REPORT
CHAPTER I

1.1. The Report of the Committee deals with the action taken by Government on the Committee's recommendations and observations contained in their Sixty-Sixth Report (7th Lok Sabha) on Paragraph 37 of the Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Defence Services) on redundancy in materials for the manufacture of an aircraft.

1.2. The Sixty-sixth Report which was presented to Lok Sabha on 23 December, 1981, contained 12 recommendations. Action Taken Notes have been received in respect of all recommendations/observations and these have been broadly categorised as follows:—

- (i) Recommendations and observations that have been accepted by Government;

1, 2, 3, 6, 7, 8, 9; 10 and 12.

- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government:

4 and 11

- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:

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- (iv) Recommendations and observations in respect of which Government have furnished interim replies:

Nil.

1.3. The Committee will now deal with action taken by Government on some of their recommendations.

*Not Voted in Audit.

Assessment of requirements (S. No. 1, Para 1.45)

1.4 In para 1.45 of their 66th Report, the Committee had observed as follows:—

“In October 1969, Government entered into an agreement with a foreign supplier for transfer to them licence and technical documentation for the manufacture of a certain number of aircraft ‘A’ for the Air Force on payment of a licence fee of Rs. 5 crores. This licence agreement was assigned to HAL, Bangalore in September, 1970. Against sanctions accorded in August 1971 and March 1972 by the Ministry for the manufacture of ‘X’ numbers of aircraft ‘A’ at an estimated cost of Rs. 78.33 lakhs each, two orders were placed on the undertaking by Air Headquarters in September, 1971 for Rs. 37.60 crores and May 1972 for Rs. 79.90 crores. The aircraft were scheduled to be delivered to the Air Force during 1972-73 to 1978-79. According to the Ministry of Defence, supplies against the aforesaid two orders were to cater to the requirements of the Air Force till 1986-87.”

1.5 In their action taken reply, the Ministry of Defence have stated:

“The position has been re-examined and it is regretted that the information supplied by this Ministry and reproduced in para 1.7 of the PAC's 66th Report (7th Lok Sabha) that the supplies against the orders placed in September, 1971 and May, 1972 were to cater for the requirements of the Air Force till 1986-87 was not correct. In fact, the supplies against the two said orders were to cater for the requirements of the I.A.F. till 1979-80, based on the force level of 1969, which were lower than the approved levels of subsequent years.

This has been seen by Audit.”

1.6 To a query from the Committee about the year upto which requirements of Air Force were proposed to be met by the supplies against the orders placed in September, 1971 and May, 1972 and the number of years for which normally the future requirements were taken into account while working out the proposals, the Ministry of Defence had stated that supplies against the orders were to cater for the requirements of the Air Force till 1986-87 and a span covering

10/15 years was the normal basis for working out the long term requirements of aircraft. However, while furnishing the action taken replies, the Ministry have stated that "the position has been re-examined and it is regretted that the information supplied by this Ministry that the supplies against the orders placed in September, 1971 and May, 1972 were to cater for the requirements of the Air Force till 1986-87 was not correct. In fact, the supplies against the two said orders were to cater for the requirements of the I. A. F. till 1979-80 based on the force level of 1969 which were lower than the approved levels of subsequent years."

1.7 The Committee are unhappy that incorrect information was furnished to them on such a vital matter as the period for which the requirements were taken into account while placing orders for the aircraft. In view of the regret expressed by the Ministry, the Committee do not want to make any further comment in the matter. They would, however, like the Ministry to be more careful in future and ensure that information furnished to the Committee factually correct.

1.8 The Committee are surprised to know that orders in the instant case were to cater to the requirements till 1979-80 only when the Ministry were fully aware that it took several years to develop and manufacture an aircraft. In a later section of this Report, the Committee have commented on this aspect of the matter in some details.

Perspective Plan of requirements of the Air Force (S. No. 5, Para 1.49)

1.9 Dealing with a case of excess procurement of materials worth Rs. 1672.93 lakhs for manufacture of an aircraft on account of short closure of the order placed on a public sector undertaking, the Committee had in para 1.49 of their 66th Report (Seventh Lok Sabha) stated as under:—

"The Committee further observe that whereas in February, 1975 the Air Headquarters placed an additional order on the Undertaking for the supply of 81.3 per cent of aircraft 'A' in September 1975 it was decided that production of aircraft 'A' should be stopped after meeting 108 per cent of 'X' numbers and production of another variant taken up thereafter. The Committee find that after the assessment of the requirements of aircraft 'A' made in February, 1973 for the period upto 1980-81, the Air HQrs made yet

another long term assessment of requirement in July, 1975 of all the variants of aircraft 'A' for the next 25 years. In this assessment, the requirements were pitched as high as 356.7 per cent of 'X' numbers originally assessed. It has been stated that the reduction in the requirement of aircraft 'A' in September 1975 was necessitated because of the availability of an improved version i.e. variant 'C' which could not have been visualised earlier. The Committee thus observe that whereas according to the Ministry's own re-ckoning, a span covering 10/15 years is the normal basis for working out the long term requirements of aircraft, there were as many as three long-term assessment reviews of the requirement of aircraft 'A' between the years 1971 and 1975. The Committee believe that if such a review was at all necessary it should have been made before February, 1975 when orders for additional aircraft 'A' were placed on the undertaking. The sequence of events narrated in the foregoing paragraphs reflects ad-hocism in taking decisions and there seem to have been little sense of perspective in the so called perspective plan of the requirements of the Air Force.

1.10 The action taken note dated 23 September, 1982 received from the Ministry of Defence states:—

"It was always recognised that Aircraft 'A' have remained under a constant state of improvement and development in the country of Foreign Supplier. With a view to take advantage of this improvement, the question of induction of advanced variants of the aircraft in the Air Force had been under constant review. In view of large requirements and long time span over which these aircraft were to be used, the Air Force recommended selection of an engine fitted on a variant say 'D' which was a modified version of variant 'B'. This was because it was possible to retrofit it on variant 'A'. On the other hand, the engine of variant 'C' was believed to be non-compatible to go into the variant 'A' Airforce, therefore all along recommended preference to variant 'D' based on commonality between variant 'A' and 'D'. In October, 1975 a delegation comprising of the representatives of the Deptt. of Defence Production, Ministry of Defence, Ministry of Finance

(Def/Air), Air Force and the Public Sector Undertaking was sent to the country of the Foreign Supplier to make evaluation. During its visit the delegation found that the modern version was only an unsuccessful intermediate version, which was never productionised by the Foreign Supplier. The Delegation brought to the notice of R.M. that the Foreign Supplier had abandoned the production programme of the modern version of variant 'A' and recommended that switch over to variant 'C' was inevitable. As a sequel to the said development, it was finally decided in November 1975 to change over to variant 'C'. After considering the inputs of the indigenous variety of aircraft that were to complement variant 'A', the total requirement was assessed as 402 per cent of 'X' numbers. The requirement of variant 'A' that worked out to 356.7 per cent of 'X' numbers was, therefore, quite logical.

The re-assessment of requirement of air-craft 'A' was mandatory since the total requirement of a class of aircraft was the sum of variant 'A' and those produced indigenously by the Public Sector Undertaking. Since the latter consistently varied in their content, version of the former was inevitable. Nevertheless, from the point of view of financial foresight, revision made by the Air Force was sound."

1.11 The Committee had pointed out in para 1.49 of the Sixty-Sixth Report that whereas according to the Ministry of Defence, a span covering 10-15 years is the normal basis for working out the long term requirements of aircraft, in the instant case there were as many as three widely varying long term assessments/reviews of the requirements of Aircraft 'A' between 1971 and 1975 for the same period. After placement of two orders in August 1971 and March 1972 for manufacture of 'X' nos. of Aircraft 'A' on a public sector undertaking, the requirements were reassessed in February 1973, i.e. within 10 months, as 205.3 per cent of the number already ordered keeping in mind the requirement upto 1980-81. In July 1975 the requirements of all variants of Aircraft 'A' were reassessed as 356.7 per cent of 'X' numbers originally assessed. Two months later, i.e. in September 1975, the requirement of Aircraft 'A' was reduced because of the availability of an improved version i.e. variant 'C' and it was decided to short close the order on the undertaking after meeting 108 per cent of 'X' numbers. According to the Ministry, Aircraft 'A' have remained under a constant state of improvement and development in the country of foreign supplier. The question of

induction of advanced variants of the aircraft in the Air Force had therefore been under constant review. The Ministry have further stated that "the reassessment of requirements was mandatory since the total requirement of a class of aircraft was the sum of variant 'A' and those produced indigenously by the Public sector undertaking. Since the latter consistently varied in their content, reassessment of the former was inevitable." The Committee are not impressed with the argument advanced by the Ministry that the question of induction of advanced variants of the aircraft in the Air Force had been under their constant review. Had this been so, it is really strange that it was only during the course of visit of the ministerial delegation to the Country of the foreign supplier that it was found that the modern version was only an unsuccessful intermediate version, which was never productionised by the foreign supplier. The delegation brought to the notice of R.M. that the foreign supplier had abandoned the production programme of the modern version of variant 'A' and recommended that switch over to variant 'C' was inevitable. As a sequel to the said development, it was finally decided in November 1975 to change over to variant 'C'. The Committee would like the Ministry of Defence to look into this aspect of the matter and take steps to adequately vitalise the reviewing machinery so as to enable it to discharge its function effectively.

1.12 The Committee would further like to point out that what they had objected to was not the fact of induction of improved variants of Aircraft 'A' into the Air Force but the methodology of assessing the long term requirements of the Air Force and the uncertainty resulting therefrom in so far as the production programme of the public sector undertaking was concerned. Two successive upward revisions of the requirement followed by a sudden downward revision of the same, necessitated short closure of the order on the undertaking resulting in huge redundancy of materials costing nearly Rs. 16 73 crores. The Committee consider that this could have been avoided had the Ministry and the Air Force subjected the long term requirements to closer scrutiny. The Committee therefore reiterate the observations made earlier that this case reflects ad-hocism in taking decisions and displays hardly any sense of perspective in the so-called perspective plan of the requirements of the Air Force. The Committee expect that suitable lessons will be drawn by the Ministry from their experience in this case and that the long term planning of requirements would be done on a more realistic basis in future.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

In October 1969, Government entered into an agreement with a foreign supplier for transfer to them licence and technical documentation for the manufacture of a certain number of aircraft 'A' for the Air Force on payment of a licence fee of Rs. 5 crores. This licence agreement was assigned to HAL, Bangalore in September, 1970. Against sanctions accorded in August 1971 and March 1972 by the Ministry for the manufacture of 'X' numbers of aircraft 'A' at an estimated cost of Rs. 78.33 lakhs each, two orders were placed on the undertaking by Air Headquarters in September, 1971 for Rs. 37.60 crores and May 1972 for Rs. 79.90 crores. The aircraft were scheduled to be delivered to the Air Force during 1972-73 to 1978-79. According to the Ministry of Defence, supplies against the aforesaid two orders were to cater to the requirements of the Air Force till 1986-87.

[S. No. 1 (Para No. 1.45) of Appendix II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

The position has been re-examined and it is regretted that the information supplied by this Ministry and reproduced in para 1.7 of the PAC's 66th Report (7th Lok Sabha) that the supplies against the orders placed in September, 1971 and May, 1972 were to cater for the requirements of the Air Force till 1986-87 was not correct. In fact, the supplies against the two said orders were to cater for the requirements of the I.A.F. till 1979-80, based on the force level of 1969, which were lower than the approved levels of subsequent years.

This has been seen by Audit.

[Ministry of Defence O.M. No. 57|5|80|I|D(Air-I) dt. 23-9-1982]

Recommendation

The Committee note that in February 1973, i.e. within 10 months of placement of the second order, the Air HQrs reassessed the total

requirements of aircraft 'A' as 205.3 per cent of 'X' numbers already ordered, with re-equipment of squadrons commencing from 1973-74 onwards. The Committee are not convinced with the argument advanced by the Ministry that the 'problem of sustainability of the force level of some other types of the combat aircraft' necessitated re-assessment to the requirement of aircraft 'A'. As supplies against the aforesaid two orders were to cater for the requirements of the Air Force till 1986-87, it is not understood how the perspective could have changed so much in so short a time as to warrant upward revision of the requirement by 205.3 per cent. The matter therefore needs to be adequately explained to the Committee.

[S. No. 2 (Para 1.46) of Appendix II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

Ministry of Defence/Air Headquarters had done the planning in 1969 only over a timeframe of five years and the total combat force level in 1969 was about 10 per cent lower than that in 1971. The requirement of variant 'A' calculated in 1969 was 122 per cent of 'X' numbers as a starting point. The requirement assessed in 1971 was calculated for a timeframe of 30 years *vis-a-vis* five years earlier. The requirement of variant 'A' aircraft had been worked out to 402 per cent of 'X' numbers.

In this context, it is important to bring to the notice of the Committee that the total requirement of 402 per cent of 'X' numbers was for variant 'A' aircraft. This was to be made up of two components *viz.* aircraft indigenously produced by Public Sector Undertaking and the balance to be made up of aircraft produced under licence manufacture. Since the nature and quantum of indigenously produced aircraft was uncertain, the long-term requirement was reviewed a number of times to take stock of this uncertainty. The first review was made in March, 1972 after making allowance for the aircraft to be manufactured indigenously and the requirement of variant 'A' came to 220 per cent of 'X' numbers. Another review in February, 1973 took into account the number of aircraft purchased out-right. The requirement of variant 'A' in this context worked out to 205.3 per cent of 'X' numbers. The Government, as a cautious first step accepted this requirement for planning.

[Ministry of Defence O.M. No. 57/5/80/2/D (Air-I) dt. 23-9-1982]

Recommendation

The Committee find that meanwhile, Government had entered into a contract (July 1972) with a foreign supplier for supply of variant 'B' of the aircraft to meet 24 per cent of 'X' numbers leaving a gap of 81.8 per cent of 'X' numbers between the total quantity ordered and the total requirement. Type 'B' was expected to perform the same role as that of type 'A'. All the type 'B' aircraft were received by middle of 1973.

[Sl. No. 3 (Para 1.47) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

After December, 1971, there was a pressing need to urgently make up for the loss in Indo-Pak conflict. The production schedule of variant 'A' could not fit the bill. Hence direct purchase of variant 'B' that was expected to perform the same role as that of variant 'A' was resorted to. This was purely to ensure the minimum force levels so as not to jeopardise the minimum defence requirements. The requirement of variant 'A' was accordingly reduced before placement of orders on the public sector undertaking.

[Ministry of Defence O.M. 57/5/80/3/D (Air-I) dt. 23-9-1982]

Recommendation

It may be noted that the production of aircraft 'A' was expected to provide sufficient workload for three divisions of the undertaking for another 10 years and thus help in stabilising production and updating technology. The persisting uncertainty in regard to the exact requirements of aircraft 'A' to be supplied by the undertaking was naturally not conducive to attainment of these objectives. The Committee cannot, therefore, emphasise too strongly the need for preparing a realistic re-equipment plan for the Air Force so that the designing and production facilities built up in HAL can be put to optimum use. The Committee need hardly point out that R & D effort cannot be carried out by the undertaking on a systematic and sustained basis unless clear-cut long-term objectives are spelt out.

[Sl. No. 6 (Para 1.50) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

The curtailment in Aircraft 'A' did not make discontinuity from the point of view of labour hours in the Public Sector Undertaking since it was replaced by the production of another variant. The Committee's views to gear up the R & D and production efforts towards Air Force Requirements by the Public Sector Undertaking have been noted for future guidance.

[Ministry of Defence O.M. No. 57|5|80|6|D (Air-I) dt. 23-9-1982]

Recommendation

The Committee note that the experience in this case has highlighted the need to strengthen the planning production, and management information system. The Committee expect the Ministry of Defence to initiate action without delay to remedy these short-comings. They would like to be apprised to the action taken and the results achieved in this regard in due course.

[S. No. 7 (Para 1.51) of Appendix II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

On the recommendations of the Rajadhyaksha Committee appointed by the Government, the functions of Production Planning and Management at the Public Sector Undertaking have been strengthened, which have resulted in improvement in production. As advised by Public Accounts Committee these efforts will continue in future.

[Ministry of Defence O.M. No. 57|5|80|7|D (Air-I) dt. 23-9-1982]

Recommendation

The Committee find that the total value of the material contracted was Rs. 1864.09 lakhs. The value of the orders placed after September, 1975 was for Rs. 188.94 lakhs. According to the Ministry, "The draft supplement for this was received in January, 1975 and the approval for signing the contract had been communicated on 7th August, 1975. But the agreement was actually signed only on 25th October, 1975. The foreign supplier was approached by the delegation headed by Secretary (DP) during October, 1975 itself and in May, 1976 to curtail the supplies. But the supplier did not agree on the ground that the equipment had already been manufactured and partially supplied.

It is indeed surprising that agreement for supply of material for aircraft 'A' was signed in October 1975 when it had already been decided in September 1975 to curtail the production of this aircraft. This needs to be explained.

[S. No. 8 (Para 1.52) of Appendix II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

On the basis of the requirement of Air Force for the balance requirement as 81.3 per cent of the original decision for variant 'A', the Government sanction was issued in November, 1974 and formal order was placed in February, 1975. By the time decision was taken in September, 1975 to curtail the production of aircraft 'A', the Public Sector Undertaking had already taken procurement action for the manufacture of the balance requirement of aircraft. As such there was no escape but to accept the quantity ordered on the foreign supplier.

[Ministry of Defence O.M. No. 57/5/80/8/D (Air-I) dt. 23-9-1982]

.. . . .

Recommendation

According to the Audit Paragraph the cost of redundancy in terms of material procured for production of additional 'X' numbers of aircraft 'A' the production of which was subsequently topped, is Rs. 1672.92 lakhs. The Committee find that out of the surplus material worth Rs. 1482.37 lakhs pertaining to the Aircraft Division, the net surplus material after taking into consideration the estimated utilisation of material worth Rs. 1189.37 lakhs in the future programme of manufacture of type 'C' aircraft, overhaul purposes and fabrication of spares for supply to the Air Force, is estimated to be of the value of Rs. 293 lakhs. Besides, the Systems Division is saddled with surplus material valuing Rs. 57.41 lakhs. The Committee have been informed that the surplus material is expected to be utilised during the exploitation life of the type 'C' aircraft in squadron service expected to extend into the 1990's.

[S. No. 9 (Para 1.53) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

The utilisation during exploitation of life of the aircraft in the squadron service, which is expected to be upto 1990's in respect of

material worth Rs. 1189.37 lakhs relating to Aircraft Division and Rs. 57.41 lakhs relating to the System Divisions and not in respect of the net surplus material of Rs. 293 lakhs as reported earlier. Incidentally, out of the surplus of Rs. 293 lakhs, items worth Rs. 20 lakhs are expected to be used by HAL in their future projects and remaining surplus readymade articles worth Rs. 273 lakhs will be used by IAF, if need arises depending on the consumption and this will be clear after adequate data on utilisation of the aircraft is available. The utilisation of the materials valuing Rs. 1189.37 lakhs and Rs. 57.41 lakhs will be in the manufacture of Type 'C' aircraft, overhaul programme, fabrication of spares for supply to the IAF and not during the exploitation life of aircraft 'C'.

[Ministry of Defence O.M. No. 57|5|80|9|D (Air-I) dt. 23-9-1982]

Recommendation

The Committee are concerned to observe that orders for materials required for manufacture of certain number of aircraft 'C' were placed without determining the extent to which the materials already ordered for additional quantity of aircraft 'A' could be utilised in the production of aircraft 'C'. The Committee is not satisfied with the reply of the Ministry that since the commonality between the two types had not been identified and the orders were not covering the whole anticipated production, orders were placed for the earlier phase pending identification of common items. The Committee consider that identification of common items should have been made before placing orders for materials for aircraft 'C'.

[Sl. No. 10 (Para 1.54) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

Consequent to the short closure of production of aircraft 'A' at 108 per cent of the first two orders, some materials have been rendered surplus to the requirements of aircraft 'A'. It was envisaged that these surplus materials will be utilised to the extent possible for aircraft 'C' Project, wherever the materials are common to these two aircraft. However, the commonality of the materials could be established only after receipt, translation and study of the full range of relevant licence documents relating to aircraft 'C'. There has been delay in receipt of documents from the foreign supplier. The supply of full range of documents which were due by the first quarter of 1978, have been completed only in the 3rd quarter of 1979. On the other hand, to keep up the schedule of deliveries, contracts for the first order of X number of aircraft

'C' had to be entered into as per production plan, the last contract having been signed in October 1978. By this time, it was not possible to determine the commonality of the material, due to late receipt of the relevant documents. However, the readymade articles and forgings and castings, surplus to the requirements of aircraft 'A' which are common to both aircraft 'A' and 'C' have been deleted from the scope of supply of materials required for manufacture of aircraft 'C', while signing the contract in July 1981, with the foreign supplier for supply of materials required for the manufacture of aircraft 'C' in respect of the quantity covered by the order placed by the Government in May, 1981. However, in future, when one aircraft variant is substituted by another aircraft variant, orders for materials will be placed on the supplier after ascertaining from him the adjustment required in respect of common items to avoid any possible redundancies.

[Ministry of Defence O.M. No. 57/5/80/10/D (Air-I) dt. 23-9-1982]

Recommendation

It would also appear that lack of coordination among the various agencies responsible for assessing the requirements of aircraft 'A' from time to time and those responsible for placing and processing the indents for materials with the foreign supplier has been responsible for the large scale surpluses in this case. The Committee therefore desire that the matter should be investigated with a view to fixing responsibility so as to obviate recurrence of such cases in future.

[Sl. No. 12 (Para 1.56) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

All the decisions for placement of orders, review of the IAF's requirements and supply of materials from the Foreign Supplier were jointly considered by the Department of Defence, Air HQrs, Deptt. of Defence Production and the Public Sector Undertakings. The delay which occurred in the implementation of decisions was partly due to delay in supply of documents from the foreign supplier and partly procedural and it is not practicable to fix the responsibility on any Department. However, the views of the Committee to avoid recurrence of such delays have been noted for future guidance.

[Ministry of Defence O.M. No. 57/5/80/12/D (Air-I) dt. 23-9-1982]

CHAPTER III

RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF REPLIES RECEIVED FROM GOVERNMENT

Recommendation

In November, 1974, the Ministry of Defence accorded sanction for an additional order being placed on the Undertaking for manufacture and supply of aircraft 'A' to cover the gap of 81.3 per cent. of 'X' numbers at an estimated cost of Rs. 105.16 lakhs each. As per the order placed in February, 1975 on HAL, these aircrafts were scheduled for delivery during 1978-79 to 1981-82. Considering that the Undertaking had not been able to adhere to the time schedule of delivery of aircraft against the orders placed in 1971 and 1972 and there was a large back-log which was expected to be cleared not before 1978-79, the Committee do not quite appreciate why the additional order was placed on the Undertaking. In fact, the slippage in the production programme has been adduced as one of the reasons for the decision taken two months later i.e., in April, 1975 to purchase outright from the foreign supplier, 60 per cent. of 'X' numbers of the aircraft over and above the total requirement assessed in February, 1973.

[Sl. No. 4 (Para 1.48) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

It is important to bear in mind that the Public Sector Undertaking was to manufacture aircrafts in two distinctly separate categories, viz., those under licence manufacture and those of indigenous design. The aircraft 'A' covered by the first two orders were scheduled to be delivered during 1972-73 to 1978-79. As on 1-11-1974, the Public Sector Undertaking had delivered 10 per cent. of the quantity covered by these two orders. As on April, 1975, the slippage when compared with the scheduled delivery, was only 6 per cent. of the total quantity covered by the two orders. The slippages on the part of the Public Sector Undertaking were unavoidable due to uncertainty in the development of indigenous design and bottlenecks in supply of components etc.

In respect of the licence manufactured aircraft type slippages in indigenously manufactured/retromodified aircraft had to be made up by the direct purchase from abroad. Outright purchase from the foreign supplier to the extent of 60 per cent of 'X' numbers was made after obtaining the Governments' approval of Appex-II. Meanwhile, on receipt of indication from the Public Sector Undertaking to hasten the deliveries of the licence manufactured aircrafts, additional orders as brought out in this paragraph, were placed. In this context, it will be observed that these two issues have different foundations and cannot be mixed.

This has been seen by Audit.

[Ministry of Defence O.M. No. 57/5/80/4/D (Air-I) dt. 23-9-982]

Recommendation

The Committee have been given to understand that the exercise of identifying common parts and sub-assemblies between type 'A' and type 'C' aircraft has since been completed and it has been found that the extent of commonality is only 39 per cent of the parts. That being the case the Committee are inclined to believe that the figure of Rs. 1189.37 lakhs being the estimated utilisation in future programme of manufacture of type 'C' aircraft overhaul purposes etc; represents a rather optimistic picture. The Committee observe that the entire question of reviewing the surpluses was left to the Public Sector Undertaking. The Committee desire that the matter should be gone into afresh by a team of experts from the Air Hqrs/Ministry of Defence in conjunction with the HAL authorities with a view of determining the precise value of surplus materials and to locate alternate avenues for their useful utilisation.

[Sl. No. 11 (Para 1.55) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

The contract signed by the Public Sector Undertaking for materials for aircraft 'C' in July, 1981 is for Rs. 1510 lakhs after physical verification of material in hand from the various projects handled by it. Had this been signed covering full range of materials for aircraft 'C', the estimated value would have been Rs. 2597 lakhs based on the value of Contracts signed in January, 1978 which covered full range of materials. The quantum of reduction (Rs. 1087 lakhs) thus represents the value of surplus materials (common materials) considered for deletion. This works out to approximately

41.86 per cent of the value of full range of materials required for aircraft 'C'. In view of the fact that the report of surplus was prepared by the Public Sector Undertaking after physical verification of balance stock of materials and after physical verification of materials in hand from various projects handled by it, the committee may kindly consider once again whether it is absolutely necessary that the matter should be gone into a fresh by a team of experts.

[Min. of Defence O.M. No. 57|5|80|I|D (Air-I) dt. 23-9-1982]

CHAPTER IV

RECOMMENDATIONS AND OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee further observe that whereas in February, 1975 the Air Headquarters placed an additional order on the Undertaking for the supply of 81.3 per cent of aircraft 'A' in Sept., 1975 it was decided that production of aircraft 'A' should be stopped after meeting 108 per cent of 'X' numbers and production of another variant taken up thereafter. The Committee find that after the assessment of the requirements of aircraft 'A' made in February, 1973 for the period upto 1980-81, the Air HQrs. made yet another long term assessment requirement in July, 1975 of all the variants of aircraft 'A' for the next 25 years. In this assessment, the requirements were pitched as high as 356.7 per cent of 'X' numbers originally assessed. It has been stated that the reduction in the requirement of aircraft 'A' in September 1975 was necessitated because of the availability of an improved version i.e. variant 'C' which could not have been visualised earlier. The Committee thus observe that whereas according to the Ministry's own reckoning, a span covering 10/15 years is the normal basis for working out the long term requirements of aircraft, there were as many as three long-term assessment reviews of the requirement of aircraft 'A' between the years 1971 and 1975. The Committee believe that if such a review was at all necessary, it should have been made before February, 1975 when orders for additional aircraft 'A' were placed on the undertaking. The sequence of events narrated in the foregoing paragraphs reflects ad-hocism in taking decisions and there seem to have been little sense of perspective in the so called perspective plan of the requirements of the Air Force.

[Sl. No. 5 (Para 1.49) of Appendix-II to 66th Report of the Public Accounts Committee (Seventh Lok Sabha)]

Action Taken

It was always recognised that Aircraft 'A' have remained under a constant state of improvement and development in the country of

Foreign Supplier. With a view to take advantage of this improvement, the question of induction of advanced variants of the aircraft in the Air Force had been under constant review. In view of large requirements and long time span over which these aircraft were to be used, the Air Force recommended selection of an engine fitted on a variant say 'D' which was a modified version of variant 'B'. This was because it was possible to retrofit it on variant 'A'. On the other hand, the engine of variant 'C' was believed to be non-compatible to go into the variant 'A'. Airforce, therefore all along recommended preference to variant 'D' based on commonality between variant 'A' and 'D'. In October, 1975 a delegation comprising of the representatives of the Deptt. of Defence Production, Ministry of Defence, Ministry of Finance (Def/Air), Air Force and the Public Sector Undertaking was sent to the country of the Foreign Supplier to make evaluation. During its visit the delegation found that the modern version was only an unsuccessful intermediate version, which was never productionised by the Foreign Supplier. The Delegation brought to the notice of R.M. that the Foreign Supplier had abandoned the production programme of the modern version of variant 'A' and recommended that switch over to variant 'C' was inevitable. As a sequel to the said development, it was finally decided in November 1975 to change over to variant 'C'. After considering the inputs of the indigenous variety of aircraft that were to complement variant 'A', the total requirement was assessed as 402 per cent of 'X' numbers. The requirement of variant 'A' that worked out to 356.7 per cent of 'X' numbers was, therefore, quite logical.

The re-assessment of requirement of aircraft 'A' was mandatory since the total requirement of a class of aircraft was the sum of variant 'A' and those produced indigenously by the Public Sector Undertaking. Since the latter consistently varied in their content, version of the former was inevitable. Nevertheless, from the point of view of financial foresight, revision made by the Air Force was sound.

[Ministry of Defence O.M. No. 57|5|80|5|D (Air-I) dt. 23-9-1982]

CHAPTER V

**RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF
WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

—NIL—

NEW DELHI;
November 18, 1982
Kartika 27, 1904 (S).

SATISH AGARWAL
Chairman
Public Accounts Committee.

APPENDIX

Conclusions and Recommendations

Sl. No.	Para No.	Ministry/Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1	16	Defence	<p>To a query from the Committee about the year upto which requirements of Air Force were proposed to be met by the supplies against the orders placed in September, 1971 and May, 1972 and the number of years for which normally the future requirements were taken into account while working out the proposals, the Ministry of Defence had stated that supplies against the orders were to cater for the requirements of the Air Force till 1986-87 and a Span covering 10/15 years was the normal basis for working out the long term requirements of aircraft. However, while furnishing the action taken replies, the Ministry have stated that "the position has been re-examined and it is regretted that the information supplied by this Ministry that the supplies against the orders placed in September, 1971 and May, 1972 were to cater for the requirements of the Air Force till 1986-87 was not correct. In fact, the supplies against the two said orders were to cater for the requirements of the I.A.F. till 1979-80 based on the force level of 1969 which were lower than the approved levels of subsequent years."</p>

2.

1.7

-do-

The Committee are unhappy that incorrect information was furnished to them on such a vital matter as the period for which the requirements were taken into account while placing orders for the aircraft. In view of the regret expressed by the Ministry, the Committee do not want to make any further comment in the matter. They would, however, like the Ministry to be more careful in future and ensure that information furnished to the Committee is factually correct.

3

1.8

-do-

The Committee are surprised to know that orders in the instant case were to cater to the requirements till 1979-80 only when the Ministry were fully aware that it took several years to develop and manufacture an aircraft. In a later section of this Report, the Committee have commented on this aspect of the matter in some detail.

4

1.1

-do-

The Committee had pointed out in para 1.49 of the Sixty-Sixth Report that whereas according to the Ministry of Defence, a span covering 10—15 years is the normal basis for working out the long term requirements of aircraft, in the instant case there were as many as three widely varying long term assessments/reviews of the requirements of Aircraft 'A' between 1971 and 1975 for the same period. After placement of two orders in August 1971 and March 1972 for manufacture of 'X' Nos. of Aircraft 'A' on a public sector undertaking, the requirements were reassessed in February 1973, i.e. within 10 months, as 205.3 per cent of the number already ordered keeping in mind the requirements upto 1980-81. In July 1975 the

requirements of all variants of Aircraft 'A' were reassessed as 356.7 per cent of 'X' numbers originally assessed. Two months later i.e. in September 1975, the requirement of Aircraft 'A' was reduced because of the availability of an improved version i.e. variant 'C' and it was decided to short close the order on the undertaking after meeting 108 per cent of 'X' numbers. According to the Ministry, Aircraft 'A' have remained under a constant state of improvement and development in the country of foreign supplier. The question of induction of advanced variants of the aircraft in the Air Force had therefore been under constant review. The Ministry have further stated that "the reassessment of requirements was mandatory since the total requirement of a class of aircraft was the sum of variant 'A' and those produced indigenously by the Public sector undertaking. Since the latter consistently varied in their content, reassessment of the former was inevitable. The Committee are not impressed with the argument advanced by the Ministry that the question of induction of advanced variants of the aircraft in the Air Force had been under their constant review. Had this been so, it is really strange that it was only during the course of visit of the ministerial delegation to the Country of the foreign supplier that it was found that the modern version was only an unsuccessful intermediate version, which was never productionised by the foreign supplier. The delegation brought to the notice of R.M. that the foreign supplier had abandoned the production programme

of the modern version of variant 'A' and recommended that switch over to variant 'C' was inevitable. As a sequel to the said development it was finally decided in November 1975 to change over to variant 'C'. The Committee would like the Ministry of Defence to look into this aspect of the matter and take steps to adequately vitalise the reviewing machinery so as to enable it to discharge its function effectively."

5

1.12

Defence

The Committee would further like to point out that what the Committee had objected to was not the fact of induction of improved variants of Aircrafts 'A' into the Air Force but the methodology of assessing the long term requirements of the Air Force and the uncertainty resulting therefrom in so far as the production programme of the public sector undertaking was concerned. Two successive upward revisions of the requirement followed by a sudden downward revision of the same, necessitated short closure of the order on the undertaking resulting in huge redundancy of materials costing nearly Rs. 16.73 crores. The Committee consider that this could have been avoided had the Ministry and the Air Force subjected the long term requirements to closer scrutiny. The Committee therefore reiterate the observations made earlier that this case reflects ad-hocism in taking decisions and displays hardly any sense of perspective in the so-called perspective plan of the requirements of the Air Force. The Committee expect that suitable lessons will be drawn by the Ministry from their experience in this case and that the long term planning of requirements would be done on a more realistic basis in future.

PART II

MINUTES OF THE SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (1982-83) HELD ON 10TH NOVEMBER, 1982

The Committee sat from 15.00 to 18.50 hours.

PRESENT

Shri Satish Agarwal—*Chairman*

MEMBERS

2. Shri Chitta Basu
3. Smt. Vidyavati Chaturvedi
4. Shri Bhiku Ram Jain
5. Shri Mahavir Prasad
6. Shri Sunil Maitra
7. Shri Harish Rawat
8. Dr. Sankata Prasad
9. Shri B. Satyanarayan Reddy
10. Shri Nirmal Chatterjee
11. Shri A. P. Janardhanam

REPRESENTATIVES OF THE OFFICE OF C&AG

1. Shri Gian Prakash—*C&AG*
2. Shri R. K. Chandrasekharan—*Addl. Dy. C&AG*
3. Shri S. R. Mukherjee—*Director of Audit, Commerce, Works and Misc.,*
4. Shri M. M. Mehta—*Director of Audit, Central Revenues*
5. Shri G. R. Sood—*Joint Director (Reports)*
6. Shri R. S. Gupta—*Joint Director (Defence Services)*

SECRETARIAT

1. Shri K. C. Rastogi—*Chief Financial Committee Officer*
2. Shri Ram Kishore—*Senior Financial Committee Officer*
3. Shri K. K. Sharma—*Senior Financial Committee Officer*
4. Shri M. G. Agrawal—*Senior Financial Committee Officer*

2. The Committee considered and adopted the draft Report on action taken by Government on the recommendations contained in their 66th Report (7th Lok Sabha) regarding redundancy in materials procured for the manufacture of an aircraft with certain amendments/modifications as shown in the Annexure. The Committee also approved certain other minor modifications arising out of factual verification of the draft Report by Audit.

* * * * *

The Committee then adjourned.

N.B. (Astricks denote other business transacted by the Committee. Minutes relating thereto will form part of the relevant Report).

ANNEKURE

AMENDMENTS/MODIFICATIONS MADE BY THE COMMITTEE IN THE
DRAFT REPORT ON ACTION TAKEN BY GOVERNMENT ON SIXTY-SIXTH
REPORT (7TH LOK SABHA) AT THEIR SITTING HELD ON 10 NOVEMBER 1982.

<i>Page</i>	<i>Para</i>	<i>Line (s)</i>	<i>Amendment /modification</i>
8	1-11	6-8	For "three long terms assessments.....1975" Read "three Widely varying long term assessments/reviews of the requirements of Aircraft 'A' between 1971 and 1975 for the same period."
8	1-11	10	For "public" Read "public sector"
9	1-11	4	Add the following at the end of the para :- "The Committee are not impressed with the requirement advanced by the Ministry that the question of induction of advanced variants of the aircrafts in the Air Force had been under their constant review. Had this been so, it is really strange that it was only during the course of visit of the ministerial delegation to the Country of the foreign supplier that it was found that the modern version was only an unsuccessful intermediate version, which was never productionised by the foreign supplier. The delegation brought to the notice of R.M. that the foreign supplier had abandoned the production programme of the modern version of variant 'A' and recommended that switch over to variant 'C' was inevitable. As a sequel to the said development, it was finally decided in November, 1975 to change over to variant 'C'. The Committee would like the Ministry of Defence to look into this aspect of the matter and take steps to adequately vitalise the reviewing machinery so as to enable it to discharge its function effectively."
9	1-12	1	For "What the Committee had objected to" Read "The Committee would further like to point out that what they had objected to"

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