

**SIXTEENTH REPORT**  
**PUBLIC ACCOUNTS COMMITTEE**  
**(1991-92)**

**(TENTH LOK SABHA)**

**WHEEL AND AXLE PLANT, YELAHANKA**

**MINISTRY OF RAILWAYS**

**Action taken on 140th Report of Public Accounts  
Committee (8th Lok Sabha)**



**सत्यमेव जयते**

*Presented in Lok Sabha on 7 April, 1992*  
*Laid in Rajya Sabha on 27 April, 1992*

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ACCOUNTS COMMITTEE (16TH LOK SABHA)

Page	Para	Line	For	Read
6	1.12	3 from bottom	emphasised	emphasise
11	-	14	correctly	correctly
13	-	20	expeditious	expeditious
14	-	3	22 (Para 3.9)	20 (Para 3.9)
-do-	-	10	Railays	Railways
-do-	-	14	equeezed	squeezed
15	-	17	20 (Para 3.9)	22 (Para 3.19)
17	-	6	alos	also
-do-	-	4	FIM	FROM
21	-	17	Durgapur	Durgapur
22	-	19	estaimates	estimates
30	-	12	in cease	increase
31	-	1	remore	remove
37	-	6	qu anity	quantity
	-	11	performnace	performance

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(1991-92)

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## INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Sixteenth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 140th Report (8th Lok Sabha) relating to Wheel and Axle Plant, Yelahanka.

2. In their earlier Report, the Committee had expressed strong dismay over the continued poor performance of the Wheel and Axle Plant of the Durgapur Steel Project for the production of wheelsets. The Committee had noted with amazement that the actual performance of the plant during 1984-85 to 1986-87 was between 6.5% and 10.5% of the derated capacity of 40,000 wheelsets. With a view to ensure attainment and maintenance of self-sufficiency in the production of wheels and axles, the Committee had recommended that all possible steps should be taken with due promptitude so that the plant was able to manufacture to capacity of 40,000 sets. The Committee had also stressed the need for drawing a time-bound programme for achieving optimum utilisation of the plant.

3. The Committee have been distressed to find that the Government have not taken any significant remedial steps to improve the performance of this plant even in pursuance of their recommendations made in their earlier Report. The Committee reiterate that effective steps should be taken wherever possible so that the plant is able to manufacture to its derated capacity of 40,000 sets. As regards formulation of time bound programme for attaining full capacity utilisation, the Government have stated in their action taken note that suitable action is envisaged under the Durgapur Steel Plant modernisation project which is under implementation and scheduled to be completed by 1993. The Committee have recommended in this Report that implementation of the DSP modernisation project should be effectively monitored so as to ensure its completion by the scheduled date.

4. The Committee have also noted that the expenditure on import of wheels, axles and wheel sets has increased considerably as the contracts valued at Rs. 236.83 crores were placed for imports of wheels, axles and wheelsets during the period 1987-88 to 1990-91. The Committee have expressed their strong displeasure on such a situation. The Committee have reiterated their earlier recommendation that Ministries of Railways and Steel should function in close coordination to ensure that the import of wheels, axles and wheelsets is gradually phased out under a time bound programme.

5. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 17 March, 1992. Minutes of the sitting form Part II of the Report.

6. For facility of reference and convenience, the recommendations 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 Appendix to the Report.

7. 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;  
*1 April, 1992*

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*12 Chaitra, 1914 (Saka)*

ATAL BIHARI VAJPAYEE,  
*Chairman,*  
*Public Accounts Committee.*



## CHAPTER I

### REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations / observations contained in their Report\* on Wheel and Axle Plant, Yelahanka.

1.2 The Committee's report contained twenty-five recommendations / observations. Action taken notes on all these recommendations / observations have been received and these have been broadly categorised as follows:

- (i) Recommendations and observations which have been accepted by Government:—  
Sl. Nos. :—4, 5, 8, 14, 17, 20, 22, 23, 24 and 25
- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government:  
Sl. Nos. :—6, 7, 10, 11, 12, 13, 16, 18 and 21
- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:  
Sl. Nos. :—1, 2, 3, 9 and 19
- (iv) Recommendations and observations in respect of which Government have furnished interim replies:  
Sl. Nos. :—15

1.3 The Committee hope that final reply to the recommendation contained in para 2.22 in respect of which only interim reply has so far been furnished will be expeditiously submitted after getting it vetted by Audit.

1.4 In the succeeding paragraphs the Committee will deal with action taken on some of their recommendations / observations.

*Poor performance of Wheel and Axle Plant (WAP) of the Durgapur Steel Project, criticised*

(Sl. Nos. 1, 2 and 3—Paras 1.20, 1.21 & 1.22)

1.5 Commenting upon the repeated poor performance of the Wheel and

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\* Hundred and Fortieth Report (8th Lok Sabha) on Paragraph 9 of the Report of the Comptroller & Auditor General of India for the year 1985-86. Union Government (Railways).

**Axle Plant of the Durgapur Steel Project, that Committee in paragraphs 1.20 and 1.21 of their 140th Report, had observed as follows:**

**“The Committee note that in 1963-64, the DSP had a rated capacity for manufacture of 45,000 wheel sets which was raised to 75,000 wheel sets by 1970-71. The capacity of the plant was reviewed and refixed at 40,000 Wheel sets by the Berry Committee in 1973. The Technical Committee established in 1973 to go into potential of DSP came to the conclusion that the optimum feasible capacity of the plant was 40,000 wheel sets a year. Subsequently the Sondhi Committee constituted in 1976, determined its achievable capacity at 18,000, 24,000, 30,000, 35,000 and 40,000 wheel sets in 1976-77, 1977-78, 1978-79, 1979-80 and 1980-81 respectively.**

**The Committee note with dismay that the production of wheel sets was much below the rated capacity and even when the original capacity was derated in 1973 on the advice of the Technical Committee the actual performance during 1984-85 to 1986-87 was between 6.5% and 10.5% of the derated capacity of 40,000 wheel sets.”**

**1.6 The action taken note furnished by the Ministry of Steel and Mines through the Ministry of Railways reads as follows:**

**“The utilisation of capacity in the Wheel and Axle Plant (WAP), DSP for the years 1976-77 to 1988-89 is placed at Annexure-I (Brought out in Para 1.9) together with the main reasons for poor performance, compared to the derated capacity of 40,000 Wheel sets per annum. Department of Steel have been concerned in regard to the performance of WAP, DSP and several Committees had gone into the reasons thereof. The Sondhi Committee and another Technical Committee had reported that though the steel making Unit of Durgapur Steel Plant had the rated capacity to meet the requirements, the unit faced several problems like continued poor power supply by DVC and occasional shortages in supplies of steel. This has been seen by Audit.”**

**1.7 Criticising the failure of the Government in honestly implementing the recommendation of the various Committees to improve the performance of the Wheel and Axle Plant of the Durgapur Steel Project, the Committee in Paragraph 1.22 of their 140th Report recommended as follows:**

**“The Committee note that the Government has consistently failed to implement fully the recommendations of the various Committees for increasing production. As early as 1967 the Kirk and Monkhouse Committee had recommended the installation of an electric furnace and this recommendation was reiterated by subsequent Committees also. The Sondhi Committee reiterated in 1976 the same recommendation for installation of an electric furnace for production of clean**

steel but so far the electric furnace has not been installed. The recommendations of the Sondhi Committee for the establishment of a technology cell for evaluation of needs for modernisation, replacement renewals etc. had also not been implemented. Further the Sondhi Committee observed that the then existing price realisation of DSP was much less than half the cost of production and 1 / 3rd of the landed cost of similar wheel sets and also viewed that it would be unreasonable to expect any production unit to increase production and sustain it to the high level without realising reasonable prices. In the circumstances, the need of settlement of the price to be paid by the Railways by referring the matter to a separate body was recommended by Sondhi Committee.

The Committee regret to note that no steps were taken for installation of a new electric furnace, improving the price realisation or implementing various other measures recommended for improvement of production at DSP. Instead, the Government went ahead with the establishment of a new wheel and axle plant at a very high cost to the exchequer. The Committee are still not convinced whether the rate now paid for wheel sets to DSP is reasonable and meets the cost of production. The Committee are of the considered view that had the recommendations of various Committees constituted for the improvement of production at DSP implemented with due promptitude, the establishment of another WAP at Yelahanka could have been avoided. At this stage they can only hope that the Government would draw a lesson from this sad experience and would exercise a prudent caution in establishing new projects of huge financial value so as to ensure that the meagre resources of the country are not wasted in projects which would not be needed if steps are taken for improving performance of already installed facilities.

The Committee note that steel manufactured at DSP has not been fully clean resulting in substantial rejection at the time of casting of wheel sets and axles. They were also informed during evidence that one of the furnaces has been able to achieve less than 1 / 3rd of its rated capacity. Other dominating reasons for low production of DSP were poor labour output despite modifications in incentive scheme and poor quality of equipment like hammer. The Committee note in this connection that the Committee on Public Undertakings had gone into the working of DSP on more than one occasion and had made several recommendations. Lamentably the Government failed to implement the recommendations of the various committees, technical and otherwise with the result that the plant continued to work at low capacity and investment on a much larger scale was made instead of much small investment required to improve production in DSP's wheel and axle plant.

To ensure attainment and maintenance of self-sufficiency in production of wheels and axles, it is imperative that all possible steps are taken with due promptitude so that DSP is able to manufacture to capacity of 40,000 wheel sets. The Committee hope that the Government would draw a time-bound programme for optimum utilisation of the capacity of DSP after critically analysing the reasons for shortfall. It is also essential to clearly monitor the implementation of the programme at an appropriately higher level. The Committee would also like to be apprised of further developments in this regard."

1.8 In their action taken note the Ministry of Steel and Mines have stated as follows:

"As regards formulation of time bound programme for attaining full capacity utilisation, suitable action is envisaged under the Durgapur Steel Plant modernisation project which has already been approved by the Govt. of India and is under implementation. It is expected that the measures proposed to remove the various constraints would enable the plant to produce 50,000 wheel sets per annum.

The Detailed Project Report prepared for this modernisation project envisages that the entire requirement of steel for this unit would be met through the BOF / VAD steel making route which would replace the existing open hearth furnaces. The other Schemes envisaged under the modernisation project are:

- (i) Automatic nicking facility for Wheel ingots.
- (ii) Conversion of existing water hydraulic system in the wheel forgings presses to oil hydraulic systems.
- (iii) Overhauling and reconditioning of wheel presses and wheel mill.
- (iv) Installation of automatic gauging equipment.
- (v) Replacement of 22 numbers of operation I and operation II machines of wheel machine shop by 16 new CMC vertical turning and boring machines together with requirements of Transfer Cards, Jib Cranes and other modifications.
- (vi) Installation on-line ultrasonic testing units for wheels and portable testing units for axles.

The DSP modernisation of Project is scheduled to be completed by 1993." This has been seen by Audit.

1.9 The Capacity utilisation of the WAP, DSP and the reasons for under-utilisation of the capacity, as furnished by the Government are as follows:

Year	Production Eqv. wheel sets (Nos.)	Capacity / utilisation  (based on the capacity of 40,000 wheel sets / year)	Reasons for non-utilisation of capacity
1976-77	15671	39.2	(i) High rejection & rework
1977-78	18791	47.0	(ii) Overall Production in Plant was at 1 / 1.1 HT level
1978-79	16722	41.8	(iii) Some improvement in industrial relation
1979-80	15959	39.9	(iv) DVC power shortage
1980-81	15655	38.9	
1981-82	14814	37.0	
1982-83		28.0	(i) Fuel imbalance due to poor health of Coke Ovens
1983-84	10303	25.7	(ii) Power Cuts
1984-85	5683	14.2	(iii) Overall Plant Production low
1985-86	12344	30.8	(iv) Equipment breakdown due to ageing and obsolescence
1986-87	12032	30.1	
1987-88	13542	33.9	
1988-89	11187	28.0	

1.10 In their earlier Report, the Committee had expressed strong dismay over the continuous poor performance of the Wheel and Axle Plant of the Durgapur Steel Project for the production of wheel sets. The Committee had noted with amazement that the actual performance of the plant during 1984-85 to 1986-87 was between 6.5% and 10.5% of the derated capacity of 40,000 wheel sets. The Committee had also lamented over the failure of the Government to implement the recommendations of the various Committees appointed to improve the performance of the Wheel and Axle Plant. With a view to ensure attainment and maintenance of self-sufficiency in the production of wheels and axles, the Committee had recommended that all possible steps should be taken with due promptitude so that the plant was able to manufacture to capacity of 40,000 sets. The Committee had also stressed the need for drawing a time-bound programme for achieving optimum utilization of the plant. As regards formulation of time bound programme for attaining full capacity utilisation, the Government have stated in their action taken note that suitable action was envisaged under the Durgapur Steel Plant modernisation project which was under implementation and was scheduled to be completed by 1993. The Committee regret to note that in the subsequent years of 1987-88 and 1988-89 the production of wheel sets achieved at this plant was only 13542 and 11187 respectively

against its derated capacity of 40,000 sets. From time to time various Committees were appointed in the past to go into the working of this plant, but unfortunately the Government blissfully ignored to implement the recommendations made by these Committees to improve its working. It is further painful that the Government have not taken any remedial steps to improve the performance of this plant even in pursuance of the Committee's recommendations made in their earlier Report. The Committee recommend that implementation of the DSP modernisation project should be effectively monitored so as to ensure its completion by the scheduled date. Meanwhile, effective steps should be taken so that the plant is able to manufacture to its derated capacity of 40,000 sets.

1.11 The Railways proposed in 1972 the setting up of its own wheel and axle plant to supplement the capacities of DSP and TISCO. The site for this plant was determined at Yelahanka in 1973-74. A collaboration agreement was entered into by the Railways with a foreign firm in April, 1974 for technical know-how and setting up of the wheel shop. The work on the project was commenced by the Railways on an urgency certificate issued in August, 1974. As against the target of 1982-83, the production in this plant which was set up at an approximate cost of Rs. 146 crores commenced late by two years in 1984-85. Initially, the actual production in this plant was much below the targetted quantity.

*Gross under utilisation of indigenous capacity and large scale import of wheelsets, highlighted*

(Sl. Nos. 9 and 19 - Paras 1.43 and 3.8)

1.12 Commenting upon the large-scale import of wheelsets due to gross under-utilisation of indigenous capacity, the Committee in para 1.43 of their 140th Report had recommended as follows:

“When the sanction for the new plant was obtained in 1975-76, it was assessed that the need for import would arise only when the requirement exceeded 1.7 lakh wheels per annum. The Committee, however note that not-with-standing the establishment of new plant, Railways continue to incur substantial expenditure in the form of foreign exchange for import of wheels, axles and wheelsets. The total expenditure in this regard during the 5 years from 1982-83 to 1986-87 is reported to be Rs. 148.6 crores. The Committee are of the opinion that the expenditure in foreign exchange on this account can be avoided if effective steps are taken to optimise production of wheelsets particularly at the DSP. Gross under-utilisation of capacity within the country and large-scale import of wheelsets are indicative of the lack of concerted effort on the part of the Government to make full use of the facilities already created at considerable cost for production of wheel sets. The Committee can hardly over emphasised the need for avoiding such situations in future and urge upon Government to make serious efforts to improve indigenous produc-

tion of wheel sets particularly at DSP. The Committee would like to know the steps taken by Government in this direction.”

1.13 In their action taken note, the Ministry of Railways have stated as follows:

“Import of wheels, axles and wheelsets between 1982-83 and 1986-87 became unavoidable in view of the gap between supplies from indigenous sources and the actual demand. Wheel & Axle Plant has been utilising its capacity to the extent of 80—90%. Plans are also under way to augment the existing indigenous capacity in order to reduce, if not eliminate, dependence on imports.

*Action Taken by Ministry of Steel and Mine on Paras 1.43 & 3.8*

“The utilisation of capacity in the Wheel & Axle Plant (WAP), DSP for the years 1976-77 to 1988-89 is placed at Annexure I (Brought out in para 19) together with the main reasons for poor performance, compared to the derated capacity of 40,000 wheel sets per annum. Department of Steel have been concerned in regard to the performance of WAP, DSP and several Committees had gone into the reasons thereof. The Sondhi Committee and another Technical Committee had reported that though the steel making unit of DSP had the rated capacity to meet the requirements, the Unit faced several problems like continued poor power supply by DVC and unremunerative prices paid by the Railways as well as occasional shortages in supplies of steel.

As regards formulation of a time bound programme for attaining full capacity utilisation, suitable action is envisaged under the Durgapur Steel Plant modernisation project which has already been approved by the Government of India and is under implementation. It is expected that the measures proposed to remove the various constraints would enable the plant to produce 50,000 wheel sets per annum.

The Detailed Project Report prepared for this modernisation project envisages that the entire requirement of steel for this Unit would be met through the BOF/VAD steel making route which would replace the existing open hearth furnaces. The other Schemes envisaged under the modernisation project are:

- i) Automatic nicking facility for Wheel ingots,
- ii) Conversion of the existing water hydraulic systems in the wheel forging presses to oil hydraulic systems.
- iii) Overhauling and reconditioning of wheel presses and wheel mill.
- iv) Installation of automatic gauging equipment.
- v) Replacement of 22 numbers of operation I and operation II machines of wheel machine shop by 16 new CMC vertical turning

and boring machines together with requirements of Transfer Cars, Jip Cranes and other modifications.

- vi) Installation of on-line ultrasonic testing units for wheels and portable testing units for axles.

The DSP modernisation project is scheduled to be completed by 1993.”

1.14 According to the Ministry of Railways (Railway Board), the Wheel and Axle Plant, Yelahanka, is to make 70,000 wheels to a Product mix of 5 types of wheels of which 24,000 nos. are to meet the need of M.G. wheels. This plant is at present making only BOX ‘N’ wheels of 1000 media and the melting capacity provided in the factory has been assessed as 56.700 equipment BOX ‘N’ wheels. According to the Ministry of Railways, in case 70,000 BOX ‘N’ wheels were to be manufactured, apart from providing an additional furnace, balancing equipment in critical areas would be necessary for which an exercise has already been initiated, including provision of a third furnace.

The actual production of Wheels and Axles in the Wheel and Axle Plant, Yelahanka during the years 1984-85 to 1986-87 was as follows:

Year	Production of Wheels	Production of Axles
1984-85	2374	2988
1985-86	21032	16665
1986-87	47556	28279

1.15 Further commenting upon the aspect of imports due to under-utilization of the indigenous capacity for wheelsets, the Committee in paragraph 3.8 of their 140th Report recommended as follows:

“Notwithstanding the reported achievement of targets by WAP the actual production of the wheel and axle plant of DSP and WAP Yelahanka continues to be considerably lower than their rated capacities. The Committee consider it highly unfortunate that despite considerable under-utilisation of the available capacity in the country the Railways continue to import substantial quantity of wheels, axles and wheelsets. Having regard to the demand and supply situation, the Committee are convinced that unless efforts are made to improve the performance by DSP, the drain on foreign exchange can not be halted. The Committee hope that Ministries of Railways and Steel will function in close coordination to ensure that the import of wheels, axles and wheelsets is totally stopped under a time bound programme.”

1.16 In their action taken note the Ministry of Railways have stated as follows:

“All efforts are being made to see that the various constraints are removed and WAP/Yelahanka achieve the targetted production.



However, unless there is improvement in the performance of DSP the drain of foreign exchange cannot be halted.

This has been seen by Audit.”

1.16A. The Committee desired to review the value of imports of wheelsets, wheels and axles during 1987-88 to 1990-91. The relevant figures furnished by the Ministry of Railways are as follows:

(Figures in crores of rupees)

Year	Wheels	Axles	Wheelsets	Total
1987-88	10.92	0.32	12.42	23.66
1988-89	31.03	4.48	16.53	52.04
1989-90	47.10	2.85	32.75	82.70
1990-91	22.07	5.85	50.51	78.43
				236.83

1.17 As the Wheel and Axle Plant of Durgapur Steel Plant and TISCO were unable to meet the requirements of Railways for wheelsets, the Railway had set up their own Wheel and Axle Plant at Yelahanka at a cost of about Rs. 146 crores which commenced production in 1984-85. In spite of the establishment of the new plant, Railways incurred substantial expenditure to the tune of Rs. 148.6 crores for import of wheels, axles and wheelsets during the 5 years from 1982-83 to 1986-87. With a view to obviate the avoidable drain of precious foreign exchange, the Committee in their earlier Report had emphasized that Ministries of Railways and Steel should function on close coordination to ensure that the import of wheels, axles and wheelsets was totally stopped under a time bound programme. The Committee had also urged upon the Government to make serious efforts to improve indigenous production of wheelsets. In their reply, the Ministry of Railways have stated that with a view to achieve the targetted production in Wheel and Axle Plant, Yelahanka, efforts are being made to remove the various constraints. It has been further stated that unless there is improvement in the performance of Durgapur Steel Plant, the drain of foreign exchange cannot be halted. The Committee are not convinced with the reply of the Ministry of Railways. While the Committee agree that no positive measures have been taken to improve the performance of the Durgapur Steel Plant with a view to achieve its derated capacity of 40,000 sets, even Railways themselves have done precious little to improve the working of their own plant. This is borne out by the fact that apart from reducing the avoidable expenditure on import of wheels, axles and wheelsets, the expenditure on these imports has increased considerably as the contracts valued at Rs. 236.83 crores were placed for imports of wheels, axles and wheelsets during the period 1987-88 to 1990-91. The Committee express their strong dis-pleasure on such a situation. For achieving the

**production of 70,000 BOX 'N' wheels, the Committee were earlier informed by the Ministry of Railways that they had initiated an exercise for the provision of an additional furnace and balancing equipment in the critical areas in their Yelahanka Plant. The Committee would like to know the outcome of this exercise. The Committee would also like to know the latest position about the scheme for augmentation of the capacity of the Wheel and Axle Plant, Yelahanka which was included in the works programme for 1989-90 at an estimated cost of Rs. 39.81 crores for expanding the capacity of this plant to 85,000 wheels per year. Under the circumstances, the Committee cannot but reiterate their earlier recommendation that Ministries of Railways and Steel should function in close coordination to ensure that the import of wheels, axles and wheelsets is gradually phased out under a time bound programme.**

## **CHAPTER II**

### **OBSERVATIONS AND RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT**

#### **Recommendation**

The Committee note that the actual requirement of the Railways between 1970-71 and 1979-80 was not more than 22,000 wheelsets per annum. They, therefore, are of the opinion that there was no justification whatsoever in 1972 initiating the establishment of a new plant and there was failure at all levels in not judging the requirements realistically.

[Sl. No. 4 (Para 1.33) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

#### **Action taken**

Efforts have been made to strengthen the project planning machinery to ensure that requirements are realistically and correctly assessed.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 19.2.1990]

#### **Recommendation**

While assessing the need for establishment of the plant in 1975—78 the requirements of wheels and axles respectively were assessed at 1,96,200 and 77,162 at the end of 1983-84. The Committee, however, note that the actual procurement of wheels and axles was much less than the assessed figures. They are of the view that the project for setting up a new wheel and axle plant was approved on the basis of overrated requirement. At this belated stage the Committee can only express the hope that the Government would adequately strengthen their project planning machinery in future and ensure that requirements are realistically and correctly assessed and mistakes of this type are not repeated in future.”

[Sl. No. 5 (Para 1.34) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

#### **Action taken**

The observation of the Committee is noted for future guidance.

This has been seen by the Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 28-8-1990]

### **Recommendation**

The Committee are surprised that the Planning Commission which ought to have examined the location of the plant did not critically examine all the relevant factors and the Committee cannot help remarking that the Planning Commission functioned as a passive observer to the decision regarding location of the plant. This leads the Committee to an inevitable conclusion that there was a total failure of planning at all levels and no serious thought was given to all the relevant factors before taking a final decision to establish the plant at Yelahanka. At this stage the Committee can only hope that the Government would be careful in future in giving approval to projects which should be financially viable and also in overall financial interests of the country.

[Sl. No. 8 (Para 1.42) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

### **Action taken**

The observation of the Committee is noted for guidance.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 28.8.1990]

### **Recommendation**

The Committee note that the contracts with NPCC and NBCC were entered into in January 1981 and June 81 with scheduled dates for completion in October 1982 and March 1983 respectively. However, for the year 1981-82 the budget provision made was only Rs. 39.75 crores, which could have covered upto not more than 50% of the estimated cost of the project. Further, in the year 1982-83, the provision was for another Rs. 30 crores which covered another 25% of the project cost. Thus the budget provisions in both these years were not adequate for completion of contracts by the scheduled dates. The main factors like non-availability of design in time, delay due to un-usual weather condition, non-availability of cement, steel, etc., in time to which delays in execution of the works have been attributed, should have all been foreseen in the context of the previous experience over the years and a realistic time schedule drawn. In the circumstances, the Committee are constrained to note that the unrealistic time schedule for completion of the two works has resulted in an extra expenditure to the extent of Rs. 83.33 lakhs by way of payment of cost escalation to the two contractors. In the opinion of the Committee the entire expenditure due to escalation in cost was totally avoidable in these cases.

[Sl. No. 14 (Para 2.16) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

### **Action taken**

It was for the first time in the history of Indian Railways, that a project of this magnitude and complication was undertaken. The carrying out of this work involved close co-ordination between different agencies of the Railways as well as other firms both in public sector and in private sector, within the country as well as agencies from abroad. In order to promote indigenous technology action was taken to place orders on local sources, even though it resulted in some delay. Considering all this and as it was for the first time that such a project was carried out, difficulties of the kind that were encountered during the execution stage could not have been anticipated during the planning stage. Hence the payment of Rs. 83.33 lakhs to the two public sector agencies became unavoidable. However, these problems will be taken care of for future planning.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 13.9.1990]

### **Recommendation**

The Committee are also surprised to note that even 4 years after commencement of production the costing system in the WAP is still under finalisation. The Committee can hardly over emphasise the need for expeditious finalisation of the costing system which will be of great help to the Management in the control of costs. The Committee would like to know the progress made in finalisation and implementation of the costing system.

[Sl. No. 17 (Para 2.31) of Appx V to 140th Report of PAC  
(8th Lok Sabha)2

### **Action taken**

The costing has been finalised and implemented. From June, 1986 the work order system was introduced and from April 1987 a detailed costing system has also been introduced.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 19.2.1990]

### **Recommendation**

The Committee further note that detailed proposals are being prepared by the WAP for organising necessary inputs including installation of the third furnace and other balancing equipment, etc., for expanding the capacity of WAP to 85,000 wheels per year as provided in the Collaboration Agreement. The Committee urge that Government should take urgent measures to make provision for third furnace and balancing equipment

in order to improve production to the maximum extent possible in order to save precious foreign exchange.

[Sl. No. 22 (Para 3.19) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

#### **Action taken**

Work for augmentation of capacity has been included in the Works Programme for 1989-90 at an estimated cost of Rs. 39.81 crores for expanding the capacity of WAP to 85,000 wheels per year.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 12.9.1990]

#### **Recommendation**

The Committee recommend that a comprehensive study of the factors that go to make up the cost of production should be undertaken to ascertain how costs have escalated and rate of return squeezed, so that the areas for economy and control can be located and measures taken to reduce the cost of production.

[Sl. No. 20 (Para 3.9) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

#### **Action taken**

Such a review has already been made. In the case of WAP almost 75% of the cost of production is accounted for by material costs. Electricity accounts for around 9% of the cost. Between 1975-76 when the Project Estimate was prepared and now, there has been escalation in the cost of all the inputs by around 7-10 times. At the same time, as our selling prices are to be equated with cost of production the inflow which they represent has not gone up in the same proportion. In the project report a comparable wheelset which is made in WAP now has expected to be transferred at a price of Rs 12,000/- and even now its transfer price is only Rs 30,000/- (as on 6.10.89). Thus, while the outflow has gone up by more than 6 times the increase in inflow has been only 1.5 times. This has contributed to the reduction in returns.

However, efforts have been made to economise consumption of materials in order to bring down the cost. These efforts have resulted in savings to the extent of Rs 1 crore per annum at the present production level. As on date the transfer price of wheelset made in WAP is Rs 30,000/- as against the JPC price of Rs 36,000/- for a comparable wheelset.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 28.8.1990]

### **Recommendation**

The Committee regret to note that despite assurance given by the State Electricity Board for supply of adequate power before the project was decided to be set up in Karnataka, the promise has not been kept and excess over the cuts prescribed are subjected to heavy penalties. Further irregular power supply is also causing problems for maintaining qualitative production and as a result rejections do take place. The Committee recommend that the overall effect and consequential loss resulting from inadequate and irregular supply of power should be discussed at the highest level with the State Government and a workable solution found.

[Sl. No. 23 (Para 3.24) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

### **Action taken**

The issue of power supply is taken up at the highest possible level and power supply has improved to an extent. However, the issue is brought to the notice of various relevant authorities for improvement.

This has been seen by Audit.

[Min. of Railways O.M.No. 88-BC-PAC/VIII/140 dated 19.2.1990]

### **Recommendation**

The Committee are surprised to note that though Central Government is not liable to pay sales tax, the WAP Administration continued to pay sales tax upto March 1986 and the total payment on this account upto March 1986 amounted to Rs. 77.33 lakhs. The Committee recommend that the question of refund of the amount paid wrongly should be pursued vigorously with the State Government and the Committee apprised of further developments in this regard.

[Sl. No. 24 (Para 3.25) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

### **Action taken**

Karnatak State Electricity Board have agreed to refund the amount of Rs. 77.33 lakhs paid as Sales Tax.

This has been seen by Audit.

[Min. of Railways O.M.No. 88-BC-PAC/VIII/140 dated 19.2.1990]

### **Recommendation**

The Committee note that due to constant monitoring of the process and bringing about improvement in the quality of inputs in their productivity efforts, it has been possible for the Railways to bring down the rejections substantially which was 58.5% at one time to 12%. The Railways have also pointed out that the rejection have been brought down to low level as compared to the level of 15% envisaged in the Appraisal Report of the

**World Bank. This low rejection rate is also stated to be comparable to that achieved in the collaborator's plant in USA. The Committee, however, feel that present rejection rate of 12% is still quite sizeable and a cause of concern. Since the total cost of wheelsets includes the costs of rejection also and thus with high percentage of rejection, the rate of wheelsets is high, it is imperative that further efforts be made to bring down the rejection rate to the minimum possible level. The Committee recommend that the WAP should continue to make sustained efforts to remove the constraints or minimise their effect to ensure that there is less wastage and the quality of item produced is also of the required standard.**

**[Sl. No. 25 (Para 3.33) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]**

#### **Action taken**

**As recommended by the Committee, continued efforts are being made to bring down the rejection percentage to the minimum possible level. For the last six months i.e. Jan. '90 to June '90 the average percentage of rejection was 9.6. During the month of May'90 the percentage of rejection touched the lowest i.e. 6.13.**

**This has been seen by Audit.**

**[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 28.8.1990]**



## CHAPTER III

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

#### Recommendation

According to the Railways, the factors to be considered for selection of site for a plant of this nature are abundant availability of cheap electricity, easy availability of steel from steel plants, convenient transport facilities and proximity to industrial areas for supply of tools, etc. The Committee have been informed that these factors were fully taken into account when the decision was taken to establish the plant at Yelahanka. The Committee, however, note that no State Government other than that of Karnataka seems to have been consulted on the availability and supply of electricity. The cost of operations had also been assessed on the basis of supply of steel from Bhadravati in Karnataka.

There has, however, been no supply of steel from Bhadravati. But on the other hand steel is obtained mainly from Durgajpur in the East. What is more disturbing is that the end product is being transported essentially to the same area from where the raw materials are brought. The Committee desire to know whether the Ministry of Steel was contacted for supply of steel from Bhadravati and whether any assurance for supply was given. The Committee also desire to know at what point of time it was clear that supply of steel from **Bhadravati** was not feasible and why a review of location with reference to the source of supply of raw material was not conducted.

[Sl. No. 6 (Para 1.40) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

#### Action taken

It was anticipated at the Project Report stage that steel required for the proposed plant would be obtained from VISL/Bhadravati. This expectation was based on the indications given by the Ministry of Steel. The **modification** in the production plan of VISL/Bhadravati only came to light subsequently. Furthermore, the decision to locate the new unit at Bangalore was not on account of the expected supplies from VISL only but on an overall assessment of all factors.

The VISL works have now been taken over by SAIL. The management of VISL has recently shown interest in supplying forged blooms for axle production in Wheel & Axle Plant and the possibility of developing them as a future source of supply is being explored. It is expected that trial

orders would be placed to establish their capability for production of blooms to Wheel & Axle Plant specifications. The possibilities of supplies materialising from them in future cannot, therefore, be ruled out.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 5.9.1990]

#### **Recommendation**

The Committee also note that the assurance for adequate power supply was not taken from an appropriate level viz., State Government and was not thus implemented. Further, the cost of power supply was no longer economical in Karnataka. The Committee regret to note that none of the factors relevant to location of the plant of this nature were fulfilled, with the result that location of the plant at Yelahanka is resulting in avoidable transportation of raw materials and finished products between the eastern sector and Yelahanka.

[Sl. No. 7 (Para 1.41) of Appx. V to 140th Rept of PAC  
(8th Lok Sabha)]

#### **Action taken**

Assurance had been given at the level of the Karnataka Electricity Board in regard to availability of adequate power supply. In view of this, further assurance at the Government level was not taken. The prevailing rate for electrical energy at the material time was 8 paise per unit. It is a fact that there has been substantial increase in the level of tariffs since then. However, the increase is on account of various factors which could not have been reasonably anticipated at the time of formulation of the Project Report. Further increases of this magnitude are not peculiar to Karnataka only but have taken place in most of the other parts of the country as well.

In regard to expenditure on Transportation, it may be pointed out that the comparative evaluation in the Project Report did take into account the cost of transportation of both raw materials as well as finished products. Between the two locations considered viz., Nagpur and Bangalore, the overall cost implication in respect of transportation of raw materials and finished products placed Bangalore at a net disadvantage of Rs. 1.98 lakhs which was more than offset by advantage in respect of other factors. It may also be mentioned in this regard that movement of raw materials and finished products is not entirely between the Eastern Sector and Bangalore. Wheel & Axle Plant products, in the form of axles and loose wheels, are going to destinations all over the country. Further, a portion of WAP's requirement of melting scrap for wheel production as also blooms for axle production is obtained from nearer sources than the Eastern Region.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC VIII/140 dated 5.9.1990]

### **Recommendation**

The Committee note that when approval of Parliament was taken in 1973-74, the total estimated cost of the project was Rs. 21 crores. This estimated cost was raised to Rs. 38.60 crores by June, 1975, an increase by 84% within a short span. Based on the revised estimation, the work was allowed to be carried through and in October 1980, the cost was further revised by over times over the original estimated cost of Rs. 21 crores. The Committee are surprised to be informed that the revision of estimate made in June 1975 was also an abstract estimate.

[Sl. No. 10 (Para 2.10) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

### **Action Taken**

It has been explained in detail that the estimate of Rs. 21 crores and the estimate of 38.6 crores were based on prices prevailing at that time. Detailed explanations have been given for escalation in cost under different heads while replying to the para in C&AG's report. It may also be stated that in the case of the Wheel and Axle plant, our estimates were based on a quotation furnished by one of the East European countries which did not participate in the tender subsequently. Similarly, the initial estimates for Wheel Shop were prepared at a time when the Railway had not seen the collaborator's plant in the United States and when the full details were not available regarding the Civil Engineering structures, machinery and plant items and the service and utility shops. It may also be pointed out that a large portion of the variation in cost between the initial estimates and the final execution would be accounted for by the time factor with large escalation in prices both in indigenous materials and labour as well as imported machinery and plant. The details have been furnished in reply to para No. 2.13.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 28.8.1990]

### **Recommendation**

The Committee are not convinced by the various justifications given for frequent revision of cost estimate. The Committee disapprove that gross under estimation of the project cost on the basis of which the sanction was obtained initially and recommend that the executing Ministries, the Planning Commission and the Finance Ministry must have inbuilt mechanism to verified cost estimates and ensure that the estimates of the projects placed before them are prepared realistically.

[Sl. No. 11 (Para 2.11) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

### **Action Taken**

Every effort is made in the Planning Commission to cross-check, to the extent possible, the cost estimates with the available data in regard to similar projects appraised in the past and to find out inconsistencies, if any. Preparation of these estimates require considerable technical data and experts which is available generally with the project authorities and their consultants. It may not be possible to develop an independent mechanism in the Planning Commission to verify in detail the cost estimates and to ensure that these estimates are prepared realistically for the entire range of projects for various sectors that are received in Planning Commission from time to time. Thus the Planning Commission has to do largely on the cost estimates supplied by the Ministries and the project authorities.

This has been seen by Audit.

[Min. of Railway, O.M. No. 88-BC-PAC/VIII/140 dated 28.8.1990]

### **Recommendation**

In December 1980 the Committee were informed of a Completion schedule of the project by June 1982 for Wheel Shop and June 1983 for Axle Shop; however, the budget provision being then under process for 1981-82, envisaged an outlay of Rs. 39.75 crores only leaving over 50% of estimated revised cost to be provided later. In this connection, Audit has pointed out that when the assurance for completion by a schedule date was given to the Committee by the Railways, it was known quite well to the Railways that the work could not be completed by the dates indicated.

The Railways have stated that certain circumstances were not foreseeable and that the schedule of completion was given "on the basis of self-imposed targets".

The Committee are of the opinion that the reasons given now are no more than after thoughts and that it was within the knowledge of the Railways in December, 1980 that the project was not likely to be completed by the dates intimated to the Committee.

[Sl. No. 12 (Para 2.12) of Appx. V to 140th Report of PAC  
(9th Lok Sabha)]

### **Action taken**

The project was finally cleared in May 1978. Thereafter, the required preliminary work for execution of the project, such as preparation of detailed Engineering studies, drawing up of specifications and conditions of contract, floating of tenders, etc., was taken in hand and completed. The contracts for Civil Engineering work for the Axle Shop and the Wheel Shop were awarded in July 1980 and January 1980 respectively. Trial production commenced in December 1983 in the Wheel Unit and a few months thereafter, in the Axle Shop. The unforeseeable circumstances mainly relate to lack of detailed knowledge about carrying out project of

this magnitude and complications in the past. On account of efforts to tap local sources for supply of machines more time was required.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC / VIII / 140 dated 5.9.1990]

### **Recommendation**

The Committee also note that the estimated cost of project at the time of commissioning was Rs. 146 crores and by 1984-85, expenditure incurred was Rs. 137.85 crores. Further, the expenditure on project is continued to be incurred even thereafter. The Committee are surprised to note that the project taken up on the basis of an estimate of cost amounting to Rs. 21 crores is now likely to cost Rs. 146 crores approximately. The Committee view the exorbitant escalation in cost with great concern and regret that a project of this magnitude should have been taken upon the basis of a totally unrealistic estimate of cost. The run away escalation in cost leads the Committee to the inevitable conclusion that there was a total failure of project planning. In the context of severe constraints of resources, it is imperative that project plans are prepared realistically and effective steps are taken to curb the persistent and unpleasant tendency to underestimate the projects on the basis of unrealistic estimates of cost. The Committee would like to be assured that such lapses do not recur in future and would also like to be apprised of the steps taken in this regard. The Committee recommend that a broad analysis of the items that constituted the outlay as envisaged in 1977, as revised in 1981 and 1985 as actually incurred with reasons for substantial variations, if any, may be furnished.

[Sl. No. 13 (Para 2.14) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

### **Action taken**

A broad analysis of the outlay as envisaged in the Abstract Estimate in 1977, First Revised Abstract Estimate of 1981 and Second Revised Estimate of 1985 are given in Annexure. As compared to the second Revised Abstract Estimate, there is no escalation as per the expenditure actually incurred. The reasons for escalation in the First Revised Abstract Estimate (1981), Second Revised Abstract Estimate (1985) as compared to Abstract Estimate of 1977 are given below.

*Reasons for increase in cost as compared to Project Estimate Civil Engg.:* Out of the total escalation of Rs. 16.5 crores under Civil Engineering Works, the escalation in prices contributed for increase of Rs. 6.43 crores, increase in scope of works, Rs. 8.77 crores under-estimation of Rs. 0.23 crores and increase in General charges of Rs. 1.04 crores. Escalation in prices accounted for an increase of 23.6%. As the preliminary works for the project commenced in 1975, and the Revised Abstract Estimate was prepared in 1980 the escalation in prices to the extent of

23.6% could not be considered high. Similarly in respect of the scope of work full details could be obtained only after a visit to the collaborator's Plant.

**Mechanical:** Increase in cost of the Plant and equipment was of the order of Rs. 62.9 crores. Broad reasons for escalation in cost are given below:—

- (i) For formulation of original abstract estimate for Wheel Unit, data regarding equipment was obtained from the Collaborators who furnished the same based on prices prevailing in 1972. Compared to the time the original abstract estimate was prepared and Revised Abstract Estimate was got ready, there was a time gap of 4 years and 5 months. During this period, there was very heavy increase in prices of machinery and plant and unfavourable variation in the rate of foreign exchange. The escalation in prices of special purpose machinery was even higher than the conventional plant and machinery.
- (ii) In the case of Axle Unit, the original estimate was prepared based on proposal received from a Czech firm. However, this firm did not participate ultimately in the Global Tender. This contributed to the wide gap between the original estimate and the final quotation.
- (iii) A provision of Rs. 3.35 crores was made under Customs Duty in the original abstract estimate based on the prevailing rate of 30%. Due to increase in cost of equipments as well as the revision of customs duty to 40% there was an increase under this head to the extent of Rs. 9.73 cr. There was an increase of Rs. 2 crores under General Charges on account of the extended duration of construction activity. The major increase was on account of escalation in prices of plant and equipment as well as due to non-availability of adequate data about the equipments required. This contributed to an escalation of Rs. 42.27 crores.

**Electrical:**

- (i) While preparing the project report the estimated connected load other than the arc furnace was estimated to be around 6500 HP. As against this, the actual connected load worked out at 24000 HP per hour. On account of this, the capacities of sub-station and associated equipments had also to be increased. Diesel power was provided in some of the crucial areas as standby.
- (ii) With the decision to use ultra high power arc furnaces, the transformer capacity had also to undergo a change from 10 MVA to 15 MVA. On account of this the capacities of controlling equipments, switch gear and cables had to be selected for a higher short circuit levels.
- (iii) The power supply arrangement was modified adopting the concept of ring main system resulting in increase in the length of cables.

(iv) There was an improvement in illumination standards both inside the shop as well as in the factory area.

Summing up, the increase under Electrical Engineering portion on account of escalation was Rs. 1.51 crores, additional works Rs. 6.77 crores, General Charges Rs. 0.59 crores.

*Reasons for increase as compared to the cost estimated in I RAE:*

The major increase was under Civil Engineering works where the provision as per II RAE was Rs. 39.95 crores as against Rs. 24.74 crores in first RAE. The second RAE was prepared in August 1983. The increase in cost is mainly on account of escalation in prices as compared to 1980 when the first RAE was prepared.

As compared to 1980 there was considerable increase in the cost of materials and labour. Since the main construction activity took place after 1980-81, this has been reflected in the estimate.

In the case of Mechanical equipment, there was increase in cost on account of:—

increase in Customs duty from 40% to 52.5 / 60%

Exchange rate variation in respect of American Dollars.

Increase in cost of spares.

The increase on account of enhancement of Customs Duty worked out at Rs. 2.45 crores. At the time of preparing the first RAE, the exchange rate of US \$ equal to 8 / - was adopted. As against this the average rate came to Rs. 9.3 per US \$ which accounted for a total escalation of Rs. 2.56 crores. Similarly, the increase in cost of spares was to the extent of Rs. 2.1 crores which was also on account of exchange rate variation as well as increase in Customs duty to 120% as against 40% estimated earlier. However, there were savings in other areas and the net increase was limited to Rs. 5.76 crores.

Summing up, it would be seen that the increase in cost of Rs. 91.02 crores over the original abstract estimate cost, was mainly accounted for by factors beyond our control such as escalation of prices, variation in exchange rates, customs duty etc., accounting for Rs. 60.10 crores. The balance was accounted for by change in the scope of the work Rs. 26.64 crores, initial under-estimation 0.53 crores and increase in general charges Rs. 3.75 crores. Even in these items, there were certain factors such as inadequate technical information at the stage of original abstract estimate which was obtained only subsequently when the revised abstract estimate was prepared, increase in staff cost, element of escalation in items included due to the increase in scope of work and the factors which would have to be reckoned with in a project involving absorption and implementation of new technology for the first time in the country. In these circumstances, it is submitted that the variation in the original abstract estimate cost and the

revised estimated has been fully accounted for an explained by the details furnished above.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC / VIII / 140 dated 28.8.1990]

### ANNEXURE

#### *Summary of estimated cost for Wheel & Axle Plant*

	P.E.	I.RAE	II.RAE
<b>1. Mechanical Engineering:</b>			
1.1 Wheel Unit	5,30,77,000	28,39,02,000	27,89,37,000
1.2 Axle Assembly	12,30,22,000	42,23,09,000	39,11,45,000
1.3 Handling Equipment	4,76,98,000	13,14,48,000	12,22,36,000
1.4 Laboratory & inspection	41,87,000	1,07,30,000	1,07,63,000
1.5 Miscellaneous	3,08,56,400	5,97,34,000	9,62,98,000
	25,88,40,400	90,81,23,000	89,93,79,000
<b>2. Electrical Engg. Works:</b>			
2.1 Transmission lines			
Cables & Equipment.	75,00,000	5,22,55,000	5,97,50,000
2.2 Plant, Wiring and Building	1,10,76,400	5,50,32,000	6,59,92,000
	1,85,76,400	10,72,87,000	12,57,42,000
<b>3. Civil Engineering Works:</b>	10,89,52,498	28,11,17,000	43,49,46,000
Grand Total:	38,63,69,298	129,65,27,000	146,00,67,000

Say Rs. 38.64 crores.

### Recommendation

The Committee are surprised to note that a decade after the agreement was entered into, the Financial Commissioner of the Railways has observed that the contract had been loaded heavily in favour of the collaborator in respect of the payment of royalty. The Committee would like to know whether the financial aspect was not examined in consultation with the Financial Commissioner at the time the contract was entered into.

[Sl. No. 16 (Para 2.30) of Appx. V to 140th Report of PAC  
(8th Lok Sabah)]

### Action taken

The financial aspects were examined in consultation with the Finance Directorates at the time the contract was entered into. All the pros and cons in the matter were taken into consideration and placed before the Financial Commissioner, Railway Board.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC / VIII / 140 dated 19.2.1990]



### **Recommendation**

The Committee are also surprised to note that as against the cost of wheel worked out by WAP in July 1985 at Rs. 5,700 the Ministry has chosen to pay royalty at the rate of Rs. 7,700 being the price fixed by JPC. Since the contract provides for working out the royalty at 5% of the net selling price, it was imperative on the part of the Railways to have evolved a mechanism in consultation with the Financial Commissioner to work out the net selling price before agreement on payment of the royalty. The Committee find no justification for failure in determining the net selling price for payment of royalty in accordance with conditions of contract and recommend that steps should be taken to ascertain the same by a time bound programme of three months so that due adjustments in royalty can be made without delay keeping in view the financial interests of the Government.

[Sl. No. 18 (para 2.32) of Appx. V to 145th Report of PAC (8th Lok Sabha)]

### **Action taken**

**Royalty payment is at present based on 85% of the JPC price.**

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC / VIII / 140 dated 19.2.1990]

### **Recommendation**

The Committee note that when the project was cleared in 1974 for execution, it was estimated that the project would yield a return of 40.3% based on landed cost. When the cost of project was revised in December 1980 to Rs. 129 crores, the Ministry anticipated a return of 17% on the investment and observed that the return would be even more as the return had been calculated with reference to the then price level only. However it is now stated that the return on the investment would be only 5.2% based on JPC prices and still less if prices of imported wheelsets are taken into account (after adding C to F costs). Asked to justify the low achievement of financial angle, the Ministry has argued that commercial prices can never be based on cost considerations. The Committee do not approve of the shift in stand on principles to be adopted for evaluation of targets and performance and recommend need for a consistent policy on basic issues like return on investments for evaluation of performances.

[Sl. No. 21(Para 3. 18) of Appx. V to 140th Report of PAC (8th Lok Sabha)]

**Action taken**

**Proposals involving capital expenditure are subjected to evaluation under DCF Technique and only the projects that yield a minimum return of 10% are taken up for execution.**

**This has been seen by Audit.**

**[Min. of Railways O.M. No. 88-BC-PAC / VIII / 140 dated 19.2.1990]**

## **CHAPTER IV**

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

#### **Recommendation**

The Committee note that in 1963-64, the DSP had a rated capacity for manufacture of 45,000 wheelsets which was raised to 75,000 wheelsets by 1970-71. The capacity of the plant was reviewed and refixed at 40,000 wheelsets by the Berry Committee in 1973. The Technical Committee established in 1973 to go into potential of DSP came to the conclusion that the optimum feasible capacity of the plant was 40,000 wheelsets a year. Subsequently the Sondhi Committee constituted in 1976, determined its achievable capacity at 18,000, 24,000, 30,000, 35,000 and 40,000 wheelsets in 1976-77, 1977-78, 1978-79, 1979-80 and 1980-81 respectively. [Para 1.20]

The Committee note with dismay that the production of wheelsets was much below the rated capacity and even when the original capacity was derated in 1973 on the advice of the Technical Committee the actual performance during 1984-85 to 1986-87 was between 6.5% and 10.5% of the derated capacity of 40,000 wheelsets. [Para 1.21]

[Sl. Nos. 1 & 2 (Para 1.20 & 1.21) of Appx. V to 140th Report of PAC (8th Lok Sabha)]

#### **Action taken**

The utilisation of capacity in the Wheel and Axle Plant (WAP), DSP for the years 1976-77 to 1988-89 is placed at Annexure together with the main reasons for poor performance, compared to the derated capacity of 40,000 wheelsets per annum. Department of Steel have been concerned in regard to the performance of WAP, DSP and several Committees had gone into the reasons thereof. The Sondhi Committee and another Technical Committee had reported that though the steel making Unit of Durgapur Steel Plant had the rated capacity to meet the requirements, the unit faced several problems like continued poor power supply by DVC and occasional shortages in supplies of steel.

This has been seen by Audit.

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 28.8.1990]

## ANNEXURE

### *Capacity Utilisation year-wise and reasons for non-utilisation of Capacity*

Year	Production Eqv. wheel- sets (Nos.)	Capacity/utilisation (based on the Capa- city of 40,000 wheel- sets/year	Reasons for non-utilisation of Capacity
1976-77	15671	39.2	i) High rejection & rework ii) Overall Production in Plant was at 1/1.1 HT level iii) Some improvement in industrial relation iv) DVC power shortage
1977-78	18791	47.0	
1978-79	16722	41.8	
1979-80	15959	39.9	
1980-81	15555	38.9	i) Fuel imbalance due to poor health of Coke Ovens ii) Power Cuts iii) Overall Plant Production low iv) Equipment breakdown due to ageing and absolence
1981-82	14814	37.0	
1982-83		28.0	
1983-84	10303	25.7	
1984-85	5683	14.2	
1985-86	12344	30.8	
1986-87	12032	30.1	
1987-88	13542	33.9	
1988-89	11187	28.0	

### **Recommendation**

The Committee note that the Government has consistently failed to implement fully the recommendations of the various Committees for increasing production. As early as 1967 the Kirk and Monkhouse Committee had recommended the installation of an electric furnace and this recommendation was reiterated by subsequent Committees also. The Sondhi Committee, reiterated in 1976 the same recommendation for installation of an electric furnace for production of clean steel but so far the electric furnace has not been installed. The recommendations of the Sondhi Committee for the establishment of a technology cell for evaluation of needs for modernisation, replacement, renewals etc. had also not been implemented. Further, the Sondhi Committee observed that the then existing price realisation of DSP was much less than half the cost of production and 1/3rd of the landed cost of similar wheelsets and also viewed that it would be unreasonable to expect any production unit to increase production and sustain it to the high level without realising reasonable prices. In the circumstances, the need of settlement of the price to be paid by the Railways by referring the matter to a separate body was recommended by Sondhi Committee.

The Committee regret to note that no steps were taken for installation of a new electric furnace, improving the price realisation or implementing various other measures recommended for improvement of production at

DSP. Instead, the Government went ahead with the establishment of a new wheel and axle plant at a very high cost to the exchequer. The Committee are still not convinced whether the rate now paid for wheel sets to DSP is reasonable and meets that cost of productions. The Committee are of the considered view that had the recommendations of various Committees constituted for the improvement of production at DSP implemented with due promptitude, the establishment of another WAP at Yelahanka could have been avoided. At this stage they can only hope that the Government would draw a lesson from this sad experience and would exercise a prudent caution in establishing new projects of huge financial value so as to ensure that the meagre resources of the country are not wasted in projects which would not be needed if steps are taken for improving performance of already installed facilities.

The Committee note that steel manufactured at DSP has not been fully clean resulting in substantial rejection at the time of casting of wheel sets and axles. They were also informed during evidence that one of the furnaces has been able to achieve less than 1/3rd of its rated capacity. Other dominating reasons for low production at DSP were poor labour output despite modifications in incentive scheme and poor quality of equipment like hammer. The Committee note in this connection that the Committee on Public Undertakings had gone into the working of DSP on more than one occasion and had made several recommendations. Lamentably the Government failed to implement the recommendations of the various Committee, technical and otherwise with the result that the Plant continued to work at low capacity and investment on a much larger scale was made instead of much smaller investment required to improve production in DSP's wheel and axle plant.

To ensure attainment and maintenance of self-sufficiency in production of wheels and axles, it is imperative that all possible steps are taken with due promptitude so that DSP after critically analysing the reasons for shortfall. It is able to manufacture to capacity of 40,000 wheel sets. The Committee hope that the Government would draw a time bound programme for optimum utilisation of the capacity of DSP also essential to clearly monitor the implementation of the programme at an appropriately higher level. The Committee would also like to be apprised of further developments in this regard.

[Sl. No. 3 (Para 1.22) of Appx. V to 140th Report of PAC (8th Lok Sabha)]

#### **Action taken**

As regards formulation of time bound programme for attaining full capacity utilisation, suitable action is envisaged under the Durgapur Steel Plant modernisation project which has already been approved by the Govt. of India and is under implementation. It is expected that the

measures proposed to remove the various constraints would enable the plant to produce 50,000 wheel sets per annum.

The Detailed Project Report prepared for this modernisation project envisages that the entire requirement of steel for this unit would be met through the BOF/VAD steel making route which would replace the existing open hearth furnaces. The other Schemes envisaged under the modernisation project are:

- (i) Automatic nicking facility for Wheel ingots.
- (ii) Conversion of existing water hydraulic system in the wheel forging presses to oil hydraulic systems.
- (iii) Overhauling and reconditioning of wheel presses and wheel mill.
- (iv) Installation of automatic gauging equipment.
- (v) Replacement of 22 numbers of operation I and operation II machines of wheel machine shop by 16 new CMC vertical turning and boring machines together with requirements of Transfer Cars, Jib Cranes and other modifications.
- (vi) Installation of on-line ultrasonic testing units for wheels and portable testing units for axles.

The DSP modernisation project is scheduled to be completed by 1993.

This has been seen by Audit.

[Min. of Railways O.M.No. 88-BC-PAC/VIII/140 dated 28.8.1990]

### **Recommendations**

When the sanction for the new plant was obtained in 1975-76, it was assessed that the need for import would arise only when the requirement exceeded 1.7 lakh wheels per annum. The Committee however, note that notwithstanding the establishment of a new plant, Railways continue to incur substantial expenditure in the form of foreign exchange for import of wheels, axles and wheelsets. The total expenditure in this regard during the 5 years from 1982-83 to 1986-87 is reported to be Rs. 148.6 crores. The Committee are of the opinion that the expenditure in foreign exchange on this account can be avoided if effective steps are taken to optimise production of wheelsets particularly at the DSP. Gross under-utilisation of capacity within the country and large scale import of wheelsets are indicative of the lack of concerted effort on the part of the Government to make full use of the facilities already created at considerable cost for production of wheelsets. The Committee can hardly overemphasise the need for avoiding such situations in future and urge upon Government to make serious efforts to improve indigenous production of wheelsets particularly at DSP. The Committee would like to know the steps taken by Government in this direction. (Para 1.43)

Notwithstanding the reported achievement of targets by WAP the actual production of the wheel and axle plant of DSP and WAP Yelahanka continues to be considerably lower than their rated capacities. The Committee consider it highly unfortunate that despite considerable underutilisation of the available capacity in the country the Railways continue to import substantial quantity of wheel, axles and wheelsets. Having regard to the demand and supply situation, the Committee are convinced that unless efforts are made to improve the performance by DSP, the drain on foreign exchange can not be halted. The Committee hope that Ministries of Railways and Steel will function in close coordination to ensure that the import of wheels, axles and wheelsets is totally stopped under a time bound programme. (Para 3.8)

[Sl. Nos. 9 and 19 (Paras 1.43 and 3.8) of Appx. V to 140th Report of PAC (8th Lok Sabha)]

#### **Action taken**

Import of wheels, axles and wheelsets between 1982-83 and 1986-87 became unavoidable in view of the gap between supplies from indigenous sources and the actual demand. Wheel & Axle Plant has been utilising its capacity to the extent of 80-90%. Plans are also under way to augment the existing indigenous capacity in order to reduce, if not eliminate, dependence on imports. (Para 1.43)

All efforts are being made to see that the various constraints are removed and WAP/Yelahanka achieve the targetted production. However, unless there is improvement in the performance of DSP the drain of foreign exchange cannot be halted.

This has been seen by Audit. (Para 3.8)

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 5.3.1990 and 19.2.1990]

#### **Action Taken by Ministry of Steel and Mines**

The utilisation of capacity in the Wheel and Axle Plant (WAP), DSP for the years 1976-77 to 1988-89 is placed at Annexure together with the main reasons for poor performance, compared to the derated capacity of 40,000 wheelsets per annum. Department of Steel have been concerned in regard to the performance of WAP, DSP and several Committees had gone into the reasons thereof. The Sondhi Committee and another Technical Committee had reported that though the steel making Unit of DSP had the rated capacity to meet the requirements, the Unit faced several problems like continued poor power supply by DVC and unremunerative prices paid by the Railways as well as occasional shortages in supplies of steel.

As regards formulation of a time bound programme for attaining full capacity utilisation, suitable action is envisaged under the Durgapur Steel Plant modernisation project which has already been approved by the

Govt. of India and is under implementation. It is expected that the measures proposed to remove the various constraints would enable the plant to produce 50,000 wheelsets per annum.

The Detailed Project Report prepared for this modernisation project envisages that the entire requirement of steel for this Unit would be met through the BOF/VAD steel making route which would replace the existing open hearth furnaces. The other Schemes envisaged under the modernisation project are:

- (i) Automatic nicking facility for Wheel ingots.
- (ii) Conversion of existing water hydraulic system in the wheel forging presses to oil hydraulic systems.
- (iii) Overhauling and reconditioning of wheel presses and wheel mill.
- (iv) Installation of automatic gauging equipment.
- (v) Replacement of 22 numbers of operation I and operation II machines of wheel machine shop by 16 new CMC vertical turning and boring machines together with requirements of Transfer Cars, Jib Cranes and other modifications.
- (vi) Installation of on-line ultrasonic testing units for wheels and portable testing units for axles.

The DSP modernisation project is scheduled to be completed by 1993.  
(Paras 1.43 and 3.8)

[Min. of Railways O.M. No. 88-BC-PAC/VIII/140 dated 5.8.1990]



## ANNEXURE

### *Capacity Utilisation year-wise and reasons for non-utilisation of Capacity*

Year	Production Eqv. wheel- sets (Nos.)	Capacity/utilisation (based on the Capacity of 40,000 wheelsets/ year)	Reasons for non-utilisation of Capacity
1976-77	15671	39.2	(i) High rejection & rework
1977-78	18791	47.0	(ii) Overall Production in Plant was at 1/1.1 HT level
1978-79	16722	41.8	(iii) Some improvement in industrial relation
1979-80	15959	39.9	(iv) DVC power shortage
1980-81	15555	38.9	
1981-82	14814	37.0	
1982-83		28.0	(i) Fuel imbalance due to poor health of Coke Ovens
1983-84	10303	25.7	(ii) Power Cuts
1984-85	5683	14.2	(iii) Overall Plant Production low
1985-86	12344	30.8	(iv) Equipment breakdown due to ageing and absolence
1986-87	12032	30.1	
1987-88	13542	33.9	
1988-89	11187	28.0	

## CHAPTER V

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

#### Recommendation

The Committee note that arrangements have been made to ensure regular transfer of technological upgradation to the WAP and hope that a constant watch will be kept to ensure that all advances in technology that take place upto the date of expiry of agreement in 1992 are duly passed on. The Committee, however, do not accept the stand of the Ministry that the agreement for transfer of technology and designs does not include design calculations also because, in the opinion of the Committee, these are covered by the words, "and other relevant data" mentioned in the agreement after the words, "transfer of technical know-how including designs, drawings, specifications, manuals". The Committee desire that the matter may be examined from the legal angle in consultation with the Law Ministry and appropriate action taken to secure the design calculations from the collaborators.

[Sl. No. 15 (Para 2.22) of Appx. V to 140th Report of PAC  
(8th Lok Sabha)]

#### Action taken

The Committee's observation for action regarding updating of technology at WAP has been noted.

As regards design calculations the position available in the relevant records in this Ministry is that WAP Administration had raised the issue of "Stress calculations" as a part of the collaboration agreement in 1986 and the collaboration had very clearly indicated that inclusion of "stress calculations" in the agreement was "far fetched". However matter is being referred for legal opinion. The Committee would be advised further on receipt of the legal opinion.

This has been seen by Audit.

[Min. of Railways O.M. 88-BC-PAC/VIII/140 dated 13.9.1990]

NEW DELHI;  
April 1, 1992

ATAL BIHARI VAJPAYEE,  
Chairman,

Chaitra 12, 1914(s) •

Public Accounts Committee.

## APPENDIX

### OBSERVATIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Deptt. concerned	Observation/Recommendation
(1)	(2)	(3)	(4)
1	1.3	Railways	The Committee hope that final reply to the recommendation contained in para 2.22 in respect of which only interim reply has so far been furnished will be expeditiously submitted after getting it vetted by Audit.
2	1.10	Railways <hr style="width: 10%; margin-left: 0;"/> Steel	In their earlier Report, the Committee had expressed strong dismay over the continuous poor performance of the Wheel and Axle Plant of the Durgapur Steel Project for the production of wheelsets. The Committehad noted with amazement that the actual performance of the plant during 1984-85 to 1986-87 was between 6.5% and 10.5% of the derated capacity of 40,000 wheel-sets. The Committee had also lamented over the failure of the Government to implement the recommendations of the various Committees appointed to improve the performance of the Wheel and Axle Plant. With a view to ensure attainment and maintenance of self-sufficiency in the production of wheels and axles, the Committee had recommended that all possible steps should be taken with due promptitude so that the plant was able to manufacture to capacity of 40,000 sets. The Committee had also stressed the need for drawing at time-bound programme for achieving optimum utilization of the plant. As regards formulation of time bound programme for attaining full capacity utilisation, the Government have stated in their action taken note that suitable action was envisaged under the Durgapur Steel Plant modernisation project which was under implementa-

(1)	(2)	(3)	(4)
			<p>tion and was scheduled to be completed by 1993. The Committee regret to note that in the subsequent years of 1987-88 and 1988-89 the production of wheel sets achieved at this plant was only 13542 and 11187 respectively against its derated capacity of 40,000 sets. From time to time various Committees were appointed in the past to go into the working of this plant, but unfortunately the Government blissfully ignored to implement the recommendations made by these Committees to improve its working. It is further painful that the Government have not taken any remedial steps to improve the performance of this plant even in pursuance of the Committee's recommendations made in their earlier Report. The Committee recommend that implementation of the DSP modernisation project should be effectively monitored so as to ensure its completion by the scheduled date. Meanwhile, effective steps should be taken so that the plant is able to manufacture to its derated capacity of 40,000 sets.</p>
3	1.17	Railways/ Steel	<p>As the Wheel and Axle Plant of Durgapur Steel Plant and TISCO were unable to meet the requirements of Railways for wheelsets, the Railway had set up their own Wheel and Axle Plant at Yelahanka at a cost of about Rs. 146 crores which commenced production in 1984-85. In spite of the establishment of the new plant, Railways incurred substantial expenditure to the tune of Rs. 148.6 crores for import of wheels, axles and wheelsets during the 5 years from 1982-83 to 1986-87. With a view to obviate the avoidable drain of precious foreign exchange, the Committee in their earlier Report had emphasized that Ministries of Railways and Steel should function in close coordination to ensure that the import of wheels, axles and wheelsets was totally stopped under a time bound programme. The Committee had also urged upon the Government to make serious efforts to improve indigenous production of wheelsets. In their reply, the Ministry of Rail-</p>

(1)

(2)

(3)

(4)

ways have stated that with a view to achieve the targetted production in Wheel and Axle Plant, Yelahanka, efforts are being made to remove the various constraints. It has been further stated that unless there is improvement in the performance of Durgapur Steel Plant, the drain of foreign exchange cannot be halted. The Committee are not convinced with the reply of the Ministry of Railways. While the Committee agree that no positive measures have been taken to improve the performnace of the Durgapur Steel Plant with a view to achieve its derated capacity of 40,000 sets, even Railways themselves have done precious little to improve the working of their own plant. This is borne out by the fact that apart from reducing the avoidable expenditure on import of wheels, axles and wheelsets, the expenditure on these imports has increased considerably as the contracts valued at Rs. 236.83 crores were placed from imports of wheels, axles and wheelsets during the period 1987-88 to 1990-91. The Committee express their strong displeasure on such a situation. For achieving the production of 70,000 BOX'N' wheels, the Committee were earlier informed by the Ministry of Railways that they had initiated an exercise for the provision of an additional furnace and balancing equipment in the critical areas in their Yelahanka Plant. The Committee would like to know the outcome of this exercise. The Committee would also like to know the latest position about the scheme for augmentation of the capacity of the Wheel and Axle Plant, Yelahanka which was included in the works programme for 1989-90 at an estimated cost of Rs. 39.81 crores for expanding the capacity of this plant to 85,000 wheels per year. Under the circumstances, the Committee cannot but reiterate their earlier recommendation that Ministries of Railways and Steel should function in close coordination to ensure that the import of wheels, axles and wheelsets is gradually phased out under a time bound programme.

## PART II

### MINUTES OF THE SITTING OF PAC HELD ON 17 MARCH, 1992

The Committee sat from 1600 hrs. to 1700 hrs. on 17 March, 1992

#### PRESENT CHAIRMAN

Shri Atal Bihari Vajpayee

#### MEMBERS

2. Shri Girdhari Lal Bhargava
3. Shri Arvind Netam
4. Shri R. Surender Reddy
5. Shri Pratap Singh
6. Prof. (Dr.) S.P. Yadav
7. Shri Dipen Ghosh
8. Shri Vishvjit P. Singh
9. Shri Ish Dutt Yadav

#### LOK SABHA SECRETARIAT

1. Shri S.C. Gupta — *Joint Secretary*
2. Smt. Ganga Murthy — *Deputy Secretary*
3. Shri K.C. Shekhar — *Under Secretary*

#### REPRESENTATIVES OF AUDIT

1. Shri N. Sivasubramanian— *Addl. Dy. C&AG (Reports)*
2. Shri A.K. Banerjee — *Pr. Director Reports (Central)*
3. Shri S.C Anand — *Dr. General of Audit (P&T)*
4. Shri P.K. Lahiri — *Pr. Director (Direct Taxes)*
5. Shri P.K. Ban— *Pr. Director (Indirect Taxes)*  
dhopadhyay
6. Shri Dharendra Swarup — *Pr. DACR (II)*
7. Shri K. Krishnan — *Director (Direct Taxes)-I*
8. Shri Kulvinder Singh — *Director (Direct Taxes)-II*
9. Shri K.C. Gupta — *Dy. Director*
10. Shri Birendra Kumar — *Dy. Director (P&T)*
11. Shri R. Parathasarthy — *Director (Railways)*

2. The Committee took up consideration of the following Draft Reports :

- (i)                   \*\*                   \*\*                   \*\*                   \*\*
- (ii)       Draft Report on the recommendations contained in the 140th Report of PAC (8th Lok Sabha) re: Wheel and Axle Plant, Yelahanka.
- (iii)                   \*\*                   \*\*                   \*\*                   \*\*
- (iv)                   \*\*                   \*\*                   \*\*                   \*\*

3. The Committee adopted the draft Report without any modification.

4. The Committee authorised the Chairman to present the Reports to the House after incorporating therein modifications/amendments arising out of factual verification by Audit.

5.       \*\*                               \*\*                               \*\*                               \*\*

*The Committee then adjourned.*