

**RAILWAY CONVENTION
COMMITTEE
(1980)**

(SEVENTH LOK SABHA)

ELEVENTH REPORT

**COST OF OPERATION OF RAILWAYS
(COST OF MATERIALS)**

Presented in Lok Sabha on

Laid in Rajya Sabha on



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1984/Chaitra, 1906 (Saba)

Price : Rs. 2.40

CONTENTS

	Pages
COMPOSITION OF THE RAILWAY CONVENTION COMMITTEE (1980)	(iii)
INTRODUCTION	(v)
I. INTRODUCTORY	1
II. PURCHASE	2
A. System of Purchase	3
B. Purchase Procedure	9
C. Proprietary Items	12
III. INVENTORY	19
IV. DISPOSALS	29
A. Surplus/Obsolete Stores	29
B. Scrap	30
V. COSTING SYSTEM	34
APPENDIX Summary of Recommendations/Conclusions	42

PART II*

Minutes of the sittings of the Railway Convention Committee (1980)
held on 2 June, 1982, 22 March, 1983, 9 January and 2 April, 1984.

*Not appended. (One Copy laid on the Table of the House and five copies placed in the Parliament Library)

RAILWAY CONVENTION COMMITTEE
(1980)

CHAIRMAN

Shri D. L. Baitha

MEMBERS

Lok Sabha

- (-)
- *2. Shri Satyasadhan Chakraborty (Shri Zainul Baber)
- ~~3. Shri K. B. Choudhary~~
4. Shri K. Mayathevar
5. Shri Arun Kumar Nehru
6. Dr. Vasant Kumar Pandit
- (-)
7. Shri Chintamani Panigrahi (Shri Ram Pyare Roulia)
- *8. Prof. Narain Chand Parashar
- **9. Shri Janardhana Poojary
- %10. Shri A. B. A. Ghani Khan Chaudhury
- ~~11. Shri Fayaz Hussain~~
12. Shri Raghunath Singh Verma

Rajya Sabha

- +13. ~~Shri Laddi Mohan Nigam~~
14. ~~Shri V. Gopalsamy~~
15. ~~Shri Ram Laxhan Prasad Gupta~~ (2-) Shri Dipen Ghosh
- @16. Shri Pranab Mukherjee (2-) Shri Bhagadason Mah
- \$17. Shri (Molana) Asrarul Haq (2-) Shri N. Rajaram
- £18. Shri Ghan Shyam Singh

SECRETARIAT

1. Shri T. R. Krishnamachari—Joint Secretary
2. Shri H. S. Kohli—Chief Financial Committee Officer
3. Shri Krishnapal Singh—Senior Financial Committee Officer.

*Nominated w.e.f. 19-2-1982 Vice Shri Jyotirmoy Bouse died.

**Nominated w.e.f. 19-2-1982 Vice Shri R Venkataraman resigned from the Committee.

%Nominated w.e.f. 18-2-1982 Vice Shri P. C. Sethi resigned from the Committee.

~~†Nominated w.e.f. 21-10-1982 Vice Shri Subodh Bagaitkar died.~~

~~@Nominated w.e.f. 9-3-1982 Vice Shri Mahendra Mohan Mishra resigned from the Committee.~~

‡Nominated w.e.f. 29-5-1982 Vice Shri F. M. Khan ceased to be member of Committee consequent on his retirement from the Rajya Sabha w.e.f. 2-4-1982.

£Nominated w.e.f. 21-10-1982 Vice Shri J. K. P. N. Singh resigned from Committee. Ceased to be a Member consequent on his retirement from the Rajya Sabha w.e.f. 2-4-1982.

(iii)

k. B

(2) Nominated w.e.f. 21.5.1984 vice
shri Ram Lakhan Prasad Gupta,
V. Gopal samy and Laxmi Mohan
Nigam consequent on their retirement
on completion of their terms as Members of
Rajya Sabha on April 9, April 2 and
April 9, 1984.

INTRODUCTION

I, the Chairman of Railway Convention Committee (1980) having been authorised by the Committee to submit the Report on their behalf, present this Eleventh Report on the "Cost of Operation of Railways (Cost of Materials)".

2. The Committee took evidence of the representatives of the Ministry of Railways (Railway Board) on 2 June, 1982 and 9 January, 1984. The Committee wish to express their thanks to the Ministry of Railways (Railway Board) for placing before them the material and information they desired in connection with the examination of the subject. The Committee also wish to place on record their appreciation of the valuable assistance rendered to them by the Chairman and Members of the Railway Board, the Financial Commissioner of Railways and their officers and staff.

3. The Committee also wish to express their thanks to Dr. H. K. Paranipe Ex-chairman, Railway Tariff Enquiry Committee for furnishing memoranda to the Committee and also for giving evidence and making valuable suggestions.

4. This Report was considered and adopted by the Committee at their sitting held on 2 April, 1984.

5. A statement showing the summary of recommendations of the Committee contained in this Report is at Appendix.

NEW DELHI;

April 9, 1984

Chaitra 20, 1906(S)

D. L. BAITHA,

Chairman,

Railway Convention Committee.

CHAPTER I

INTRODUCTORY

The Railway Convention Committee (1980) examined the Cost of Operation of Railways to ascertain the scope for economy in order that the Railways may be in a better position to augment the appropriations to various funds and pay reasonable dividend to the General Revenues and yet render better service to the community. Of the working expenses (excluding dividend) of the Railways, 45.8 per cent is accounted for by staff cost, 25.6 per cent by fuel cost and the rest by other stores (1980-81). The Committee's Ninth Report on 'Cost of Operation of Railways' covered their examination of Cost of Staff and Fuel. This Report deals with the cost of other stores besides the systems of purchases, disposals inventory control and costing in general.

CHAPTER II

PURCHASES

2.1 The figures of expenditure on materials from 1978-79 to 1982-83 are given below:—

(Figures in crores of Rupees)

Year	Total Expenditure (Including Dividend)	Purchase		Total	Purchase as percentage of total expenditure
		Excl. Fuel	Fuel		
1978-79 .	2287	665	115	780	34
1979-80	2689	856	149	1005	37
1980-81	3251	1166	211	1377	42
1981-82	3909	1420	327	1747	44
1982-83	4565	1601	327	1928	42

2.2. It would be seen that the expenditure on materials constituted 44 per cent of the total expenditure in the year 1981-82 as against 34 per cent in 1978-79. Among the reasons for increase in expenditure on purchases are stated to be the following:

- (i) increase in prices resulting in inflation of value of materials purchased;
- (ii) increase in activities of the Railways consistent with higher levels of operation, repairs and maintenance requiring higher outlay on materials as a result of increase in traffic both goods and passengers;
- (iii) the consumption of materials has also gone up on account of continuation of over-aged rolling stock on line;
- (iv) increase in track renewal activities;
- (v) increase in diesel loco holdings—resulting in increase of fuel consumption.

2.3 It was also explained during evidence by the Chairman, Railway Board that:—

“We have tried to bring down our costs on repairs and stores by introducing large scale welding of rails because it will eliminate fishplates. We use concrete sleepers. But both welding of rails as well as purchase of concrete sleepers have meant a little more money and expenditure.”

In recent years we have given a lot of our time and energy in reviewing the track. Track renewal is cost intensive as far as cost is concerned—new routes, new sleepers and things like that. . . . We have gone in for large scale increase in the utilisation of diesels also. In the meantime, unfortunately in the last 3-4 years there have been a fairly high increase in the cost of diesel fuel and that has also contributed.”

A. System of Purchase

2.4 The Stores Department of the Zonal Railways is headed by a Controller of Stores, who is responsible for planning, procurement, inspection, custody, issue and disposal of railway materials in the most efficient, economical and expeditious manner possible. The organisation is thus an integrated one and looks after all functions of Materials Management and Control. The Purchase Organisation, which is a part of Controller of Stores Organisation, deals with the planning and procurement of materials and policy matters relating to materials management.

2.5 The Ministry of Railways have stated in a memorandum that they “have been following the concept of integrated approach to materials management, linking the material purchase budget with the expenditure budget both under Revenue and capital and this together with the exchequer control has been largely responsible to ensure that the purchase expenditure is controlled in line with the consumption requirements and correspondingly the inventory balances are regulated. However, in the context of extreme shortage of vital materials required by the Railways, the inventory support has to be enlarged keeping in view the large scale imports involving larger lead time and the necessity to create larger buffer stocks. Moreover, the escalation in the prices as well as the requirements of expansion of activities also have to be catered for.”

2.6 The following three different agencies make purchases for the Indian Railways:

- (1) The Railway Board—for centralised procurement;
- (2) Zonal Railways and Production Units; and
- (3) Directorate General of Supplies and Disposals (DGS&D).

2.7 The following table gives the purchases made by each of these agencies over the past few years:

(Rupees in crores)

Year	Total purchase	Sources through which procurement were made			Percentage of procurement by DGS&D
		Zonal Railways & Production units	Railway Board	DGS&D	
1974-75	591	277.7	124.1	189.2	32
1975-76	776	349.2	116.4	310.4	40
1976-77	764	305.6	213.9	244.5	32
1977-78	732	358.7	190.3	183.0	25
1978-79	780	390.0	202.8	187.1	24
1979-80	1005	512.5	281.4	211.1	21
1980-81	1377	674.7	371.8	330.5	24
1981-82	1747	803.6	471.7	471.7	27
1982-83	1928	907.0	589.0	432.0	22

2.8 The DGS&D was set up by the Government of India in 1922 originally as the India Stores Department. Its purpose was to provide a specialised buying service for various Government agencies and also to take advantage of the economies of scale that may be achieved through bulking of demands. Government Railways were asked to use the services of this body in 1924 for certain specified items and the list kept increasing from time to time.

2.9 On a review made in early seventies, it was decided that the Railways would handle purchase of all items which are special to Railways requirements and that DGS&D would continue to act as the purchasing agent for common-user items. This resulted in a reduction of reliance on DGS&D after 1975 from a level of about one third of the total material requirements of the Railways to approximately one fourth. No further review of the position has since been held.

2.10 During evidence, the Chairman, Railway Board gave a brief account of the development of the Railways' Purchase Organisation by saying:

"Originally, quite a lot of purchases, practically all the purchases, were being done by the DGS&D. We had our own problems

because after the materials were received after purchase and checked by the DGS&D Organisation, we had again to check the quality and we had problems. Finally, it has been decided in consultation with the DGS&D, that all the items peculiar and only meant for use by the Railways could be purchased by the Railway organisation directly. It is only in respect of items which are common to all other ministries or spares, the purchase is channelised through DGS&D."

2.11 The Committee pointed out that during 1981-82, major part of the purchases was done by the Railways own purchase organisations accounting for 46 per cent of the total. The balance of 54 per cent was purchased through the Railway Board (27 per cent) and the Director General of Supplies and Disposals (27 per cent) and enquired what were the different items purchased by the different agencies. The Financial Commissioner deposed as follows:

"There are three agencies: . . . zonal railways, Railway Board and DGS&D. As the figures show, 46 per cent are purchased by the Zonal Railways. They do not come to the Railway Board for that. These are specifically required by the individual railways. These items which are required by all the railways are bulked and centrally purchased by the Railway Board. They are items like steel, wheel sets, wagon components etc. Their percentage comes to 27. The purchases by DGS&D also come to 27 per cent."

2.12 In regard to purchase of fuel (other than coal) by the Railways from the DGS&D, the Chairman, Railway Board pleaded before the Committee as follows:

"Here I would like to submit before the Hon. Committee that one of the main items still channelised through DGS&D is the purchase of fuel. The source for supply and distribution of fuel being a Government of India organisation, one of the public sector organisation, that would also be taken over by the Railways. But, because fuel is an item which is disbursed to various other agencies also of the Government of India, DGS&D still continues to deal with the fuel."

The Financial Commissioner added:—

"So far as fuel is concerned, we would like to purchase it direct, because there is no question of tender or any procedure involved. The price is also fixed and the marketing is done by public sector organisations. The cause for reluctance on their

part to part with this function is not a major one. Firstly, their staff will have to be cut down, which means shrinkage of their empire. Secondly, we pay a commission of 0.5/0.25 per cent for the purchase function performed by them. But their argument is that fuel is purchased not only by railways but also by other Government departments. This fight has been going on. We would like to take over all the items from the DGS&D, if that power can be given to us, because we have a well-knit, integrated purchase organisation, inventory organisation and we can do our purchases much better than somebody else. In fact, there is duplication at present. Without much of effort, we can do this ourselves. Even purely from the accounting angle, we run into a lot of problems. Now the payment is made by the Pay & Accounts Officer, DGS&D. He keeps on making advance and final payment on receipt of material. But the debit is not passed on to us regularly. In the last quarter of the year all the debits are passed on to us with the result that our appropriation accounts get completely vitiated; we find it difficult to control that part of the debit raising. In spite of all our requests, they go on playing around with it. They make payment in lump-sum to help the oil companies and thus our budget goes away. So, from all these angles, we would like to take over this function. If the Committee could make a strong recommendation, it will help our hand."

2.13 Asked whether the direct purchase of fuel by the Railways instead of through the DGS&D will result in augmenting the Railways Purchase Organisation and thus increase in expenditure, the Financial Commissioner stated as follows:—

"That will be kept in view when we take over the function which is done by somebody else. Finance will not agree to a large number of posts being created, causing more expenditure than the commission we were paying. That check will be done at that stage. My own assessment is that it can be done with only a marginal increase and a substantial expenditure is not necessary. Even today most of the functions are done by us; only the placing of order is done by them. We can perhaps do it with the existing staff."

He also stated that:

"Paint is another item, where quality-wise what we are getting is very poor for our special painting of coaches and wagons,

where we would like to ensure quality. If substandard paint is used, in six months it will wear off. So, we want to get quality product which we can purchase better.”

2.14 It is noted from published statistics of broad groups that in 1981-82, the total purchase made by DGS & D of paints and varnishes was only Rs. 14.72 crores, inclusive of the amount purchased for the Railways. The Railways' total procurement however, both from DGS & D and directly was Rs. 16 crores. In this case it appears that DGS & D is procuring largely of even mostly for the Railways.

2.15 The Railway Stores Enquiry Committee (1950-51) (Shroff Committee) commenting particularly with reference to the existing arrangement for procurement of stores through various agencies *inter alia* recommended:

1. “The present arrangement for obtaining supplies of railway stores, under which the responsibility rests on another Ministry, should be radically altered and the responsibility for obtaining supplies of items peculiar to railways and of those common user items which are essential for railway operation and workshop production should be placed on the railways themselves. Other common user items may continue to be obtained from existing Government agencies working under other Ministries.
2. Arrangement should be made for simplifying the stores Code by laying down broad principles permitting flexibility for local variations and for standardising statistics and other stores records.”

2.16 According to the Railway Reforms Committee the first recommendation retains validity because of continued reliance by the Railways to the extent of 25 to 30 per cent (in terms of value) on DGS & D. Although this has come down from the level of the early seventies, the implications of purchase in this manner as against departmental supply, are far reaching (vide Report on Materials Management).

2.17 Similarly some of the cogent recommendations made by the Railway Accident Enquiry Committee (1968) (Wanchoo Committee) are still of interest today according to the Reforms Committee:

1. Despite the enormous industrial advancement in the country during the last two decades and the improved materials management methods which are being employed everywhere, the time intervals for processing of indents and procurement

of stores have remained more or less unaltered. Their continuance in the present form is, in our view, unjustified.

2. Responsibility for the procurement of stores should rest squarely with the Railway Board and the Railway administrations without bringing into the picture the agency of Directorate General of Supplies and Disposals. This will lend stability, permanence and continuity to the procurement of railway equipment and stores, and would impart a greater sense of urgency to the officers of the Railways entrusted with the responsibility of materials management.

2.18 The Committee on Inventory Management (1973) and the Railway Reforms Committee (1983) in their report on Materials Management have also recommended that the purchase from public sector undertakings should be done by the Railways themselves instead of through DGS & D.

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

2.20 There are three different agencies for making purchases for Indian Railways—(i) the Railway Board, (ii) Zonal Railways and Production Units and (iii) the Directorate General of Supplies and Disposals. On a review being made in early Seventies, it was decided that the Railways would handle purchase of all items which are special to railways' requirements and that DGS&D would purchase common items needed by other Ministries/Departments also. At present 22 per cent of the Railway Purchases are through the DGS&D. The major items are fuel (other than coal) and paints. The Railways pay a commission to DGS&D. As there is no price advantage arising out of centralised procurement by DGS&D, the price of petroleum products being fixed, the Railways have made a plea that they should be permitted to buy direct from the Public Sector Oil companies. According to the Financial Commissioner (Railways) the Railways could handle this without extra cost as virtually the entire work except the placing of orders is done by them even now. The Committee see no reason why the DGS&D should continue to handle this purchase on behalf of Railways. In their view it would be economical to cut out this intermediary between the oil companies and the users. They recommend that the Railways should procure petroleum products directly from the oil companies in future.

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

B. Purchase Procedure

2.22 The Committee desired to know the methods and procedures followed in making direct purchases by the Railways and how it was ensured that the purchases so made were at most economical rates and how the Railway Board monitored the purchases. The Chairman, Railway Board explained the position as follows:—

“In the matter of purchase or procurement, the Railway Ministry is also guided by the rules and principles framed by the Ministry of Supplies. In other words, the basic principle in all these cases is acceptance of the lowest acceptable offer from among competitive bidders.’ The only exception of procurement is a single tender of low value proprietary articles. That is the standard principle adopted.

With regard to powers of purchase, the Controller of Stores of any Railway has got powers to purchase up to Rs. 10 lakhs. The Additional Controllers of Stores has got powers to purchase upto Rs. 5 lakhs, the Deputy Controller of Stores Rs. 2 lakhs, the Senior Stores Officers upto Rs. 40,000, the Assistant Controller of Stores upto Rs. 15,000. There is a set procedure for procurement. There is a method of tendering, for opening of tenders for acceptance of quotation at any appropriate level and for receipt and inspection of materials. Specific and clear guidelines have been laid down in respect of each of these items, the basis principle of the purchase being from the lowest technically and commercially acceptable offer from among the competitive tenders. The Railways have also a system of registration of suppliers after due verification of their technical and financial capacity, to identify likely suppliers for the items being procured. This is specifically so, where a certain safety aspect comes in—

Actually, however, in case of emergencies, the Railways are purchasing materials through what we call a spot purchase committee which consists of three officers, viz., one from stores, one from accounts and the third from the consuming department. This Committee goes round the market and depending

on the process of delivery, places orders to the best advantage of the Administration. It goes round and collects 5-6 offers and then examines them and decides which offer is to their advantage. The General Managers and Zonal Managers are empowered to procure all items required by them except those reserved for Central procurement through the Railway Board, DGS&D etc. Things like tyres, axles etc. are centralised with the Railway Board. The DGS & D also deals with certain items. In the Zonal Railways all purchases are done by the Controller of Stores. In the case of imported items procurement is made centrally by the Railway Board or through nominated production unit's level to avoid piece-meal imports by individual units. For example, most of the items of import which are bought for diesel locomotives, all the Railways have to send their indents to DLW at Varanasi which purchases them from via Washington. Similarly, Railways have been authorised to buy the items exclusively for Railway purposes directly without going through DGS & D. The General Managers of Railways have been authorised to make procurement upto Rs. 2 crores in individual cases. Even in cases of procurements exceeding Rs. 2 crores, it is the General Manager who processes the purchases and places an order after obtaining the approval of the Railway Board. The delegation of powers at Divisional levels is only for procurement of petty, small items upto Rs. 5,000. The General Managers have been provided with adequate organisational support to make purchases. They therefore, work independently for procurement of their own things and the Railway Board does not monitor the purchases made at the Zonal or Divisional levels. This is the history of the procurement and purchase of the stores."

2.23 The Railway Reforms Committee in their report on Material Management (1983) have stated that the Qureshi Committee (1973) had laid down a target of 39 days to complete all formalities before the issue of tenders. In practice, this is being observed not even in five per cent cases, and often takes several months. Cases are not rare where it takes even a year or more. No automatic progress review system seems to exist in the Headquarters Purchase Organisations, and urgency is only imparted when the user starts complaining of non-availability. This is a very anomalous situation. This is unacceptable situation for an operational service.

2.24 The Railway Reforms Committee made certain test checks on the Northern Railway and found very few tenders are issued within six months of requisitions being received. As an example, a case of armoured

gaskets was sent to the Headquarters Purchase Office on 1 July, 1982 to cover the consumption requirement of the period 1-4-1983 to 31-3-1984. Tenders were, however, issued only on 14.6.1983 and at the end of July, 1983 orders had yet not been placed. It is doubtful if any material would be received within the first six months of the contract period for which the demand was sent.

2.25 A further analysis by the Reforms Committee showed that, at the end of July, 1983, tenders had not been issued for the bulk of the material for which Balance Returns had been sent in 1982, for the consumption period commencing 1-4-1983.

2.26 According to the Reforms Committee the overall efficacy of the systems of procurement, therefore, leaves much to be desired. The Committee obtained the minutes of meeting held on one of the Railways with regard to urgently required material for one department. This meeting was convened on 16 July, 1983 and nine of the items that came up for discussion concerned demands which had been put in 1980, twenty-six items for which the demand had been conveyed in 1981 and there were even two cases of 1978. In another striking case, for the S&T Department, a demand for Bond Wire for track circuiting had been put up well in time for consumption commencing in September 1981; the tender was, however, not issued until 1 April, 1982, and even upto July 1983 the order had not been finalised.

2.27 According to the Reforms Committee by and large, it is only for DGS&D items that the progress of provisioning and orders placement works to a pre-planned time-table. Unless strict time-tables are followed in which procurement action, internal processing finalisation of orders etc. are related to the consumption pattern, no system can function efficiently.

2.28 The Public Accounts Committee (1983-84) in their Hundred and Sixty Seventh Report on Utilisation of Locomotives have observed:

“The Committee learn from the Ministry of Railways that the procedure for processing and clearance of import of spares and the procurement is so elaborate that the planning has to start two years in advance. The Committee recommend that the procedure should be streamlined in consultation with the Ministries concerned so that while serving the purpose it would not delay the import of spares to meet emergent situations. They would also like the Railways to periodically review the lists of items planned for stocking with a view to including new items of frequent demand and deleting non-moving old items depending upon the past trends of demand and consumption.

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

C. Proprietary Items

2.30 Asked as to what was the principle for purchase of proprietary items, the Financial Commissioner stated that:

"There is a requirement that a high level officer should give a certificate that it is a proprietary item. That officer has to personally certify stating that 'I am satisfied that this item can be purchased only from this firm and it is an essential requirement for that particular function.' That is the primary check. The other check is that most of the proprietary items are based on the price lists which are published in advance. We check with reference to the price lists whether the prices quoted are appropriate or not. But the proprietary purchases are not of a very large order. But the starting point is this. If it is proved that the officer has given a false certificate then action will be taken against him."

2.31 Upon this the Committee desired to know as how it was possible that in case of a number of proprietary items, the prices paid for the same item were different from place to place, Railway to Railway on the same day... The Financial Commissioner replied:

"It cannot happen in respect of proprietary items. Here again, marginal variation is understandable because market forces will come into play. At some place it may incur some additional transport expenditure. Normally it should not happen at the same place. But even in that situation, a marginal variation is understandable because to one customer the

supplier may supply from ex-stock, to another customer he may have to get it from somewhere else. So, he may incur a little of extra transport charges. So, a small marginal difference is understandable. We have not come across many cases of this type."

2.32 Thereupon the Committee drew attention of the Chairman, Railway Board to the following sample statement which had been called out from the information furnished by the Railway Board earlier and desired to know why different prices had been paid for the items mentioned therein from place to place and railway to railway and even on the same date and place:

.....

Statement showing (Stock and non-stock) valued about Rs. 5000/- prepared on proprietary article certificate

WESTERN RAILWAY—1980-81

Sl. Description No.	Quantity	Value	Name of suppliers	Date	
1	2	3	4	5	6
1	EUS 400 4 m	150 kgs. at Rs. 49.33	M/s Rajon Traders	27-2-81	
	Do.	150 kgs. at Rs. 55/-	Do.	Do.	
2	Permalcol insteacal	5000 Nos. at Rs. 1.75	M/s K. Vadilal & Co. Bombay	8-4-80	
	Do.	5000 Nos. at 2.05	Do.	Do.	
3	Do.	5000 Nos. at Rs. 1.97	Do.	7-4-80	
	Do.	5000 Nos. at Rs. 1.51	Do.	Do.	
4	Spare	100 Nos. at Rs. 191.21	Stone Platt(1) Ltd. Calcutta	27-3-82	
	Do.	Do.	Do.	Do.	
		at Rs. 199.40			
5	Test Stand	EASTERN RAILWAY (1980-81 (1981-82 & 1982-83)			
	Do.	1 No. at Rs. 19757/-	M/s. Escorts Ltd.	16-9-82	
		Do.	Do.	Do.	
		at Rs. 18,431/-			

SOUTH-EASTERN RAILWAY (1980-81)

6 Roller bearing	24 Nos. at Rs. 2160/-	43	52066.40	M/s National Eng. Industries.	8-4-80
Do.	Do.		56403.36	Do.	Do.
7 Spares for 160 Holman A/c	3 items at Rs. 4752/-		TV Rs. 14256/-	M/s. Holman Climax	2-9-80
Do.	Do.		TV Rs. 15678.40 + ED + ST	Do.	Do.
8 Gee Rim	9 Nos. at Rs. 1522.77		13705.00	C.O.S. (CLW) CR3	16-11-81
Do.	Do.		12612.00	C.O.A. (CLW) CAL	Do.

9 Spare parts for compressor

Do.	List	TV	12662/-	M/s Holman Climax	5-2-83
Do.	Do.	TV	11258/- + EDST	Do.	Do.

SOUTH CENTRAL RAILWAY (1980-81, 1981-82 & 1982-83)

10 Armature -	10 Nos. at Rs. 1000/-		10,000/-	Fefbolji (P) Ltd. Coimbatore	29-9-80
Do.	Do.		7750/-	Do.	Do.
Do.	Do.		9000/-	Do.	Do.

SOUTHERN RAILWAY (1980-81)

11 U.F. Lable	1200 Nos. at Rs. 9/-		10800/-	Bagd Enterprises Madras	19-5-81
Do.	Do.		10440/-	Do.	Do.

TABLE 1

1	2	3	4	5	6
	Do.	Do. at Rs. 7.95	8820/-	Do.	20-5-81
	Do.	Do. at Rs. 5.25	6300/-	Do.	Do.
12	Items of spares	3 items at Rs. 1954.33	5863/-	Escorts Ltd. Faridabad	28-7-82
	Do.	Do. at Rs. 2175.33	6526/-	Do.	Do.
13	4 Items of spares	4 items at Rs. 1682.00 at Rs. 1682.00	6728/-	Do.	Do.
	Do.	Do. at Rs. 1624.25	6497/-	Do.	Do.

2.33. The Ministry of Railways (Railway Board) submitted the following note:—

“The statement sent by Railway Convention Committee has been examined and the following clarifications are offered:

- I. The Railway have adopted broad descriptions while furnishing the information which has led the Committee to infer that the same item has been purchased at different rates on the same date. For example, there are a number of compressor spares which are intrinsically different and as such the rates would also be different. However, in the statement given to Committee, all the items have been broadly shown as spares for compressors.
2. In the case of some Railways, there has been a mistake in giving the total value of the order and this has resulted in different unit rates being worked out for similar items.

As explained during the formal evidence session on 9th January, 1984, there is no possibility of the same proprietary item being purchased by the same Railway at different rates on the same date.”

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

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

2.36 At the instance of the Committee the Railway Board have furnished statements regarding purchase of proprietary items by the different railways each item from the same source. The Committee were informed during evidence that except for marginal variations it was not possible that the price paid for the same item would be different from place to place and Railway to Railway from the same source. The instance brought

out in paragraph 2.32 of this Report however, strongly suggest that this cannot be ruled out. The general explanation given by the Railway Board ruling out this possibility is not at all convincing to the Committee. They would like the Railway Board to investigate each case by an independent team of officers and report the results to the Committee after taking such action as may be warranted on the basis thereof.

CHAPTER III

INVENTORY

3.1 The Railway Convention Committee (1973) had stressed the need for strengthening materials management in their Eighth Report (September, 1975) in the following terms:

“The Committee note that expenditure under the Plan heads ‘Rolling Stock, Signalling and Safety works’ ‘Other Electrical Works’, ‘Users’ Amenities’, ‘Investments in Road Services’ and ‘Inventories’ has exceeded the revised Plan outlay—the total excess being of the order of as much as Rs. 96.62 crores. The maximum excess has occurred under the head ‘Inventories’ where the actual expenditure was five times the Plan allocation and exceeded the provision of Rs. 15 crores by as much as Rs. 59.09 crores.

The Committee take a serious view of the abnormal excesses of expenditure over the Plan provisions in respect of a number of heads, particularly the ‘Inventories’. The Committee would like the Ministry of Railways to take expeditious follow up action in the light of the Report of the High Powered Committee on Inventory Management’ on the Railways so as to ensure that the stores procedures are streamlined in consonance with modern concepts of materials management. They would like the Parliament to be kept informed of the action taken by Government in this regard as early as possible.”

3.2 In their reply, the Government informed the Committee as follows:—

“The position of inventories on Railways has significantly improved by the introduction of modern techniques and adoption of other important economy measures. As against the price increase of about 60 per cent during the last three years, the inventory has been brought down from Rs. 204.13 crores as on 13-3-1973 to Rs. 184.09 crores as on 31.3.1975 i.e., notwithstanding the price increase, a reduction of Rs. 20.04 crores has been effected in the inventory.

Further the High Powered Committee under the Chairmanship of Shri Mohd. Shafi Qureshi, Minister of State for Railways

which was set up to streamline the stores procedures obtaining on the Railways has submitted their First Report regarding procurement of Stores, payment of Suppliers' Bills and Disposal of Stores etc. The recommendations of the Committee which have since been implemented are also expected to stimulate economy in expenditure resulting in reduction in inventories. The recommendations made by the High Powered Committee on Inventory Management on Railways pertain to procurement of stores, payment of suppliers' Bill and disposal of stores. The recommendations have since been accepted which have since been implemented are also expected to try of Supply) and the Indian Railways|Production Units advised to implement them forthwith."

3.3 According to the report of the C&AG for the year 1980-81—Union Government (Railways) a disquieting trend noticed in the plan expenditure since 1980-81 had been the increasing expenditure under 'Inventories'. The outlay on inventories during 1980-81 and 1981-82 was Rs. 118.85 crores and Rs. 75.52 crores respectively against the budget estimates of Rs. 8 crores for each of these years. The total Plan provision itself was only Rs. 40 crores for all the five years. The plan outlay on inventories during 1981-82 was Rs. 72.52 crores against the budget estimate of Rs. 8 crores. Consequently, the inventory balances under the three main constituents of this plan head viz., 'Stores Suspenses', 'Manufacture suspense' and 'Miscellaneous Advance' had been at higher levels, year after year as under:

Year ending	Stores suspense	Workshop suspense	Miscellaneous Advance	Total
31.3.1980	223.15	19.12	27.04	269.31
31.3.1981	298.72(a)	52.70	36.68	388.15(b)
31.3.1982	358.99	55.51	46.25	460.65(c)

3.4 The Ministry of Railways (Railway Board) explained (March 1983) that the increase in the inventory balance since 1979-80 was mainly attributable to the general increase in the prices of Railway Stores items, the increase under the fuel items of Coal and Diesel Oil alone being 24 and 21 per cent respectively between 1980-81 and 1981-82. They further stated that the efficiency indicator viz., the ratio of stores held in stock to the actual issues improved from 28.6 per cent to 27 per cent during the above period.

3.5 It may, however, be mentioned that the inventory to issue ratio excluding fuel had increased from 39 per cent in 1979-80 to 41 per cent in 1980-81 and to 42 per cent in 1981-82. The increase in inventory was

At the time of factual verification the Ministry revised the figure at (a) to 298.77, at (b) to 388.15 and at (c) to 460.75.

mainly under 'Workshop manufacture suspense' and 'Miscellaneous Advance' due to holding in stock of costly imported spares such as electrics for manufacture of Diesel and Electric Locomotives, wheel sets, roller bearings, Steel etc. for manufacture of wagons. These items would have to be worked off carefully in the manufacture of rolling stock during subsequent years of the Sixth Plan (1982-83) to (1984-85) to bring down the plan expenditure on inventories to the budgeted level.

3.6 According to the Indian Railway, Year Book 1982-83 the total inventories held as on 31-3-1983 has slightly decreased and was of the order of Rs. 431.29 crores representing stores, suspense Rs. 335.08, workshop manufacturing suspense Rs. 48.34 crores and Misc. Advances Rs. 47.87 crores.

3.7 It has been stated in a memorandum furnished by the Railway Board that the maintenance and operation of Indian Railways require a variety of raw materials, components, spare parts, toolings for machine tools, etc. These supplies are required at various points for the servicing of the Railway equipment and Railway operations spread out throughout the length and breadth of the country. There is, therefore, a need for keeping some inventories at the consuming points since obviously all these materials from different sources and manufactures cannot be made available at the consuming points as and when required as the deliveries take some time depending on the lead time. Some of these materials require even imports for which lead time is still longer. As the assets of the Railways have become very sophisticated in nature due to technological advances and also very costly, and the services rendered by the Railways for the transport of essential commodities and passengers are of vital nature to the country's economy, Railway operations cannot be allowed to be hampered for want of materials. Hence there is need to carry certain inventories at the consuming points and also for inventories in the pipeline from manufacturers' sources of supply to the stocking consuming points. The Indian Railways stock over one lakh different items of stores in as many as 2.9 lakh stocking points spread all over the Railways.

3.8 It has been stated that at the same time the resources utilised in the building up of inventory have to be judiciously controlled. A balance has to be struck in fixing the inventory levels to be carried, keeping in view, the divergent points one of the scarce available resources in blocking up of the capital and other aspects of maintaining uninterrupted services which are susceptible to disruptions due to interruptions in the supply lines.

3.9 The matter of outlay on Inventory received attention of Audit during 1972-73 and subsequently the Public Accounts Committee and the Railway Ministry went into it. As a result, Inventory Control Cells were organised on all the Railways and in the Railways Board and modern

methods of Inventory Management through ABC analysis etc. were introduced. Simultaneously attention was also paid to identify and locate inactive and surplus items by using the computer based information, disposal of surplus and inactive items, disposal of scrap and unusable items etc. Side by side, the Ministry of Railways had also formed a high level Committee on Inventory Management under the Chairmanship of the then Minister of State for Railways and comprising senior Members from Finance (Expenditure) Ministry and also representatives from the private sector.

3.10 It has been stated in a memorandum submitted by the Railway Board that the control on inventory was further tightened by excluding fuel which was a bulk consumption item and the management parametres were set to work on remaining inventory and a target of 40 per cent turn over ratio was conceived as reasonable, excluding the element of fuel. On this the Committee drew attention of the Chairman Railway Board to the following statement giving comparative picture of inventory to issues ratio for the years 1972-73 to 1982-83:—

(Value in crores of Rs.)

Year	Railways and Prod. Units (with fuel)			Railways and Production Units (Excl. fuel)		
	Stores Balance*	Issue	% age	Stores Balance	Issues	% age
1	2	3	4	5	6	7
1972-73	204.09	379.83	54	204.39	291.82	70
1973-74	186.73	396.55	47	188.90	308.42	61
1974-75	184.10	474.35	39	194.13	345.35	56
1975-76	186.95	594.14	31	190.96	442.52	43
1976-77	161.42	651.39	25	163.91	469.69	35
1977-78	152.85	667.45	23	158.09	483.75	33
1978-79	162.25	683.60	24	166.72	502.22	33
1979-80	223.15	802.65	28	223.43	567.50	39
1980-81	297.58	1043.13	28	295.26	713.19	41
1981-82	358.80	1297.83	28	359.49	849.52	42
1982-83	335.08	1422.96	23.5	342.46	936.40	36.5

(Source : Indian Railways Year book 1981-82 and 1982-83)

3.11 On the Committee pointing out that the inventory issue ratio which had come down to 33 per cent in 1978-79 had risen to 42 per cent in 1981-82, the Financial Commissioner explained the position as follows:—

“If you go through this Table you will find it has come down from 70 per cent to 42 per cent. In between it went up. In

*At the time of factual verification the Ministry of Railways (i) changed the heading to “Store Suspense” and (ii) to an enquiry of the Committee as to how the figures in column 5 were more than those in column 2, the Ministry stated that “this is possible due to (—) adjustment in fuel”.

1982-83, it came down to 36.5 per cent. Then, Sir, we have done a study and we found that quantity-wise the balance has not gone up. For the same quantity the value has gone because of inflation. We can have further improvement and we are at it."

The Chairman, Railway Board supplemented by saying:

"To start with we started removing various old locomotives class-wise. Practically, the steam locos have been eliminated and, as such, we expect that we will be able to tighten up and further control the inventory. We are progressively doing that and cutting it up."

Inventory Control Cells had been set up on the railways in 1972. Our analysis at that time showed that there were high inventory balance leading to high turn-over ratios. There were large over stocks and surpluses which could not be seen at the top management in the absence of mechanisation and close monitoring of each item. Now, with the set up of Inventory Cells and monitoring of the inventories with the idea of removing the deficiencies, considerable progress has been achieved as we have just now seen from the chart. From the chart it was clear that in 1972-73, from 54 turn-over we have brought down to 23 in 1982-83 with fuel and without fuel 36.5. But with certain additional facilities like use of modern computer system, provision of organisation, etc. we feel we can further improve the degree of control on inventory which will help us to be more efficient and more economic in our purchases. Replacement of the existing computers by modern computer systems has already been planned by the Railways and ultimately we visualise that there should be a computerised system not only within the railway but between Railways so that is some railways have got stocks of certain materials required by adjacent railways they will be in a position to check up and take materials from that Railway instead of making outside purchase. Now besides the improved computers which were going to be installed in replacement of the older computers that would be not only one step further but we visualise that inter-linking of computers between the railways will be a very positive step towards further bringing down the inventories."

3.12 In the opinion of the Railway Reforms Committee, the Railways should set themselves a target of inventory turn over ratio of 30 per cent,

excluding fuel. They have also observed that the tempo of inventory control relaxed considerably after 1979 because of a growing, but misplaced feeling in the Railways that inventory control measures had been unduly harsh and led to shortage. This explanation is somewhat simplistic. Scientific inventory control should lead to both a reduction in inventory balances and, by the very fact that they are being monitored, should also ensure better availability of materials.

3.13 The Committee pointed out that one of the reasons for large inventories was that the item of stores were of multitudinous variety and enquired whether it was possible to effect cost reduction through reduction in number of stores items and also standardising them. The Chairman, Railway Board deposed as follows:—

“We had very very large stocks depending on the various types of locomotive engines, etc. In 1974, we had as much as 4 lakh items of stock on the railways. Now in April, 1983, we have brought it down to 2.9 lakhs. Now, the progress is being regularly monitored by the nominated officers for each railway and in the inventory control cell in the Board's office. Further, more rationalisation and standardisation goes a long way. Now, we have metric bolts and BSS bolts and nuts. There is a progress in a complete switch over to enable close down the BSS heading. Similarly, in Mechanical Engineering and Electrical Engineering Departments, they have got various kinds of materials of bolts, nuts washers, etc. These are some of the things which have helped us to bring down the number from 4 lakhs to 2.9 lakhs.”

In regard to wagons, he went on to say:

“We have standardised the wagons. Now, the modern standardised types of wagons are mostly Box type, BOXN, BCX and BRH. TP and TPS types etc. and there again as a further improvement effort is on to standardise the bogies so that except for the body, the rest will be uniform using the same type of equipment, etc.”

3.14 The Railway Reforms Committee have recommended that “the Railway should graduate to a Divisional pattern of ware-housing and distribution of stores with purchase functions also partly vestings with the Divisions. According to item this will cut down delays, improve ‘assurance levels’, and eventually lead to reduced inventory. They consider effective divisionalisation of Stores Management as one of the three major steps that are essential to put the entire gamut of material Management on a

sound footing. The other two are, according to them (i) the establishment of an officer-oriented Purchase System in the Zonal HQs office based on rational workload yardsticks and (ii) to put these activities on a computer based system of controls that would, once for all, supersede time consuming and inaccurate manual procedures.

3.15. The Committee on Yardsticks for Gazetted Organisation of Stores Department (Shah Committee) (1978) *inter alia* observed observed:—

1. For procurement and distribution of material which accounts for over forty percent of the Railways' annual expenditure, the present system of stores management and inventory control is both inadequate, unreliable and inefficient.
2. The percentage of material out-of-stock is very high and assurance levels poor.

3.16. The "Guidelines for materials management in public enterprises" issued by the Bureau of Public Enterprises of the Government of India, in speaking of set up of the materials Departments of public sector undertakings has enunciated the policy as follows:—

"The Parliamentary Committee and other committees appointed by the Government on inventory control have all recommended that the Public Sector Undertakings should have a strong integrated materials management department. An integrated materials management department whose manager has equal status with engineering and production managers, offers one intangible benefit that it exerts a strong influence on such material activities as standardisation, specifications and the value analysis programme. Integrated materials management concept envisages a high degree of coordination among all material activities such as material procurement, planning, scrutiny of specification and drawings, ordering, receipt, inspection, payment, accountal, issues, inventory control etc. All these activities are integrated and as such, should be coordinated under one head of the department for efficient management. All these activities are only different stages of a total function of procurement of stores and there should be a single line of command running through all these stages. Such a set up facilitates a better coordination with the supplies and leads to cordial relations with the suppliers which is vital for efficient procurement. In United States there is a growing trend for integrated Materials Management concept."

3.17. The Committee on Inventory Management had finalised their report in 1977 and all their recommendations have been accepted by Government and generally implemented. During evidence, the Committee desired to know if the representatives of the Railway Board could give an idea of the saving in time and cost achieved as a result of implementation of the recommendations of the aforesaid Committee. The Chairman, Railway Board stated as follows:—

“The Committee on Inventory Management covered almost all aspects of materials management and the implementation of the recommendations. These had direct and indirect effect on the stores activities. We will not be able to quantify the savings in terms of time and cost as a result of these recommendations. But the savings effect on inventories will speak for themselves. In brief, the inventory turnover ratio has improved, more than two-fold, that is from 54 per cent in 1972, it has come down to 23 per cent in 1982-83. This improvement in the inventory turnover ratio has enabled the Railways to avoid an investment of about Rs. 437 crores.”

3.18. Asked to give details of technological improvements introduced in the materials management system with a view to reducing the cost of operation of Railways, the Chairman Railway Board deposed as follows:—

“The scientific management information system for the materials management function was taken up seriously by the Railways. Each zonal railway has been provided with IBM computer for the purpose of computerisation of stores accounts. The computer, however, has to be shared with the general accounts and pay-roll statistics. To keep pace with modern developments and increased needs, to have very much effective control on inventory, a number of new applications will also have to be routed through the computer. Unless we introduce modern type of computers and we bring in all the operations of the railways under one computer system, we cannot achieve the desired results. We can certainly achieve better results if we introduce computers for all the railway operations.”

3.19. The Ministry of Railways subsequently submitted the following note in this connection:—

“In connection with the introduction of next generation of computers on the Indian Railways, a system Development Group has been created to look into the various aspects of Materials Management computerisation. While a separate computer system itself will not be justified for a central pool of

Material Management Datta Bank, this could be possibly adopted in the proposed Operative Information System computer configuration. The question of having a hook-up or otherwise is still to be finally decided."

3.20 The Railway Reforms Committee have also suggested that the Computer System for Materials Management should be revamped and have recommended—

"The importance and efficacy of computerised inventory control has been recognised by all advanced railway systems. This has also been recognised in many forward-looking sectors in India and abroad. It should be appreciated that the overall advantages in terms of both economies and efficiency *viz-a-viz* the present manually based methods are considerable. There is, therefore no doubt that the system has to be adopted and introduced without any further delay."

3.21 The Railway Reform Committee has exhorted the Indian Railways to seriously examine and introduce a modern computer-based system of materials management as early as possible. The major problem in exercising effective controls is lack of computer time which has prevented the implementation of the computerisation scheme as it was originally envisaged more than fifteen years ago. Progressing of orders, payments and accountal of bills and automatic stock, review have, therefore, still not been computerised. Many important ancillary programmes, such as vendor records, alternative materials, raw material requirements, outstanding recoupmnts etc. also remain uncovered.

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

inventory balance as on 31 March 1982 and 31 March 1983 stood at Rs. 460.65 crores and Rs. 431.29 crores respectively. This on all account, despite the explanation of the Ministry, indicates a very unsatisfactory state of affairs. The inventory carrying cost is quite considerable and is substantially avoidable.

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

3.24 Besides tightening up of inventory control, further standardisation and cost reduction by value analysis are warranted to economise on inventories. The Committee note that the number of items in inventory were as many as 4 lakhs in April, 1974, but as a result of several steps taken in regard to their standardisation and rationalisation, the number of items has been brought down to 2.9 lakhs in April 1982. It has, however, been admitted that there was scope to further bring down this number. Efforts in this regard should continue vigorously.

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

3.26 The observations of the Railway Reforms Committee in regard to inventory management in the Railways are pertinent. They have found that there is only a peripheral awareness of the scientific aspects of materials management. The stores discipline in the Railway infrastructure functions more or less as a loosely-knit and disorganised purchase and supply department. The wide range of sophistication which has been achieved in materials management in some other countries in terms of management or operation has yet to make a dent in the Railways. The position thus calls for immediate attention. The Committee would like to know the action taken to improve the position.

CHAPTER IV

DISPOSALS

A. Surplus/Obsolete Stores

4.1 Asked whether there was a regular system in each Railway for determining periodically the surplus/unserviceable/obsolete stores and their disposal without undue delay. The Financial Commissioner, Railways stated that on all the Zonal Railways and the production units, the inventory accounting was done on computer and every quarter they got the information about the stores which were moving and which were not moving and on the basis of that they took action and where the items were not moving they tried to dispose them of. He also furnished data regarding value of surplus and non-moving items for the last five years.

(in crores of Rs.)

Year	Surplus	Non-Moving/ Inactive Items	Stores balance with Fuel	% age in active items	Stores balance without Fuel	% age in active items
1979	0.81	11.65	162.23	7	125.89	9
1980	0.82	9.97	223.23	4	167.23	6
1981	1.05	10.76	297.58	3.6	295.26	3.6
1982	1.00	10.68	358.90	3	359.49	3
1984	1.22	11.47	334.90	3	342.46	3

He went on to say—

“The percentage which was very high earlier has come down to 3. These include emergency stores like bridge girders, which will not move unless the bridge is washed away. The engineering stores required for attending to accident emergencies are also there. But this question is receiving our attention and there is a quarterly review. All the railways have instructions to pay special attention to it.

There is a constant review and the items which are not required are disposed of. When the old items are disposed of, the percentage will come down.

These are surveyed and condemned as not required for the railways. After that they are either auctioned or in some cases tenders are also called for. And there is a monthly auction that takes place."

4.2 The Railways Reforms Committee have in their report on Materials Management recommended setting up of high level Standing Committees to review the position with regard to non-moving stocks and surpluses. They observed in course of their study that as on 31-3-1981 as many as 73,637 items had not been drawn for more than one year on six zonal railways and one production unit for which figures were submitted to them. Similarly, 7,850 items had not been drawn for more than four years and a further 4,664 items for more than five years.

4.3 Asked how it was ensured that an item once sold out by a particular Railway was not being purchased by another Railway, the Financial Commissioner replied:

"There is a built-in procedure to ensure that procurement is resorted to only in respect of the moving items with reference to estimated consumption, the supplies in the pipeline and the stock in hand. After taking all these into account we decide on what is additional quantity to be procured. If items of this type are placed as surplus, the requirement or estimated consumption of all these will not be there. So, normally such items, will not be procured, since there is an in-built check. The indents are verified with reference to the estimated requirement the stock in hand and the quantity to be procured. In respect of the items which are declared surplus, further consumption will not be there. Ordinarily, according to the built in checks and procedures an item which is not moving will not be procured further. It is checked in the Headquarters office, and it is checked in the Accounts Departments also."

B. Scrap

4.4 In a note regarding procedure for disposal of scrap, the Ministry of Railways (Railway Board) informed the Committee as follows:

"There is a well established systems on the Railways for sale of scrap materials, including scrap rails. Various consumers on line return their scrap to the nominated scrap depots, on the Zonal Railways for arranging disposal. The scrap received is sorted out in the Scrap Depot under different categories like melting, industrial and rerollable scrap etc., and 'lots' of convenient and reasonable sizes are formed for

arranging disposal. The material required for reuse by the Railways is segregated and kept separately, to be drawn by consumers, as and when required. Scrap material required by other Government department, public sector undertakings, etc., are straightaway supplied to them from those lots. The balance left-over is surveyed by a Survey Committee consisting of senior officers of Stores and Technical Departments who examine the scrap materials with a view to finding out whether the same can be put to any alternative use. The material which cannot be used by the Railways and also is not required by other Government Departments/Public Sector Undertaking is recommended for disposal by the Survey Committee and these recommendations are approved by the competent authority before disposal action is taken. Thereafter the scrap is disposed of through auction/tender sales giving wide publicity through newspapers, handbills, etc. The disposal is arranged either through departmental auctions or through the agency of an auctioneer appointed by the Railways. On the nominated date and time, the auction is held publicly in which all prospective bidders are allowed to participate.

To ensure that the Railways obtain reasonable prices for the scrap sold, reserve prices are also fixed, before the auction takes place, by an authority higher than the one conducting the auction. All relevant factors like rates obtained in the previous auctions, prevailing market rates etc., are duly taken into account in arriving at the 'reserve prices'.

In order to aid and encourage the Small Scale Industrial Units, 25 per cent of the scrap arising per month are reserved for direct sale to these Units. This material is offered to the Director of Industries of the State who sponsors the sale in favour of such of the SSI units as are duly registered with them. Sale at the highest rate obtain during the previous auction is then arranged in favour of SSI Units so sponsored by the DOIs of the State in which the Scrap Disposal Depot is located."

4.5 Observing that no progress appeared to have been made on the recommendations of an earlier Committee in regard to disposal of scrap, the Railway Reforms Committee in their report on Materials Management has, however, recommended that the Railways should formulate of scientific scrap disposal policy. It should lay down what items may be locally disposed of, sent to Divisional depots, and which moved to major scrap depots based on the economies of transportation and realisable values.

4.6 The quantity and value of scrap sold during the years from 1978-79 to 1982-83 is shown below:

Year	Ferrous scrap (thousand Mts.)	Non-ferrous scrap (thousand Mts.)	Condemned Rolling Stock (thousand Mts.)	Total Value (rupees in crores)	Value of condemned rolling stock (Rs. in crores)
1978-79 .	407.40	2.70	4.57	55.80	4.83
1979-80 .	195.92	2.88	4.82	49.65	6.02
1980-81 .	209.50	3.34	10.90	70.49	15.16
1981-82 .	171.25	3.08	16.15	73.34	20.98
1982-83 .	206.06	3.30	20.45	88.80	28.81

It has been stated that the Railway do not have adequate capacity for utilising all the scrap accumulated.

4.7 In reply to a question, the Ministry of Railways have stated:

“The Wheel & Axle Plant will be able to consume only “pedigree” scrap and that too only to a limited extent. Presently 3,000 mts. of scrap on Southern, South Eastern and South Central Railways has been earmarked for despatch to Wheel & Axle Plant, which is roughly one per cent of the total scrap accumulation on Indian Railways.”

4.8 However, the Committee were informed during evidence by the Financial Commissioner that:

“Our sale of scrap by auction will come down drastically because about 60 per cent of the pedigree scrap will now be reserved for use in our Wheel and Axle Plant at Bangalore. The quantity available for sale by auction would be reduced considerably.”

4.9 On the Committee expressing an apprehension that at the time of auction of scrap, the bidders might form a ring so as to get the scrap at the lowest price, the Ministry of Railways (Railway Board) have explained the position in a note as follows:

“Adequate steps are taken against ring formation by the bidders. The supervising Officer of the auction fixes the Reserve Price for each lot keeping in view the rates obtained in the recent

past, the book value, the prevalent market conditions, etc. Secretary of reserve prices is strictly maintained. Bids below the reserve prices are not accepted and the lot is withdrawn from sale for re-auction or disposed of by tender sale subsequently.

There has been no complaint of collusion between the authorities incharge of auction and the bidders allowing the latter to come to know the reserve price to bid low enough."

4.10 Another area of cost reduction in regard to inventory holding is prompt disposal of surplus/obsolete stores and scrap to the best advantage of the Railways. Although in value terms the percentage of non-moving items of stores has come down to 3 in 1983-84, in physical terms, according to the Railway Reforms Committee, the position is alarming. On six Zonal Railways and one production unit they observed that 7,850 items had not been drawn for more than four years and 4,664 items for more than five years. Surplus materials symbolise either mistakes in procurement or change in planning decisions by management and perhaps to some extent overall absence of efficiency. The Committee, therefore, urge that the Railways should exercise stricter review and ensure disposal of non-moving items with a view to controlling the inventory-carrying costs.

4.11 It is quite possible that some useful store rendered surplus in one Zonal Railway may be needed in another Railway. There should therefore be exchange of information so that such stores may not be disposed of, the Railways needing them paying higher cost to procure them from the open market. The Committee would suggest setting up of a central seed machinery in Railway Board to act as a clearing house of information in this regard.

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

CHAPTER V

COSTING SYSTEM

5.1 According to the Ministry of Railways, the business of the railway can be divided into two broad streams, viz., Goods and Coaching. (The coaching traffic includes passenger, Parcel and Luggage). While the earnings from these streams can be easily segregated, an accurate and precise allocation of total cost between them is stated to be a difficult task, because of the following unique features:

- (a) A large portion of capital cost represented by earth work, track, station buildings, signalling, etc. is joint between the Coaching and the Goods streams of traffic. Because of an exceptionally high degree of joint use of the assets as well as manpower, the same is true of the day-to-day operational costs.
- (b) Administrative costs are, as is expected in any business, common between the two streams.
- (c) There is a high degree of inertia in operational cost structure and reaction to changes in traffic volume of either stream is very slow.

5.2 The working expenses comprising ordinary working expenses, depreciation etc., on Indian Railways, are recorded under detailed heads of various Revenue Abstracts, each of which generally corresponds to a main activity. The total expenses under each detailed head which are readily attributable either to coaching or goods services are first assigned to the stream concerned. The joint expenses are then apportioned between these streams on the basis of certain ratios determined with the aid of statistical techniques/sample surveys etc. The expenses booked in respect of running repairs in a combined diesel/electric locomotive shed are thus distributed between the Coaching and Goods streams in the ratio of:

- (i) Engine Kms. utilise on the respective streams for 25 per cent of expenses;
- (ii) Engine hours of the respective streams for another 25 per cent of expenses; and
- (iii) on the number of locomotives on line assigned to the streams of traffic for the balance 50 per cent of expenses.

5.3 In the case of stream service, however, the distribution is done on the basis of engine hours for 50 per cent of the expenses and the balance is distributed equally between the two services with reference to Engine kms. and number of locomotives on line. In this manner the entire expenditure is apportioned between the two services. Simultaneously, comprehensive performance statistics are collected right from the grass roots level and the same are built up stage by stage for macro level averages. The division of the total apportioned expenses by the total units of physical performance gives the unit cost of working of coaching and goods services.

5.4 It is observed that the cost of operation of the Railways has been continuously rising. On the broad gauge, cost per vehicle km. in respect of coaching traffic has increased by 148.3 per cent from 1970-71 to 1980-81, whereas the costs per wagon km. and per tonne km. in respect of goods traffic have increased by 119.1 per cent and 101.1 per cent respectively. On the metro gauge, the increase in coaching cost per vehicle km. has been 188.9 per cent whereas the increase in cost per wagon km. and cost per tonne km. for freight traffic has been of the order of 200.4 per cent and 138.1 per cent respectively.

5.5 Another phase of costing involves costing of the various facets of railway operations, viz., Terminal costs, line haul costs, marshalling costs, transshipment costs etc. The basic strategy adopted here is also the same. Each stage involves further sub-division of cost on the various facets of operations, compilation of the corresponding units of physical performance and arriving at the cost per unit. The distribution of cost is done on the basis of several parameters evolved from field studies and the experience gained from time to time. The main applications of the unit cost data, which the Indian Railways, are working out at present, are briefly summarized as under:

- (i) The unit cost data for the goods services is utilised for working out the economics of freight traffic in respect of some selected commodities;
- (ii) The unit cost data is used for quantifying 'social costs' borne by Indian Railways;
- (iii) The unit cost figures are extensively used by survey Organisations for project appraisals.
- (iv) Cost data is used for the quotation of station to station rates and also for determining the shunting engine cost etc.
- (v) Cost data is currently being used for selecting the most economical mode of transport and routing of a given traffic.

5.6 Arriving at the unit cost is stated to be not an end in itself but only a means to analyse and evaluate factors required by the Executive to plan and execute the decisions required for day to day operation as well as long term planning. The cost analysis is used extensively for project appraisal. The general code says that no proposal for expenditure, except in the case of residential buildings, siding and rolling stocks to which such rules apply, should originally be considered as having been financially justified unless the earnings or savings in the working expenses expected to be realised are such that after meeting the average annual cost of services of the asset, they yield a return at not less than the rate at which the dividend is payable to the general revenues.

5.7 It is also stated in a non-official memorandum furnished by the Ex. Chairman of Rail Tariff Enquiry Committee that the costing cell of the Railways Board analyses the costs of railway services taking into account the fully distributed costs as actually incurred. Such a system, while historically useful to understand the costs incurred for providing different services, gives no indication as to the necessary and the unnecessary, the justified and the unjustified, costs in different parts of the system.

5.8 The Rail Tariff Enquiry Committee is also stated to have gone into the question of the cost methodology used by the Indian Railways at present. The Committee had pointed out some of the inadequacies in the cost analysis are not very uncommon, especially in railway system where the allocation of joint costs is a much more difficult operation as compared to industry. But there had been a certain degree of stagnation in improving cost analysis on Indian Railways because of the inadequate attention paid to the matter. It had specially been suggested that the development of some kind of "standard" or 'appropriate' cost for management control, planning and decision making is necessary. The process of improving costing techniques need to be speeded up and efforts made to make costing reports available quickly enough after the event. The quality of the field staff may also have to be improved and their number augmented. There is little expertise in cost accounting available, in the Railways, including the Traffic Costing Cell in the Railway Board. It has recommended that a higher direction for improved traffic costing should be created "which combines knowledge of railway working with expertise in statistics, economics and costing and also ensures that such expertise once created, is maintained in the Cell long enough to establish a new methodology on a sound footing."

5.9 In this connection, while tendering oral evidence before the Committee, the Ex-Chairman of Rail Tariff Enquiry Committee stated *inter alia* as under:

"There are a number of areas where much improvement is necessary. To give one example, there is little information available from the accounting techniques that have been used to find out what difference is made to the cost of carrying passengers or commodities made because of the distance involved. We know that these are certain fixed costs and to some extent these decline as the distance increases. But how much? What is the degree of cost decrease that happens with more and more distance? The accounting system as it has been developed, does not give a satisfactory answer to this question. What is done is to marshall costs on an average are known. We know the average cost incurred on goods train in the marshalling yard. On the basis of certain surveys and assumptions made data are used to work and that with so much distance there will be so much of cost also. We have calculated the terminal cost also. Naturally, the terminal cost remains the same whether you are shorter distance. But other costs will vary. For example, over a long run, there will be greater efficiency of fuel-use. Therefore, per kilometre costs of fuel-use would go down. But, such detailed working out of the relationship between cost and distance, at the moment, is not being done.

By and large, what is important is far more disaggregated cost information than what is available today. The more disaggregated the information, the more would it be possible to understand the different elements that contribute to the cost itself for different services, for different commodities for different classes for different types of trains for different gauges of trains and so on. And then both the decision-making process and management control would be facilitated. Today costing, as it is, does not enable us to do this sort of exercise adequately... there is no costing expertise at higher levels inducted in the costing cell at the Railway Board."

5.10 As regards the manning of the Cost Accounting Cell of the Railway Board, the witness stated:

"The Cost Accounting Cell is manned by the officers of the Railway Accounting Service. In the Railway Accounting Service, the people are recruited like other officers of the Government of India through competitive examination. They are given training in Accounting, but there is no Cost Accounting expertise available in the Railways.

Also no effort has been made to induct Cost Accounting experts in the Railways from outside. . . . One of the difficulties in making the recruitment from outside is that usually the Government Service people do not like the recruitment to be made by taking people from outside the Service at a higher level. So, the result is that we cannot really have qualified Cost Accountants to work in the Cost Accounting Service of the Railways.

Another difficulty is that they go on rotating the people. Even if somebody picks up the cost accounting methods, he does not stay in that Cell at the senior level for very long because his promotion opportunities do not necessarily lie in the Cost Accounting work. This problem has to be overcome. We have either to induct the expertise or develop the necessary expertise and then to keep it there by providing incentives to learn cost accounting and then by giving better promotion opportunities for working in the Cost Accounting Cell-Service.

5.11 It has also been suggested in a non-official memorandum that costing should be modernized by introducing computers at each of the divisional headquarters. Mercantile system of accounting should be introduced and costs worked out for each division of the railway instead of the Zonal railway, as a whole.

5.12 Explaining the methodology followed by the Indian Railways, the Financial Commissioner during his evidence tendered before the Committee on 2 June, 1982 *inter alia* stated as follows:

"Historically, the idea about the costing cell for railways was mooted by the Freight Structure Enquiry Committee 1957. A little later, the World Bank taking a cue from this Committee's report suggested that we should go in for this cell, and we set up a cell in 1961. Today, this cell has a Joint Director, a Dy. Director, with a small supporting staff in the Railway Board, and each Railway has a traffic costing officer and a few inspectors under him. Initially, only the goods operating costing was done. In railway traffic costing, we come up against a very large number of serious problems because most of our expenditure is of joint nature for goods and passenger services. The track is the same, the station buildings are the same and in a large number of cases, the staff are also the same. But we have to have some method of appropriating the expenditure between the goods services and passenger services. For

working out some norms, a sample survey was done. A number of stations were taken up and depending upon how much time is spent for carrying goods and how much time is spent for passenger traffic, certain formulae were devised. Later on the scope of the survey was increased, and a sample survey was done for 2400 stations out of 7000 stations.

From time to time, the methodology has been changed and the latest instructions were issued in 1980. We have modified the methodology as we gained experience. The passenger traffic costing came much later. The whole idea of this costing is to distribute all the cost among these two services particularly and then under each activity. There is, however, an inherent difficulty. The results become available only after about 1-1/2 or 2 years after the year's accounts are closed, and everything is analysed in detail. It helps to find out the historical cost of a particular activity and is used mainly for project evaluation. When we look at the expected financial returns of a particular project, these unit costs are taken into account, including the likely expenses and earnings. But it does not help us either in the concurrent re-adjustment fare and freight structure, or even day-to-day operations, because this becomes available much later. To be very useful, this should be on the basis of a futuristic costing. There should be a method of projecting what the costs are going to be in the foreseeable future. Only then, can it be used for adjusting fares and freights. It will be possible only if we set up a very large costing organisation; or alternatively, when we go in for 3rd or 4th Generation computers, i.e., the real time on-line computers. It has not been conceived of as a tool for day in management. Even if it becomes available in the present set-up, it would not be of much avail because we don't have much flexibility. For instance, on the passenger service, it has been known for some time that we are losing heavily on certain lines; but we cannot close down any of them. There are a number of lines, which are not paying. These are developmental lines. It will be long before traffic materializes there. So, a day-to-day operations control will not be possible with the help of costing figures available. Although we made a humble start in 1961, over a period of time we have progressed fairly well....

The cost analysis is relatively a new development in the accounting system of business organisations; and in the railway systems

all over the world, cost analyses are found to be difficult and have not developed as much as in manufacturing industries. However, it is to be added that with all these limitations, the cost data available now are far better than what they were even a decade back. These data have been used to the maximum possible extent in arriving at the recommendations of the Committee regarding future operations.

Today it is done on the basis of the entire Railways. We are in the process of divisionalising it, only for the expenditure side, because earnings are on all-Railway basis. If the expenditure figure becomes available to the lowest accounting unit which is the division, in time, it will be of considerable help to allow divisional officers to exercise control. We are now in the process of taking it on computers also. Some programmes have been drawn up. Two basic statements on the basis of which the costing exercise is done, are now being done on computer."

5.13 On an enquiry of the Committee as to what was the practice in foreign countries, the witness stated:

"This problem about joint cost and common cost is being faced by the Railways all over the world. The experiment shows that it has not developed or this has met with serious difficulties. It is a universal feature. The idea is to distribute all the cost under the various activities. There is a system known as fully distributed cost which takes into account the ordinary expenses plus contribution to depreciation, reserve fund and the interest charge. Except for finding out that, fully distributed cost has no relevance to tariff fixation. This cost is already there. The British railways, for instance, they changed to various other methods; and I understand that the latest method followed by them is avoidable cost principle. They look at it that if they do not introduce this service or this activity, what is the cost that they will avoid. They have gone away from the concept of the fully distributed cost system which is a very complicated affair the world over. This is not a statement which I am making; this is the statement made by the World Bank consultant and the Tariff Enquiry Committee."

5.14 According to the Ex-chairman of Railway Tariff Enquiry Committee, who appeared before this Committee, the costing system adopted by the Railways gives no indication as to the necessary and the unnecessary, the justified and the unjustified costs in the various elements of costs. The Committee are in agreement with the suggestion that development of some

kind of 'standard' or 'appropriate' cost for management control, planning and decision making is absolutely necessary. In fact that Estimates Committee have also recently in their Report on 'Railway Production Units' stressed this need. There, however, appears to be no expertise in costing especially at higher levels in the Railways. The Committee recommend effective costing cells consisting of cost experts should be ensured and reliable costing system evolved for monitoring of costs and achieving better cost control. What the Committee envisage is an integrated approach to cost and financial accounts whereby standard costs could be compared with actual costs and difference could be analysed in terms of usage, rate, etc. variances and prompt remedial steps taken for effective cost control from year to year. The results of such an approach and action should be reflected in the annual Reports of Railways for the information of Parliament and the public.

NEW DELHI;

April 9, 1984

Chaitra 20, 1906 (S)

D. L. BAITHA,

Chairman,

Railway Convention Committee.

APPENDIX

(Vide para 5 of Introduction).

Summary of Recommendations|Conclusions Contained in the Report

S. No.	Reference to No. of Para of the Report	Summary of Recommendation Conclusion
1	2	3
1.	1.	The Railway Convention Committee (1980) examined the Cost of Operation of Railways to ascertain the scope for economy in order that the Railways may be in a better position to augment the appropriations to various funds and pay reasonable dividend to the General Revenues and yet render better service to the community. Of the working expenses (excluding dividend) of the Railways, 45.8 per cent is accounted for by staff cost, 25.6 per cent by fuel cost and the rest by other stores (1981-82). The Committee's Ninth Report on Cost of Operation of Railways' covered their examination of Cost of Staff and Fuel. This Report deals with the cost of other stores besides the systems of purchases, disposals inventory control and costing in general.
2.	2.19.	The expenditure on purchase of stores (other than fuel) has gone up from Rs. 665 crores in 1978-79 to Rs. 1601 crores in 1982-83. The factors that led to the vast increase are <i>inter alia</i> stated to be increase in prices, greater repairs and maintenance requiring higher outlay on materials, enhanced track renewal activities etc. The Committee are not quite convinced that there was no scope for economy in purchases. On the contrary their examination has revealed that there is scope for economy if only the purchase procedures are rationalised and better inventory management and cost control achieved.
3.	2.20	There are three different agencies for making purchases for Indian Railways—(i) the Railway

1

2

3

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

4. 2.21

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

5. 2.29

The Committee are of the view that the purchase procedures adopted by the Railways inhibit timely procurement of stores even within the country. Cases are not rare where the lead time is more than a year. This would inevitably lead to local purcha-

1	2	3
---	---	---

ses at higher cost or a tendency on the part of the indenters to over-stock stores. In either case considerable avoidable expenditure would be the result.

In this connection the Committee would draw attention to the report of the Railway Reforms Committee on Material Management. That Committee has

brought out cases of inordinate delay in processing indents and issuing tenders. There have been glaring instances where urgent requirements were not processed for procurement for as long as 5 years. The

Committee are distressed at this state of affairs and urge that provisioning and placement of orders should in future be regulated under a time bound

programme. In their view a target of about a month to complete all formalities before issue of tenders would not be asking for too much from the system. Unfortunately this does not happen now in even 5 per cent of the cases.

6. 2.34

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

7. 2.35

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

1	2	3
---	---	---

8. 2.36

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

9. 3.22

As early as 1975, the Railway Convention Committee (1973) had stressed in their Eighth Report the need for strengthening materials management. They had pointed out that the plan expenditure 'Inventories' had exceeded the revised plan outlay to the extent of five times. They called for streamlining of stores procedures. Although the Committee had been subsequently informed by the Railway Board that the position of inventories had significantly improved by the introduction of modern techniques and adoption of important economy measures regretablely, the present position does not bear out this claim. The Comptroller and Auditor General of India in his report (1981-82) has highlighted the disquieting trend noticed in the plan expenditure on 'Inventories since 1980-81. The expenditure during 1980-81 and 1981-82 was as high as Rs. 118.85 crores and Rs. 75.52 crores respectively against the total plan provision of just Rs. 40 crores for all the five years of the Sixth Plan. No wonder therefore the inventory balance as on 31 March 1982 and 31 March 1983 stood at Rs. 460.65 crores and Rs. 431.29 crores respectively. This on all account, des-

1	2	3
---	---	---

pite the explanation of the Ministry, indicates a very unsatisfactory state of affairs. The inventory carrying cost is quite considerable and is substantially avoidable.

10. 3.23

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

11. 3.24

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

12. 3.25

Further the Committee suggest the value analysis should be undertaken by interdisciplinary term of officers to bring down the cost of raw mate-

1

2

3

rials and components. Such cells should be constituted in all Zonal Railways and Production Units and the results achieved monitored by the Railway Board.

13. 3.26

The observations of the Railway Reforms Committee in regard to inventory management in the Railways are pertinent. They have found that there is only a peripheral awareness of the scientific aspects of materials management. The stores discipline in the Railway infrastructure functions more or less as a loosely-knit and disorganised purchase and supply department. The wide range of sophistication which has been achieved in materials management in some other countries in terms of management of operation has yet to make a dent in the Railways. The position thus calls for immediate attention. The Committee would like to know the action taken to improve the position.

14. 4.10

Another area of cost reduction in regard to inventory holding is prompt disposal of surplus/obsolete stores and scrap to the best advantage of the Railways. Although in value terms the percentage of non-moving items of stores has come down to 3 in 1983-84, in physical terms, according to the Railway Reforms Committee, the position is alarming. On six Zonal Railways and one production unit they observed that 7,850 items had not been drawn for more than four years and 4,664 items for more than five years. Surplus materials symbolise either mistakes in procurement or change in planning decisions by management and perhaps to some extent overall absence of efficiency. The Committee, therefore, urge that the Railways should exercise stricter review and ensure disposal of non-moving items with a view to controlling the inventory-carrying costs.

- | 1 | 2 | 3 |
|-----|------|---|
| 15. | 4.11 | It is quite possible that some useful store rendered surplus in one Zonal Railway may be needed in another Railway. There should therefore be exchange of information so that such stores may not be disposed of, the Railways needing them paying higher cost to procure them from the open market. The Committee would suggest setting up of a centralised machinery in Railway Board to act as a clearing house of information in this regard. |
| 16. | 4.12 | The quantity of scrap—ferrous, non-ferrous and condemned rolling stock—has been rising from year to year. The total value of scrap sold has risen from Rs. 49.65 crores in 1979-80 to Rs. 88.80 crores in 1982-83. The Committee feel that a part of the scrap—ferrous and non-ferrous—is attributable to wasteful production practices. The aspect needs a review to minimise the scrap arisiags. Further, scrap that could be reused should be so used within the Railways. A critical study of the unit value realised on the sale of scrap and condemned rails should be undertaken periodically by the Railway Board to ensure that there is no leakage anywhere. |
| 17. | 5.14 | According to the ex-Chairman of Railway Tariff Enquiry Committee, who appeared before this Committee, the costing system adopted by the Railways gives no indication as to the necessary and the unnecessary, the justified and the unjustified costs in the various elements of costs. The Committee are in agreement with the suggestion that development of some kind of 'standard' or 'appropriate' cost for management control, planning and decision making is absolutely necessary. In fact that Estimates Committee have also recently in their Report on 'Railway Production Units' stressed this need. There, however, appears to be no expertise in costing especially at higher levels in the Railways. |

1

2

3

The Committee recommend effective costing cells consisting of cost experts should be ensured and reliable costing system evolved for monitoring of costs and achieving better cost control. What the Committee envisage is an integrated approach to cost and financial accounts whereby standard costs could be compared with actual costs and difference could be analysed in terms of usage, rate etc. variances and prompt remedial steps taken for effective cost control from year to year. The results of such an approach and action should be reflected in the Annual Reports of Railways for the information of Parliament and the public.
