

111

**BUILDING FOR PERMANENT
MISSION AT NEW YORK**

MINISTRY OF EXTERNAL AFFAIRS

HUNDRED AND ELEVENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

**HUNDRED AND ELEVENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1995-96)**

**TENTH LOK SABHA
BUILDING FOR PERMANENT MISSION AT
NEW YORK**

MINISTRY OF EXTERNAL AFFAIRS



*Presented to Lok Sabha on 29.11.1995
Laid in Rajya Sabha on 29.11.1995*

**LOK SABHA SECRETARIAT
NEW DELHI**

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**CORRIGENDA TO THE 111TH REPORT OF THE PUBLIC ACCOUNTS
COMMITTEE (10TH LOK SABHA)**

PAGE	LINE	FOR	READ
9	7	from top	"roofing"
15	18	from bottom	"From"
18	19	from top	"experienced"
18	20	from top	"have gone"
28	4	from top	"led"
31	9	from top	"should be"
45	21	from bottom	"10 FAR"

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PART II*

Minutes of the Sitzings of Public Accounts
Committee held on 5.10.1995 and 20.11.1995

* Not printed (one cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE
(1995-96)

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INTRODUCTION

1. The Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Eleventh Report on Paragraph 7.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1994, No. 1 of 1995, Union Government (Civil) relating to Building for Permanent Mission at New York.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1994, No. 1 of 1995, Union Government (Civil) was laid on the Table of the House on 3 May, 1995.

3. In September, 1980, a plot measuring 610 sq. metres was purchased in Mid-Manhattan, New York at a cost of US \$ 990,000 with the intention of constructing a building which would meet the bulk of the office and residential requirements of the Permanent Mission of India to the United Nations (PMI) as well as the Consulate General of India (CGI), New York. The Project expected to cost US\$ 5.315 million in 1981 was completed in January, 1993 at more than five times the cost, i.e. US\$ 28 million. In this Report, the Committee have raised certain important questions relating to the cost effectiveness of the Project and whether the benefits accruing therefrom were commensurate with the scarce foreign exchange resources appropriated for it. In the opinion of the Committee, the Government's decisions of associating an Indian Architect, adopting the Construction Management System and giving precedence to superiority of ambience over economy together contributed to the delays and steep cost escalation. Further, completion of the Project at more than five times the originally estimated cost raised serious questions about the financial prudence of going in for a Project which even at the stage of original estimation was considered as financially unviable. The Committee have recommended that the facts contained in this Report should be thoroughly looked into with a view to fixing responsibility for the various lapses and also for obviating such recurrence. Emphasising the need for streamlining the policy and procedures for acquisition/construction of property by Indian Missions abroad, the Committee have recommended that the Ministry of External Affairs should issue detailed instructions within six months in consultation with the Ministries of Urban Affairs and Employment and Finance which apart from laying down the criteria for acquisition of property abroad should also include aspects relating to management of construction, i.e. estimates, approval of the Project, evaluation of tenders, appointment of architects, technical supervision of construction and system of payment at different stages as also periodic monitoring in the Ministry. The Committee have also recommended that the Ministry should prepare perspective and five year plans for acquisition and construction of property

abroad keeping in view the likely overall availability of funds. The Committee have further recommended that in the light of the above recommendation, the Ministry of External Affairs should review the 20 Projects/Proposals for construction/acquisition of buildings for Indian Missions abroad which were presently in hand with a view to ensuring that the rental outgo, which is bound to increase year after year is reduced to the negligible level and also avoiding delays in their execution and the concomitant cost escalations.

4. The Committee examined Audit paragraph 7.1 at their sitting held on 5.10.1995. The Committee considered and finalised the report at their sitting held on 20.11.1995. Minutes of the sitting form Part-II* of the Report.

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

6. The Committee would like to express their thanks to the Officers of the Ministry of External Affairs for the co-operation extended by them in giving information to the Committee.

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

NEW DELHI;
23 November, 1995

1 Agraphayana, 1917(S)

RAM NAIK,
Chairman,
Public Accounts Committee.

* Not printed (one cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

REPORT

BUILDING FOR PERMANENT MISSION AT NEW YORK

I. *Audit Paragraph*

1. This Report is based on Paragraph 7.1 of the report of the Comptroller & Auditor General of India for the year ended 31 March, 1994, No. 1 of 1995, Union Government (Civil) which is reproduced as Appendix-I.

2. In September 1980, a plot measuring 610 sq. metres was purchased in Mid-Manhattan, New York at a cost of US \$ 9,90,000 with the intention of constructing a building which would meet the bulk of the office and residential requirements of the Permanent Mission of India to the United Nations (PMI) as well as the Consulate General of India (CGI), New York. The implementation of the Project was afflicted by series of delays and cost escalation. The Project expected to cost US \$ 5.3 million (1981) was completed in January, 1993 at more than five times the cost, i.e. US \$ 28 million. The Audit have in the paragraph under examination sought to examine the factors which contributed to the delay and cost escalation. The various aspects arising out of examination of the Audit paragraph by the Committee are discussed in the succeeding paragraphs.

II. *Financial Viability of the Project*

3. The Ministry of External Affairs (MEA) had invited all the Indian Missions abroad to come up with proposals regarding acquisition of property in April 1976. Later in May 1978, the MEA issued detailed guidelines for the purpose. According to those guidelines, comparison of capital cost of acquiring/constructing property *vis-a-vis* the recurring rental expenses was an important consideration in determining economic viability. While pronouncing the Government policy for acquisition of property for Mission abroad, the MEA in the aforesaid guidelines also had communicated a formula which was evolved in consultation with the Ministry of Finance to be adopted for such evaluation. The MEA had also *inter alia* emphasised that their experience had shown that with a few exceptions it would be more economical and advantageous to buy built-up property rather than construct buildings.

4. According to Audit, an exercise to assess the economic viability of the New York building was carried out by the Integrated Finance unit of the Embassy of India, Washington in 1981. Taking into account estimates of annual rental costs, maintenance costs of owned buildings, annual escalation of annual rents, the rate of inflation as envisaged in Ministry of External Affairs instructions of 1978, the economic cost of a building to

suit the projected requirements worked out to US \$ 2.297 million. As the estimated cost of construction was US \$ 5.315 million the Project was not considered viable. The analysis by Integrated Finance unit was forwarded by the Mission, at the instance of the Ambassador, to MEA. The Government nevertheless finally went ahead with the project.

5. The Committee desired to know the circumstances under which it was decided to go ahead with the construction of the Project even though the analysis by the Integrated Finance Unit of the Embassy of India, Washington showed that the Project was not economically viable. The Ministry of External Affairs in a note stated:

“The economic cost worked out by Deputy Financial Advisor (DFA) and Chief Controller of Accounts in Embassy of India, Washington in 1981, which showed the cost of construction as US \$ 5.375 million and economic cost as US \$ 2.3 million, was never accepted in the Ministry. In this calculation the rate of increase in rentals was taken as 10% on the assumption that rents may in future stabilise to this level whereas actual rate of increase was much higher. The previous DFA & CAO in the Mission had reported to the Ministry in March 1980 that the project was economically viable. In the calculations done in the Ministry in 1980 on the basis of estimates given by M/s Rose Associates, an architectural firm engaged by the Mission, it was found that the project cost of US \$ 6.925 (including cost of land) could be recovered in 15 years from the annual rental saving of US \$ 4,63,000/- and the project was thus economically viable.”

6. The MEA in their note also added that there were also factors other than economic viability that went into deciding whether a construction project was to be undertaken in a particular country. According to the Ministry, some of such factors were, the need to have a suitable office for the Indian Mission, the security of its officers and staff, scarcity of accommodation in the areas where the Mission was located etc.

7. The Committee pointed out during evidence that the Deputy Financial Advisor's assessment on the financial viability as reported to the Ministry in 1981 was contrary to the advice given by his predecessor in 1980. On being enquired by the Committee whether the costing undertaken by the Integrated Finance Unit of the Embassy of India, Washington in 1981 was in consonance with the policy guidelines of the Ministry of External Affairs as circulated to the Foreign Missions in May 1978, the MEA in a note furnished after evidence replied in affirmative.

8. Asked why the proposal was then not accepted by them, the Ministry in the post-evidence note further stated:

“The plot was purchased in September 1980 on the basis of economic viability of the project calculated in 1980. The calculations were made by DFA in August, 1981, i.e., after the

plot had been purchased. The then Finance Minister, while according approval for purchase of the plot had noted that the land may be purchased without commitment regarding construction. Land values are bound to go up in New York in the UN area."

9. The Committee desired to know whether the alternate option of buying built-up property, the preferred option of the Government in terms of the 1978 Circular was specifically examined by the Ministry before taking the final decision for construction of the building. The Ministry of External Affairs in a note subsequent to the evidence stated:

"The Property team which visited New York in 1980, examined the following proposals:

- (a) Purchase of apartments for members of the Mission.
- (b) Purchase of a town house for PR's residence.
- (c) Acquisition of land in Manhattan and construction on the same.

The team found most of the available built up properties unsuitable. The team also noted that the proposal to purchase a town house would be pursued further if the proposal for acquisition of land in Manhattan did not find acceptance. But since approval was accorded for purchase of the land, and it was found economically a better option, the Ministry concentrated on the construction project. Even after the purchase of the plot, Ministry continued to explore the purchase option for residences that could not be accommodated in the proposed building. As a result of this search, a suitable residence for the Deputy Permanent Representative was purchased in 1985 keeping in view his representational & functional requirements.

The alternate option to construction would have been acquiring a multi-storeyed building to accommodate both office and residences as per our requirement and specifications. Since no such building was available the purchase option was limited to purchase of the required number of residential apartments only."

10. In this connection, the Foreign Secretary deposed during evidence that they were trying to find out whether it makes a good sense for them to think of a construction project and the conclusion that emerged was that construction project may make a sense and in the longer run it will result in savings.

III. Delays in construction

11. The chronology of execution of the Project of construction of the building for permanent Mission after the purchase of the plot as revealed from the Audit paragraph is given below:—

- | | | |
|-----------------------------|---|--|
| May 1981 | — | Approval of Government for construction of the building accorded. |
| March 1982 | — | A high-level property team from MEA visited New York |
| September 1982 | — | Notice for registration of Indian architects for construction of the project advertised. |
| January 1984 | — | The project was offered to an Indian Architect firm. |
| July 1984 | — | The firm submitted its concept report. |
| January 1986 | — | An agreement with the firm engaging them as Consultant and Construction Manager was signed. |
| June 1987 | — | The firm came up with a revised report envisaging appointment of a New York based registered firm of architects as their associates and a separate Construction Manager. |
| May 1988 | — | Cabinet approval for the projects was obtained. |
| September/
December 1988 | — | A revised agreement was signed with the Indian architect firm and their associates in New York and the Construction Manager. |
| June 1989 | — | The construction work was commenced. |
| January 1991 | — | Expected time of completion of the construction. |
| January 1993 | — | The construction work was finally completed. |

12. The Committee drew attention of the Ministry of External Affairs to the delays at various stages in the execution of the Project and desired to be apprised of the reasons for the same. The MEA in a note recounted the reasons for the delay during the pre-construction period as follows:—

“The plot was purchased in September, 1980. After purchase of the plot, as a first step towards selection of an Architect the names of local Architects were short-listed and the visiting property team held discussions with the short-listed Architects in March 1982. The team recommended appointment of M/s Edward Durrell Stone as the Architect for the project. But, before the firm was appointed a directive came from the Prime Minister that reputed Indian Architects should be appointed for Ministry's construction projects abroad. Consequently, there was a delay in appointment of an Architect as norms and procedures for selecting an Indian Architect had to be worked out. After deciding the norms and

procedures, Shri Charles Correa was selected as the Architect for the project in 1984 by the Architect Selection Committee formed for the purpose. He was selected on the basis of his international reputation and experience. Shri Correa submitted his project report in 1984 which was discussed in the Ministry, with PMI New York and Chief Architect, CPWD. On the basis of a draft suggested by CPWD, an agreement was negotiated with the Architect and signed in 1986. In the Architect's detailed discussions with his associates in USA and Mission's discussions with all concerned it became clear that it was difficult for a non-local Architect to practice in USA because of the strict liability and insurance laws. It was suggested that the Ministry had to sign a direct contract with the local Consultant to overcome this problem. With the assistance of legal experts, three agreements were negotiated and signed in 1988—one between the Ministry and the Indian Architect, the second between the Ministry and the local Architect and third between the two Architects defining their specific assignments. Meanwhile, in the light of discussions the Architect had with all concerned, he submitted a revised project report alongwith revised drawings. Cabinet approval for the project was taken in April 1988. Negotiations were held with different firms for appointment of a Construction Manager and M/s Morse Diesel was selected as Construction Manager for the project. With the assistance of lawyers an agreement was negotiated with them and signed in December 1988 and construction started in June 1989."

13. The Ministry in their note enumerated the following factors which caused delay in the construction period:—

- (i) The layout of the land and the nature of the adjoining buildings made it obligatory to go slow with the digging to avoid any possible damage to the adjoining buildings whose structures were very fragile. This increased the initial digging and excavation period from an estimated 3½ months to nearly 6 months.
- (ii) In the fast track method of construction the work is started before development drawings are complete. The method required full time attention of the Architect for development of drawings. The local Architectural firm ran into financial difficulty and broke up in the beginning of 1990 with no input coming from them from February 1990 to August 1990 until the main partner joined another firm and took up the work again. It was not considered advisable to change the Architect at this stage as negotiating with a new Architect and signing an agreement

with him would have delayed the project substantially and created problems regarding interpretations of the drawings already made.

- (iii) Another firm M/s Zimcor, Canada which was responsible for metal panel curtain wall ran into financial difficulty and went bankrupt. It took time to find another firm that was willing to do the remaining work within the available funds.
- (iv) The remaining delay was on account of the change in the scope of the project as it went along. Such changes became necessary because of functional requirements, the need to have better system than those envisaged initially and the change in local regulations.

14. In this connection the Committee enquired whether those firms referred to above were of proven track record and also the basis of their selection for the jobs entrusted to them. The Ministry of External Affairs in a post evidence note stated that the Mission had checked about the standing of the US Architectural firm, M/s Bond Ryder Associates from the New York City Commission before an agreement was signed with them and it had been confirmed that the firm had a good reputation.

15. When asked about the manner in which those firms had been selected the MEA in a note submitted after evidence stated:—

- “(i) M/s Bond Ryder & Associates, was first identified and selected by Shri Charles Correa as his local associate. For Ministry’s construction projects abroad, the selected Indian Architect identifies his own associate or local architect for the purpose of taking local government approvals, and for providing an input into local construction norms, city bye-laws etc. The local architect is paid by the Indian Architect directly from his fee and the local architect does not directly deal with the Ministry.
- (ii) In the case of the New York project, however this arrangement could not be followed. Since Shri Correa was not practising in the USA he was not in a position to get the necessary insurance cover for the project. Also the local architect could not extend its insurance cover to the employer (i.e., the Ministry) in the absence of any direct agreement with the employer. All possible options to overcome this impediment were explored and discussed in detail by the Mission and US Architect through its respective legal advisers. It was felt that the best option was to sign an agreement directly with the US architect. In addition to solving the problem of insurance, this option also had the advantage of making the US architect directly responsible to the Ministry. This safeguarded the government from all future

eventualities including any possible dispute between Shri Correa and his local associate. A direct agreement between the Ministry and the US Architect safeguarded against the local associate leaving the project half finished during the course of construction.

- (iii) As a result of this development three agreements were signed, one between the Ministry and Shri Correa, another between the Ministry and the US Architect and a third one between Shri Correa and the US architect which had a clause that the agreement could not be changed without the Ministry's consent. As per these agreements, though Shri Correa continued to be responsible for design and the project as a whole, the responsibility for detailed drawings and on site supervision was transferred to the US architect. Shri Correa's initial fee of 5% was reduced to 2%, and 3% was transferred to the US architect.

The agreement with the US firm was signed in 1988. The standing of the firm had already been checked with the New York City Commission. Some indications of its financial difficulties came to light only in 1990. Mr. Max Bond, who was in charge of the PMI project, joined another firm called M/s Davis Brody and Associates. He continued to work for the PMI project in the name of the old firm and assured the Mission that he would continue with the project till its completion. The question of changing the local architect was considered at the time when the firm broke up and legal advice was sought by us. The advice given was that changing the architect would substantially delay the project and increase the cost drastically. The architect had already done substantial work in the project and was entirely familiar with Ministry's and the Indian architect's design and requirements. Engaging a new architect half way through construction would have meant stopping all work and starting afresh.

M/s Zimcor (Canada) responsible for metal panel was selected by Construction Manager, M/s Morse Diesel as per the provisions of the contract between the Government and M/s Morse Diesel. The selection of this firm was not done by Government directly but by the Construction Manager."

16. Commenting on the delay in the execution of the Project, the Foreign Secretary deposed before the Committee as follows:—

"So far as the delay is concerned,I would only add that although this is a long period of delay admittedly, it is not

something that is unusual. In other countries also we have bought lands which have not been built yet. There are several instances in which we have bought or acquired land at a particular time because it was convenient and economical to do so. But started constructing at a postponed period which could vary considerably. There could be a wide gap between the purchase and the actual start of construction."

IV. *Cost Escalation*

17. The Committee desired to know the reasons for the steep escalation in the cost of the Project. The Foreign Secretary stated during evidence:—

"If we take 19 million dollars figure, than between that figure and the finally completed cost, certainly there has been a considerable increase from 19 million to 28 million dollars."

18. The above aspect was elaborated by the MEA in a note as follows:—

"The estimate of US \$ 5.315 million mentioned in 1981 was a preliminary estimate prepared by a local Architect, Rose Associates, without going into details of the project requirements. The approved cost of the project after working out all the details came to US \$ 19.023 million as mentioned in the Cabinet Note of 1981. The main reasons for increase in cost from US \$ 19.023 million to nearly US \$ 28 million are design changes made after construction had started, increase in General Condition cost on account of extension of construction time, increase in cost on account of changes made by interior designer and changes made on account of local code requirements."

19. The Committee asked why the local legal and climatic requirements were not taken into account at the beginning of the Project. The Ministry of External Affairs in a note stated that many problems came to light only after the construction had started and details were gone into. In U.S.A., the local code requirements were complex and was a subject of specialisation; however, the services of such code specialists were utilised after construction had started.

20. When asked whether such changes did not indicate inadequate planning, the Ministry of External Affairs in a note stated that by careful and detailed planning it was possible to reduce the necessity of changes during construction but it would not be possible to eliminate the necessities of such changes altogether.

21. To a question of the Committee, the MEA indicated the break-up of escalation area-wise as follows:—

Area of Works	Escalation
1. Escalation due to design changes like adoption of metal panel in place of 'brick cavity wall', red travernite, paver roofing in place of membrane roofing etc.	2.247 million
2. Change in design on account of city code requirements.	1.159 million
3. Interior design related expenses	2.462 million
4. Construction Manager's fee	0.251 million
5. General Construction Cost	2.664 million
6. Reimbursibles	0.743 million
7. Consultancy fee	0.186 million

V. Unsuitability of the size of the plot

22. It has been pointed out by Audit that the property team of the Ministry of External Affairs which had visited New York in March, 1982 for selection of an architect was dissatisfied with the size and shape of the plot. In reply to a related question, the MEA in a note stated that the size and specifications of the plot were taken into account before according approval for its purchase. A property team had inspected the plot in 1980. The Committee were also informed by the Ministry that the property team's discussions with Architects in New York had highlighted difficulties that would be encountered in constructing a suitable building on the site. However, it was felt that these difficulties would not be insurmountable. The Committee desired to know about the difficulties apprehended and the steps proposed for tackling them at that time. The Ministry of External Affairs in a post evidence note stated:—

“The difficulties apprehended by the visiting property teams related to the long and narrow size of the plot, the rocky foundation and complex zoning law regulations of New York. It was felt that on account of the narrow size of the site it would perhaps be necessary to have more than one level in the basement for parking cars. For parking 50 cars upto 5 levels of basement may be required. Digging to such level would be expensive on account of likelihood of large rock ceiling as well as need to underpin the neighbouring buildings. The property team considered that the requirement of parking space would have to be reduced to

restrict the number of basements upto two levels. On account of the complex zoning law regulations and procedures no authority could tell the property team for certain whether a relaxation of the zoning laws regarding FAR would be available. It was recommended that though the Ministry may make effort on this through the Architect, it should be prepared to trim the construction requirements according to the floor area finally approved by the city authorities."

23. On the question of suitability of the plot, the Foreign Secretary deposed before the Committee:—

"....the Ambassador at that time also was of the view that it was not a proper place...In fact, no alternative site was available....It was felt that although the site was not ideal, it could provide a location for building as indeed it did."

VI. *Selection of Architect*

24. The Audit have pointed out that the Government appointed in January, 1984 an Indian firm as the Architect, Consultant and Construction Manager on the premise that with limited permission with local authorities the firm could execute the Project at New York. They failed to take into consideration that the local insurance rules would have created practical problems in the execution of the Project in the case of non-local Architect. Considerable time was lost thereafter in the Indian Architect firm associating a local architect firm so as to appoint the latter as associates also called the 'Architect-on-Record'. This hampered the progress of the project from July, 1984 until September, 1988. The Committee desired to know as to how the Indian Architect was selected. The Ministry of External Affairs in a note stated that in March 1982 a Property team consisting of Additional Secretary (AD), Financial Advisor (EA) and Director General (Works), CPWD approved by the External Affairs and Finance Ministries visited New York and recommended selection of Architect for our construction Project at New York. The team recommended appointment of one M/s Edward Durrell Stone as Architects for the project. According to the Ministry, meanwhile on a directive from the then Prime Minister, a decision was taken to involve Indian Architects for the Ministry's construction projects abroad. Accordingly, with the approval of the then Minister of External Affairs, an architect selection Committee was constituted with the Foreign Secretary as its Chairman.

In this connection, the Ministry further stated:—

"The Committee decided that leading Architects who has experience of Construction Projects abroad, should be invited to intimate their interest in the Ministry's construction projects abroad. The selection of an architect for a particular project would be made on the basis of his experience, availability of associates in the particular region and

suitability for the project in question. The Committee short-listed Indian Architects for proposed MEA projects abroad. Shri Charles Correa was awarded the PMI, New York construction project on the basis of his international standing and experience."

25. When the Committee desired to know the precise circumstances under which the Indian Architect firm took more than four years in associating with them a local architect as Architect on Record, the Ministry of External Affairs, in a note again recounted the sequence of events starting from selection of Shri Charles Correa as the Architect in 1984 till the signing of agreements in 1988 (referred to in paragraph 12).

26. The Committee asked as to why the Ministry failed to analyse the implications of relevant factors like insurance and liability laws etc. in engaging non-local architect before commencing a Project of this magnitude. The Ministry of External Affairs in a post evidence note stated:—

"Since it is the policy of the Government to appoint Indian Architects for Ministry's construction projects abroad, Indian Architect selected for all the projects after checking whether they could practice in a foreign country, even with a limited permission. In Ministry's other projects abroad, it was the contractor who took the necessary insurance covers and the Ministry did not face the sort of problems it faced in New York. Local regulations are a matter of specialisation in the USA and to get proper advice of Consultants in the particular field would have to be engaged. Even the US Architect was not clear about US insurance regulations. The services of lawyers and insurance consultants were engaged only after selection of the architects and presentation of the project report by the Architect. It was only then that the lawyers advised on the insurance liability laws of the US and the necessity of the Ministry signing, an agreement with the US Architect."

In this context, the Foreign Secretary during evidence deposed:—

"So far as local regulations were concerned, we were informed at that time that with the limited permission an Indian Architect could work in New York. But that was not the issue. But for the specific project he could be permitted as indeed he was permitted. The problem came because there was a strict insurance liability. It became necessary for a legal association between the Indian Government and the American Architect to cover this particular point of insurance liability."

28. On being enquired by the Committee as to how much payment had been made to the Architect by way of fees and other expenses, the Ministry, in a note replied that the US based Architect has been paid US \$676,184/- by way of fee. The Indian Architect has been paid US \$ 1,87,090.18 and Rs. 52.41,586 by way of fee and other expenses.

(VII) Open ended Management Approach

29. According to Audit the Government chose to execute the Project through the "Construction Management System" coupled with the "fast track method" rather than award the entire contract on turn key basis after firmly determining the detailed technical specifications i.e. the Prime Contractor Method. This resulted in the Architect being treated as a Consultant and the contractor supervising the work as Construction Manager and Government, through the PMI, remaining continuously responsible for the execution of the Project. This further resulted in creating a situation in which there were repeated changes in design and other specifications with the inevitable and concomitant delays and cost escalations.

30. In this context, the Committee desired to know as to whether the Ministry had undertaken any cost benefit comparison of the two approaches i.e. "Construction Management System" and "Prime Contractor Method" before choice of the former approach for this Project. The Ministry of External Affairs in a note furnished to the Committee stated that the three member property team that visited New York in March, 1982 was of the view that the Construction Manager method was more suitable for the project for the following reasons:

- (i) there could be considerable saving in time;
- (ii) the fee of the Construction Manager (2—4%) would be readily off-set by the 10% profit margin built into the bid of the General Contract. A reduction in cost of at least 5% from the General Construction Method was expected."

31. Elaborating the reasons for having chosen this method, the Ministry of External Affairs in a note further stated:

"In the General Contractor Method tenders are floated after detailed drawings are made. The contract is awarded to the main contractor who gets the work done through various sub-contractors. The main contractor takes a profit (normally 10%) over the work of the sub-contractors and this is included in the cost at the time of bidding for the contract. In the Construction Management method Construction Manager acts as an agent of the employer and gets the work done through various sub-contractors with whom the client signs the contract directly. In this method the work could be started even before the detailed drawings are completed and drawings are made as work progresses. At every stage of the project the Construction Manager makes it possible for the Architect and owner to sift various alternatives, whether of equipment or material from the point of view of cost."

32. When pointed out that the twin advantages visualised were not obviously realised, the Ministry of External Affairs in a note stated:—

“It is true that the two advantages of Construction Manager method were not realised in the project. It is because many unexpected factors like break-up of the US architectural firm, bankruptcy of the metal panel erector etc. cropped up during the execution of the project. Substantially delaying the project. Time is very important in Construction Manager method and the delay enhanced the cost of the project. The factors mentioned above could not have been foreseen when the decision to go in for Construction Manager method was taken”.

33. The Committee asked whether the Ministry of External Affairs had applied the Construction Management Method in any other Project. In reply, the Ministry of External Affairs in a note stated:—

“The Construction Management Method was followed only in New York as it was in line with the modern construction practices being followed in the United States.”

34. In this context, the Foreign Secretary stated during evidence:—

“We have learnt from the difficulties that were encountered here which were genuine difficulties. But I would like to submit that we entered into this method for saving money rather than wasting the public resources.”

The witness further stated that the Ministry in their construction projects abroad were now following the General Contractor Method. He also stated that the General Contractor Method had proved trouble-free and offered quicker implementation of the projects in Riyadh, Dubai and Kuwait.

VI. Floor Area Ratio

35. According to the Audit Paragraph the Cabinet approval for the Project was obtained with the assumption that the floor area ratio (FAR) would be 12. Thus PMI office, 41 residences and car parking for 27 cars would be built on the plot. The building was however constructed with the FAR of 10 as the Government failed to apply for the required approval from the local authorities. This resulted in a shortfall of 19 residences and 16 car parking slots. The Committee were also informed during evidence that as against the original plan for 36 floors, the actual number of floors constructed was only 26. In this connection, the Committee wanted to know as to why the approval for the originally perceived Floor Area Ratio was not taken in time so as to fully realise the benefits of the project. The Ministry in their note stated as follows:—

“When the visiting property team from the Ministry consisting of AS(FA) and JS (Estt.) held discussions with zoning experts in USA in September 1988 it was realised that application for and approval of 12 FAR would involve considerable negotiations with the local authorities

which would take a period of not less than 12 months and even then there was no surety of getting it. In view of this it was decided to abandon the idea of 12 FAR and concentrate on 10 FAR to avoid delay in the execution of the project."

36. Explaining the Ministry's views further, the Foreign Secretary stated in evidence:

"Given the special circumstances, given the fact that this was diplomatic rather than commercial premises, we might be able to prevail upon the local authorities to give us a better FAR which would, of course, have yielded certain economies and, in fact, on further judgement it appeared that we might not succeed and there would be delay, the delay was certain and the outcome was uncertain."

The Ministry also stated that as per the calculation done even now with the reduced Floor Area Ratio of 10 and reduced number of residences constructed on the plot, the economic cost has been found to be US \$35 million against the construction cost of US \$28 million.

IX Reduction in the Total Plinth Area

37. The note submitted for Cabinet in 1988 is understood to have sought approval for construction of specified built up floor area for Chancery, Residential accommodation including circulation area, parking and service areas calculated at unit rate per sq. meter. The Committee learnt from Audit that the position of accommodation actually constructed *vis-a-vis* the accommodation for which Cabinet approval was accorded showed the following positions:—

Accommodation	Proposed built-up area (sq. meter)	Actual Construction (sq. meter)	Less/more (sq. meter)	Rate per sq. meter US\$
Chancery	1,836.00	2325.84	(+)489.84	1880
Residences	5,563.00	3839.81	(-)1,723.19	1560
Basement and services	1,837.60	1657.89	(-)179.71	1100
Total	9,236.60	7,823.54	(-) 1,413.06	

It will thus be seen from the above that while the total plinth area constructed was less by 1413 sq. meters, there was an increase in the cost of construction by US \$9 million (over Rs. 25 crores at present rate of conversion) instead of pro-rata reduction (approximately US \$2.2 millions).

38. On being enquired by the Committee about the reasons for reducing the total carpet area and residential accommodation while

increasing the office space and why it was not anticipated earlier, the Foreign Secretary deposed during evidence:

"I do not think that we are over-provided in that building. The point that why was it not anticipated is a fair point. There is no doubt that it should have been increased."

X. Diluted Cultural Uniqueness

39. The Audit have pointed out that the architectural concept, on the basis of which the contract was awarded to the Indian Architect underwent a total change and the final concept as it stood after revisions made by the Indian Architect did not incorporate any of the original design concepts.

40. In this connection, the Committee wanted to know about the reasons for not incorporating the original design concepts in the construction of the building as was initially conceived by the Architect. The Ministry in their note replied as follows:

"The Indian Architect was not selected on the basis of any Architectural concept. There was no design competition for selection. The Architect was selected on the basis of his reputation and past record. After selecting the Architect, he was asked to present his design which was approved by the Ministry after discussions and changes.

The reference of the audit is probably to the decorative granite columns that was designed to be placed at the entrance foyers. It was later decided not to place these columns to gain more space in the entrance foyers. This was only one of the items designed to give the building an Indian identity. Other decorative items like Shekhavati door, pergola bar etc. continue to be a part of the building. The dropping of granite columns do not invoke any significant change in cost."

41. The Committee further wanted to know whether Shri Charles Correa, had subsequently expressed his dissatisfaction about the changes, the Ministry of External Affairs in their post evidence note explained the position as follows:—

"All the design changes made in the initial design were either initiated by Shri Correa or incorporated with his consent. No design change can be incorporated if the architect does not agree to it. The major design changes made were:—

- (i) The adoption of metallic curtain panel on the exterior instead of "brick cavity wall". This was done as metal panel offered better maintenance characteristics, was more resilient to environmental factors and economical for maintenance in the long run.
- (ii) Use of red granite stone instead of red travernite. This was done as red granite can withstand the extremes of New York climate better.

(iii) Change from paver roofing to membrane roofing for better durability.

(iv) Removal of granite columns to give more space in the entrance lobby.

In fact all the major design changes were made by Shri Correa and Ministry made only minor design changes on functional grounds with Shri Correa's consent. All directions for design changes were executed by the US Architect who was under the supervision of Shri Correa, Our records do not reflect any correspondence from Shri Correa expressing dissatisfaction with any design changes."

42. Asked whether any advantage had been derived from engaging an Indian Architect, the Ministry of External Affairs in a note replied:—

"The Indian Architect was appointed for the project to give the building an Indian identity. This has been achieved in the PMI New York building. The building stands out with Shekhavati door, pergola bars etc."

43. The Foreign Secretary added during evidence:—

"On cultural uniqueness, that is in the eye of the beholder. That speaks for the country. That does attract admiration."

XI Micro Analysis of Cost Escalation

44. Trade cost, i.e. cost of material and labour provided by individual sub-contractors for various sub-contracts such as stone works, masonry, wood work etc. constitute a major component of a construction project. According to the Audit paragraph, the budget estimates prepared by the Construction Manager at the time of commencement of construction had envisaged an amount of US \$15,212,825 on the various trades. As of May 1993 the expenditure on this account had gone upto US \$ 18,606,823. Form the scrutiny of the illustrative list of trades, the Audit had observed that the local circumstances had not been fully considered while preparing the estimates and designs. The Audit list included the following:—

- (i) An additional amount of US \$305,000 was incurred due to the change in the design from brick cavity wall to metal panel curtain wall. The latter was chosen for its superior maintenance characteristics and greater resilience to environmental deterioration.
- (ii) An additional expenditure of US \$220,000 was incurred in changing from red travertine stone to granite since the former which had been selected by the Indian Architect would not have been able to withstand the New York climate.
- (iii) A further amount of US \$612,000 was incurred on additional wood work. The Government justified this on the ground that the original design had provided for minimal wood work and additions were made on the recommendations of the interior decorators on aesthetic considerations.

- (iv) An additional expenditure of US \$842,000 was incurred on electrical works due to the factors such as replacement of standard by superior fixtures and certain design changes. This included an amount of US \$11,071 charged by the firm for deletion of already installed lighting fixtures on account of overhead and profit charges.

45. In this connection, the Committee wanted to know the circumstances in which Government continued to accept changes designed to improve the ambience of the building even though the cost of the project had far exceeded budget estimates and every such change entailed outgo of additional scarce foreign exchange. The Ministry of External Affairs in a note stated that the changes were not introduced mainly to improve the ambience of the building. According to them, they were introduced mainly because of code requirements or functional requirements or for technical reasons.

46. On being asked about the compulsions of not having adopted economy measures widely prevalent in India during the period of construction extended to our Mission abroad, the Ministry of External Affairs in a note stated that because of economy measures many projects were put on hold. But it would not have been wise to delay a project already started as this would have increased the cost further.

XII. Liability for Error and Omission changes

47. As per article 17 of the contract entered with the Architect-on-Record for providing architectural and engineering services for the construction of the project, "the Architect should re-design at its cost any portion of its work or its consultants, which due to its consultants failure to use a reasonable degree of skill, shall prove defective within one year from the date of start of regular use of the portion of the work affected. The owner shall grant the right of access to the Architect to those portions of the work claimed to be defective for inspection." According to Audit when the construction work was under execution, the Construction Manager gave in July 1992 a list of 46 change orders issued between November 1990 and June 1993 involving an amount of US \$268,442 owing to errors and omissions. The Mission analysed these change orders and directed the firm to adjust as back charges an amount of US \$196,848 which had resulted from architectural errors and omissions. The firm did not accept the liability on several grounds including that the scope and purpose of the project has not been made clear during the initial negotiations, that they were not aware that the interior decorators appointed later would not accept the products specified by them that the project would go on for 16 months beyond the anticipated date of completion. They also attributed (October 1992) the number of changes and escalations to the lack of understanding of the local building process by the owner and his indecisiveness. Finally

the firm only accepted liability for US\$ 47,089 the balance had to be borne by the Government.

48. The Committee desired to know the reasons for not invoking the contractual provisions by the Government to realise the amount of US\$ 196,848 which had resulted from architectural errors and omission. The MEA in a note stated:—

“The list of change orders proposed to be back-charged was sent to the local Architect for their comments. On receiving their detailed comments it was found that many of the items were not sustainable. The Architect was prepared to contest it in any manner we chose and it was felt that we do not have sufficient proof to enforce the back-charging in many of the cases. The issue was examined in the Ministry also and it was a visiting property team from Headquarters consisting of Additional Secretary (AD) and Additional Secretary (FA) which negotiated with the Architect and reached an agreement.”

49. The Committee pointed out that PMI, New York had attributed their inability to establish liability of the firm conclusively to factors such as inadequate documentation, change of personnel and the difficulty experience by non-technical persons in the Missions in visualising all the inputs that has gone into these change orders. Commenting on the mode of governmental action, the Foreign Secretary stated in evidence:—

“.....1,96,000 US dollars was the asking price. Finally, we had gone by the advise of our lawyers. They said that we should negotiate and get the best that we can.”

50. Referring to the Ministry's reply of absence of sufficient proof to enforce the back charging in many of the cases, the Committee wanted to know as to who was responsible for the lapses in documentation etc. The MEA in a note stated:—

“...There were no lapses on the part of any official of the Mission or the Ministry... The Mission had compiled a list of cases which the Construction Manager felt could be back charged. But on going deeper into these cases, it was found that many of these claims of the US Architect were justified.”

XIII. Impact of Increased Trade Cost and Delay on other costs

51. The Audit have pointed out that the rise in trade costs and the time taken in completion of the project resulted in general condition costs rising significantly from US\$ 1,964,000 to US\$ 4,590,749. The former also resulted in increased payments to the Indian Architect, Architect-on-record and the Construction Manager since their payments were determined as a percentage of the total cost. The total additional expenditure on this account was US\$ 475,907. Additional amounts on insurance aggregating US\$ 85,075 had also to be incurred because of cost escalation and longer duration of the Project. When enquired about the same and also the

additional expenditure incurred as a result of increased trade cost, the Ministry of External Affairs in their note replied:

"The trade costs have increased and as a result of increase in trade cost and the delay in construction General Condition Costs have also increased substantially.

Construction costs have increased from US\$ 18 million to US\$ 26.79 million. This has resulted in increase of Architects' fee from US\$ 0.9 million to US\$ 1.08 million. Reimbursables have also increased from US\$ 0.12 million to US\$ 1.05 million."

52. On being enquired by the Committee further as to why the Ministry had failed to negotiate the fees etc. payable to the Architect/Construction Manager, the Ministry in a note stated:

"The fee payable to the Architect was fixed as a percentage of the total construction cost and this is mentioned in the Agreement with the Architect. Negotiations were held with the US Architect for fixing the fee base and the fee has been calculated on a negotiated fee base of US\$ 22.47 million as against the actual project cost which was much higher. The Indian Architect has also been paid on this fee base."

XIV. Technical Supervision and Monitoring of the Project.

53. It has been pointed out by Audit that although the Government chose to go in for the Construction Management Method, the MEA posted a non-technical career-diplomat as the First Secretary (Project) at PMI during the execution of the Project. When enquired about the reasons for the same, the MEA in a note stated that the nature of the job was more administrative than technical. According to MEA, the role of the officer was that of administration, co-ordination and liaison with various agencies, local government bodies and the Ministry. Enquired about the monitoring mechanism devised in the Ministry to watch and review the implementation of the Project, the MEA in a note stated that technical supervision of the project was the liability of the Architect/Construction Manager.

54. The Foreign Secretary in this context, deposed:—

"....This has to be undertaken by the contractor or architect who is overall incharge. What is intended was the task of the officer who was posted to the Mission for this purpose was one of the liaison who was able to check the progress of the work and to keep the Government and the parties concerned informed during the progress of work and to remove bottleneck that may have arisen"

55. When the Committee enquired further whether any discussion took place in the matter of appointment of a supervisor either in the Embassy or in the Ministry with the Engineer-in-Chief who is supposed

to look after the construction work on behalf of the Government of India within our country or abroad, the Foreign Secretary stated during evidence:

"On the question of consulting the Engineer-in-Chief of the Government of India, this is something which we are doing now. We have also learnt from our experience in New York now. Our projects are showpieces of India and so we are taking the help of the Engineer-in-Chief. We had moved on this and we had moved towards prime contractor system and in both of these, we had, in fact, drawn certain lessons from our experience in New York."

56. In the context of the reply of the Ministry that it was the responsibility of the Architect/Construction Manager to supervise the project and physically monitor the progress of the work on behalf of the employer, the Committee wanted to know whether there was any clause to levy any penalties on account of delay in the Project and in the absence of that how the Ministry absolved themselves and justified their statement. The Ministry of External Affairs in a post-evidence note stated:

"There is no clause provided in the agreement to levy penalties for delay either by the Architect or the Construction Manager. Such clauses are normally included only in the agreements with the contractors. Therefore, the question of levying penalties on Architect or Construction Manager did not arise."

57. Asked whether the Ministry did not agree now that the approach to implement a Project of this magnitude through Construction Management Method was incorrect, the MEA in a note furnished after evidence stated:—

"The Ministry do not believe that implementing the project through Construction Management Method was incorrect.....Ministry is now following the General Contractor Method with fixed value lumpsum contract. Once the contract is given it becomes the responsibility of the contractor to finish it on time for the cost agreed."

XV. Approval for excess expenditure

58. The Project for construction for building for permanent Mission in New York was sanctioned by Cabinet in 1988 for a Project cost of US\$ 19.023 million. The actual expenditure incurred on the Project was US\$ 28 million. The Committee were informed that in such cases approval of Cabinet were specifically required where the actual expenditure incurred exceeded the originally sanctioned amount by more than 10%. They wanted to know whether the Cabinet's approval for the same, had, therefore, been taken for the additional expenditure. The Foreign Secretary during evidence deposed:

"It is being sought. It has not been obtained."

59. On being asked by the Committee about the reasons for the delay, the Foreign Secretary during evidence stated:

"The note for the approval of the Cabinet has been prepared by our Ministry. It has been sent to the Department of Expenditure for their concurrence before it goes to the Cabinet. Parliament's approval is there for our Budget as a whole."

60. As desired by the Committee during evidence, the Ministry of External Affairs, explained the position in a note furnished after evidence as follows:

"The process of seeking Cabinet approval for the revised cost of the project was initiated in October, 1994. It was not possible to initiate this earlier. i.e., after completion of the building in January, 1993 as the final cost of the project, with reasonable accuracy was not available at that time. After completion of the project in January, 1993 there was disagreement with the US Architect over the fee base on which their fee is to be calculated and also on the back charges to be deducted from their fee. Many bills of the various sub-contractors were also kept pending as Architect's and Bond Ryder Associates (BRA) was not prepared to certify these bills till the question of fee was settled. Several rounds of discussions were held with the firm by the Mission and the visiting property team from Headquarters.

The issue could be settled with BRA only in May, 1994 when a visiting Property Team reached a negotiated settlement with them. A fee base of US\$ 22.47 million and back charges of US\$ 47,089 was agreed to. BRA agreed to certify the pending bills, process permanent occupancy certificate and tackle the works of incompleteness, disputes with some of the sub-contractors once their payments were released. Payments to the contractors continued upto 1995 as contractors whose work the Architect had found incomplete/defective had to complete/rectify it before payments are made. If a proposal for Cabinet approval was made earlier the figures would have been tentative and it might have become necessary to go to the Cabinet again later for residual payments.

The proposal for seeking Cabinet approval was initiated on 11.10.94 and the Draft Note for the Cabinet was sent to Ministry of Finance for approval on 16.1.95. Ministry of Finance had sought clarification on several aspects. These clarifications have since been obtained and the Cabinet Note is being revised accordingly."

XVI. Remedial/Corrective Measures

61. In the light of the serious shortcomings observed in this project, the Committee wanted to know the steps taken by the Ministry to overcome

such difficulties in future in other Projects in foreign countries. The Foreign Secretary during evidence stated:

“We have also taken into account about the corrective measures. We undertake careful planning in the beginning so that changes in the course of execution are reduced to the barest minimum. In the case of projects now being executed, agreement is signed so that the contractors have no chance to ask for any escalation. A Technical Cell has been created in the Ministry with an architect or engineer on deputation from the CPWD and the task of this Technical Cell is to monitor work on the basis of technical reports sent by the Construction Manager. Engineer or architect also makes occasional site visit to see that work is going as contracted. These are direct lessons that we have derived from this project.”

He further added:—

“...We do now choose a prime contractor method rather than construction management because we have learnt through experience.”

62. The Committee wanted to know whether the Ministry considered the desirability of fixation of responsibility for the various lapses in this case. The Ministry of External Affairs in a note furnished after evidence stated:

“The increase in expenditure has arisen due to a variety of reasons such as design changes, city code requirements, interior design costs, increase in consultancy fee etc. and cannot be attributed to any individual lapses. The question of fixation of responsibility, therefore, has not arisen.”

63. In reply to a question of the Committee, the MEA stated that guidelines issued by them in 1978 had been reviewed and revised guidelines had been issued in August 1986 simplifying the procedure for calculation of economic cost.

XVII. Naming of the Mission Building

64. The Committee desired to know whether the newly constructed building for the PMI, New York has been named. The Foreign Secretary, stated during evidence:—

“Our Consulate General is called Bharat Bhavan in New York. For this, we will have to think of another name.”

In a subsequent note, the Ministry added that the matter has been noted and will be given due consideration at appropriate level.

XVIII. Need for a time bound plan for acquisition of property

65. At the instance of the Committee the MEA furnished the following details of the different projects of construction/acquisition of buildings of Indian Missions abroad which were presently in hand and their financial implications:—

“The projects under execution/consideration are the following:—

Sl. No.	Project	Cost of Project (In Rupees)
1.	Port Louis (Indira Gandhi Centre for Indian Culture)	17.04 crores
2.	Riyadh (Chancery & 44 residences)	45.00 crores
3.	Islamabad (Residences & Banquet Hall)	22.4 crores
4.	Moscow (i) Residences & School (ii) Cultural Centre	124.21 crores 31.23 crores
5.	Abu Dhabi (Chancery & Embassy Residence)	5.5 crores
6.	Muscat (Chancery & ER)	9.41 crores
7.	Dhaka (Chancery & Residences except for HC & DHC)	9.00 crores
8.	Minsk (Chancery & ER)	8.00 crores
9.	Tashkent (Chancery & ER)	12.00 crores
10.	Beijing (Chancery & Officers Residences)	46.00 crores
11.	Kathmandu (Chancery & Staff Residences)	13.00 crores
12.	Gaborone (Embassy Residence)	1.41 crores
13.	London Pounds (5 Residential flats)	2.40* million
14.	Brasilia (Embassy complex)	Not yet finalised.
15.	Doha	-do-
16.	Abuja (ER)	-do-

* Equivalent to Rs 12.9936 crore calculated @1 UK £ = Rs. 54.14, the rate prevalent on 15.11.1995

PURCHASE PROPOSALS UNDER CONSIDERATION IN 1995-96

- | | |
|---------------------------------|---------------|
| 1. Frankfurt, Chancery | Rs. 17 crores |
| 2. Kampala, Chancery | Rs. 6 crores |
| 3. Prague, ER | |
| 4. Bangkok, 6 staff residences. | |

66. Asked whether the Ministry had formulated any time bound plan for acquisition or construction of property for all the Missions, the MEA in a note furnished subsequent to evidence stated that the Ministry had made such a time bound plan for the purpose in 1994-95. But, according to the Ministry, that plan could not be implemented for want of resources.

67. In September 1980, a plot measuring 610 sq. meters was purchased in Mid-Manhattan, New York at a cost of US \$ 990,000 with the intention of constructing a building which would meet the bulk of the office and residential requirements of the Permanent Mission of India to the United Nations (PMI) as well as the Consulate General of India, New York. The approval of Government for construction of the building was accorded in May, 1981. Notice for registration of Indian Architects for construction of the Project was advertised in September, 1982. Sixteen months later, in January, 1984, the Project was offered to an Indian Architect firm who submitted its concept in July, 1984. Thereafter, an agreement with the firm engaging them as Consultant and Construction Manager was signed in January, 1986. Later, the firm came up with a revised report after 17 months in June, 1987 envisaging appointment of a New York based registered firm of architects as their associates and a separate Construction Manager. Approval of the Cabinet for the Project was accorded in May, 1988 and subsequently, a revised agreement was signed with the Indian Architect firm and their associates in New York and the Construction Manager, in September and December, 1988 respectively. The construction commenced in June 1989 and was expected to be completed by January, 1991. Eventually, it was completed in January, 1993. In the process, the Project which was expected to cost US \$ 5.315 million in 1981 was completed at more than five times the cost i.e. at US \$ 28 million. The Committee's examination of the Audit Paragraph has revealed several failures/shortcomings in the planning and execution of the Project which are dealt with in the succeeding paragraphs.

68. According to the guidelines issued by the Ministry of External Affairs (MEA) in May 1978 to the Indian Missions abroad, comparison of capital cost of acquiring/constructing property vis-a-vis the recurring rental expenses was an important consideration in determining economic viability. While pronouncing the Government policy for acquisition of property for

Missions abroad, the MEA in the aforesaid guidelines also communicated the Missions abroad a formula which was evolved in consultation with the Ministry of Finance to be adopted for such evaluation. Taking into account estimates of annual rental costs, maintenance expenses of owned buildings, annual escalation of rentals, the rate of inflation as envisaged in the instructions of 1978, the Integrated Finance Unit of the Embassy of India, Washington forwarded their analysis to the MEA in 1981. As per the analysis, the economic cost of a building to suit the projected requirements worked out to US \$ 2.297 million and as the estimated cost of construction was US \$ 5.315 million, the Project was not considered viable. The Committee are surprised that the Government, nevertheless, finally went ahead with the Project. Pertinently, while according approval for purchase of the plot, the then Finance Minister had noted that "the land may be purchased without commitment regarding construction. Land values are bound to go up in New York in the UN area. The Ministry of External Affairs in the course of examination by the Committee admitted that the costing undertaken by the Integrated Finance Unit of the Embassy in 1981 was in consonance with the policy guidelines issued in 1978. However, they maintained that the economic cost so worked out had never been accepted in the Ministry. The reasons cited by the MEA for non-acceptance of the analysis inter alia included, the rate of increase in the rental projected in the analysis was unrealistic, the analysis had been made by the Integrated Finance Unit in August, 1981 after the plot had been purchased, an earlier report given by the previous Deputy Financial Advisor had indicated that the Project was viable etc. The Committee are not fully convinced with these arguments and cannot but conclude that the economic viability of the Project from the very beginning itself was not beyond doubt. Considering the fact that approval for purchase of the plot was accorded with explicit orders not to undertake any commitment regarding construction, the Committee fail to appreciate the compulsions for going ahead with the Project without fully examining the viability analysis prepared in 1981 as per the Ministry's own laid down criteria.

69. The Committee find that there were clear indications of the problems and delays in the execution of the Project right from the beginning. A property team of the Ministry of External Affairs which had visited New York in March, 1982 for selection of architect had expressed their apprehensions about the size and shape of the plot in which the building was proposed to be constructed. During examination by the Committee, the Ministry of External Affairs stated that the property team's discussions with the architect in New York had highlighted difficulties that would be encountered in constructing a suitable building on the site. However, it was felt by the Ministry at that time that those difficulties would not be insurmountable. Later, these apprehensions were confirmed during the course of construction and, this, in fact turned out to be one of the factors which caused delay in the completion of the Project. The Committee

consider it unfortunate that having decided to go ahead with the Project and despite having been aware of the possible problems, the Ministry did not succeed in taking adequate and effective steps to deal with them resulting in inordinate delay and incurrence of excess expenditure of sizable magnitude.

70. The Committee find that one of the main reasons for the delay in the execution of the Project and the resultant cost escalation was the manner in which Architects were appointed/associated in the Project. After purchase of the plot in September, 1980 the Ministry short-listed certain Architects in March, 1982. But before a firm was appointed a directive came from the then Prime Minister that reputed Indian Architects should be appointed for Ministry's construction projects abroad. The Government, thereafter, appointed in January, 1984 an Indian firm as the Architect, Consultant and Construction Manager on the premise that with limited permission from the local authorities the firm could execute the Project at New York. They failed to take into consideration that the local insurance rules would have created practical problems in the execution of the Project in case of a non-local architect. Considerable time was lost thereafter by the Indian Architect firm associating a local architect so as to appoint the latter as associates also called the "Architect on Record". Consequently, this hampered the progress of the Project until September, 1988. Also, this entailed engagement of yet another firm as Construction Manager at a later date (December, 1988) resulting in additional payment of US \$ 6,73,396 on this account. Since the local Architect was to be an associate of Indian Architect firm, the Government had no say in his selection. Soon after construction began, the local Architect firm began to face financial problems and their contribution to the Project became negligible, thereby causing further delays in the Project. During examination the Ministry admitted that it was only on closer examination of insurance and liability laws in USA when it became clear to them that appointing a local Architect could not be avoided. This clearly shows the casual manner in which the subject was approached by the authorities concerned. The Committee cannot but express their unhappiness over the failure of MEA in ascertaining and examining all the implications of engaging a non-local architect before commencing a Project of this magnitude.

71. Another serious shortcoming observed by the Committee related to the adoption of the open ended management approach in the execution of the Project. The Government chose to execute the Project through "Construction Management System" coupled with the "fast track method" rather than award the entire contract on a turn key basis to a contractor after firmly determining the detailed technical specifications, i.e. the Prime Contractor method. This resulted in the architect being treated as a Consultant and the contractor supervising the work as a Construction Manager and the Government through the PMI, remaining continuously responsible for the execution of the Project. This further resulted in creating a situation in which there were repeated changes in design and other

specifications with the inevitable and concomitant delays and cost escalations. Explaining the reasons for selection of this method, the MEA stated that it was felt to be cost effective and time saving and was also in line with the construction practices prevalent in the United States. The Ministry, however, admitted that the twin advantages visualised could not eventually be derived. They also stated that in the light of the New York experience, this method has not been repeated in any other similar project elsewhere. Obviously, this is a self-admission on the part of MEA of the incorrect method adopted in this case. The Committee deplore the lack of prudence on the part of the Ministry in the application of this untried experiment in such a major Project having substantial financial implications without undertaking any analysis in all its ramifications. They expect the Ministry to draw suitable lessons from this unsatisfactory experience and take appropriate corrective measures in the future.

72. The Committee find that as against the Cabinet approval for the Project with the floor area ratio (FAR) of 12, the building was actually constructed with the FAR of 10 and thus resulting in a shortfall of 19 residences and 16 car parking slots. As against the original plan for 36 floors, the actual number of floors constructed was only 26. The Ministry stated that it was decided to abandon the idea of 12 FAR and concentrate on 10 FAR since it was realised in September, 1988 that application for and approval of 12 FAR would involve considerable negotiations with the local authorities which would entail a period of not less than 12 months and even then there was no surety of getting it. They also maintained that even with the reduced FAR, the Project was economically viable. The Committee consider the Ministry's reply as untenable since Government had ample time between 1984 and 1988 to obtain the necessary approval. The Committee have also no doubt that this reduction would have also upset the economic cost, since the remaining residential accommodation would continue to be hired by the Mission. The Committee regret to point out this as yet another aspect of inadequate planning and unsatisfactory execution resulting in reduction of available benefits from the Project.

73. Another aspect which engaged the attention of the Committee related to the variations in the total plinth area actually constructed vis-a-vis what was envisaged. The note for Cabinet in 1988 sought approval for construction of specified built up floor area for Chancery, residences, accommodation including circulation area, parking and service area calculated at unit rate per sq. meter. The Committee however, found that while there was an increase of 419 sq. meters in the accommodation actually constructed for Chancery, residences, basement and service area actually constructed underwent reduction of 1723 and 180 sq. meters respectively. As against the proposed built up area of 9237 sq. meters, the actual area constructed was 7823 sq. meters. The Ministry of External Affairs were unable to offer any convincing explanation for the variations. The Committee consider it disturbing that while the total floor area constructed

was less by 1413 sq. meters there was an increase in the cost of construction by about US \$ 9 million instead of pro-rata reduction (approximately US \$ 2.2-millions).

74. An important consideration that led to the selection of the Indian Architect was to give the building an Indian identity. It was, therefore, expected that the main theme of the building befitted the intended identity. The Committee, however, find that the architectural concept, on the basis of which the contract was awarded to the Indian Architect, underwent substantial changes in terms of the originally designed concepts. The changes incorporated in the design of the building constructed included, non-adoption of brick cavity wall, use of red granite stone instead of red travertine, change from paver roofing to membrane roofing, removal of granite columns in the entrance lobby etc. The MEA, maintained that the intended purpose of appointing an Indian Architect has still been achieved as the building stands out with the Shekhavati door, pergola bar etc. Considering the extent of architectural changes subsequently incorporated in the building actually constructed, the Committee wonder whether this diluted cultural uniqueness off-sets the additional costs of engaging an Indian Architect.

75. In this context, the Committee note that the newly constructed building is yet to be named. They, suggest that a suitable name be given to the building keeping in view the Indian identity and its cultural uniqueness.

76. Trade costs i.e. cost of material and labour provided by individual sub-contractors for various sub-contracts such as stone works, masonry, wood work etc. constitute a major component of a construction project. The budget estimates prepared by the Construction Manager at the time of commencement of construction had envisaged an amount of US \$ 15,212,825 on the various trades. As of May, 1993 the expenditure on this account had gone up to US \$ 18,606,823. A scrutiny of some of the significant increases revealed that additional expenditure in those cases had been incurred for reasons like superior maintenance characteristics, greater resilience to environmental deterioration, climatic conditions, aesthetic considerations, superiority of fixtures etc. This is clearly indicative of the glaring inadequacies in the preparation of the design and estimates. What had caused further concern to the Committee was that Government continued to accept such changes designed to improve the ambience of the building even though the cost of the Project had far exceeded the estimates and every such change entailed outgo of additional scarce foreign exchange. The Committee disapprove of this attitude particularly considering the fact that bulk of such expenditure had been incurred at a period when the country was reeling under a severe foreign exchange crunch and stringent economy measures were widely applied within the country.

77. As per the relevant conditions contained in the contract entered into with the Architect-on-Record for providing architectural and engineering

services for the construction of the Project, the Architect should redesign at its cost any portion of its work or its consultants, which due to its consultants failure to use a reasonable degree of skill, shall prove defective within one year from the date of start of regular use of the portion of the work affected. The owner shall grant the right of access to the Architect to those portions of the work claimed to be defective for inspection. The Committee find that as against the demand to adjust as back changes an amount of US \$ 1,96,848 which had resulted from architectural errors and omissions, the firm had finally accepted the liability for US \$ 47,089 only and the balance had to be borne by the Government. The Ministry admitted that they did not have sufficient proof to enforce the back charging in many cases. The PMI, New York was stated to have attributed their inability to establish the liability of the firm conclusively to factors such as inadequate documentation, changes of personnel and the difficulty experienced by non-technical persons in the Mission for visualising all the inputs that have gone into these change orders. During evidence the Foreign Secretary stated that a settlement had to be reached with the firm as per the legal advice given to the Ministry. Clearly, this is yet another aspect of the unsatisfactory execution of the project resulting in the Government accepting almost entirely the liability for change orders due to errors and omissions which should clearly have been borne by one of the Architects as the Construction Manager. The Committee deplore the laxity on the part of the Ministry in protecting public interest in recovering fully the additional cost attributable to changes due to errors and omissions on the part of the Architect.

78. Yet another shortcoming observed by the Committee was the inadequate system of supervision and monitoring of the Project by the Mission and the Ministry. Although the Government chose to go in for the Construction Management Method, they posted a non-technical career diplomat as the first Secretary (Project) at PMI during the execution of the Project. Apparently, his contribution towards monitoring, management and evaluation of the multiple and piecemeal changes in designs and specifications had been limited by the lack of appropriate background and experience. There was hardly any mechanism available in the Ministry also to monitor the implementation of the Project. The MEA stated that the nature of job in the Mission was more administrative than technical and that technical supervision of the Project was the responsibility of architect/Construction Manager. The Committee do not agree with the manner in which the Ministry have sought to absolve themselves from their responsibility. In the opinion of the Committee, since under the Construction Management Method the Construction Manager acted only as an agent of the employer, it would have been desirable to appoint a technically qualified person with a view to supervising the Project more effectively and it was also imperative that the Ministry monitored its execution closely. The Committee regret to conclude that the nature of the

supervision exercised by the authorities was perfunctory and Ministry had failed to exercise adequate control over the expenditure incurred on the Project. While expressing their unhappiness over the same the Committee desire that suitable steps should be taken by the MEA to ensure that such Projects are effectively supervised and the progress is closely monitored by the Ministry.

79. The Project for construction of building for Permanent Mission in New York was sanctioned by Cabinet in 1988 for a project cost of US \$ 19,023 million. The actual expenditure incurred on the Project was about US \$ 28 million, which is about 9 million in excess of the sanctioned amount. In such cases approval of the Cabinet is specifically required when the actual expenditure incurred exceeds the originally sanctioned amount by more than 10%. The Committee are however, amazed to note that though the Project was completed in January, 1993, the approval of the Cabinet for the excess expenditure incurred is yet to be obtained. In the Ministry's own admission, the draft note seeking Cabinet approval for the revised cost of the project was sent to the Ministry of Finance on 16 January, 1995 only. The Committee cannot but express their displeasure over the delay on the part of the MEA in obtaining the approval of the Cabinet for the revised cost of the Project and desire that the reasons for the same should be thoroughly looked into with a view to obviating such lapses in future. They would also like to be informed whether the approval for the purpose has since been obtained.

80. The facts stated in the foregoing paragraphs raise certain important questions relating to the cost effectiveness of the Government's Mid-Manhattan Construction Project at New York and whether the benefits accruing, therefrom were commensurate with the scarce foreign exchange resources appropriated for it. Undoubtedly, the Government's decisions of associating an Indian Architect, adopting the Construction Management System and giving precedence to superiority of ambience over economy together contributed to the delays and steep cost escalation. Completion of the Project at more than five times the originally estimated cost of US \$ 5.3 million raises serious questions about the financial prudence of going in for a Project which even at the stage of original estimation was considered financially unviable. The MEA have sought to maintain that the Project was still economically viable. They attributed the delay in the Project to the decision for associating and appointing an Indian architect and the procedures which had to be followed thereafter, revisions incorporated in the scope of the Project as it went along, longer time taken for digging of foundation due to the layout of the land, break-up of the US architectural firm, bankruptcy of the metal panel erector etc. According to the Ministry the cost escalations had arisen due to design changes made after construction started, increase in general conditions cost on account of construction time, increase in cost on account of changes made by interior designer, changes made on account of local code requirements etc. They,

however, assured the Committee that in the light of the shortcomings observed in this Project certain measures like undertaking of careful planning, creation of a Technical Cell in the MEA with the association of CPWD etc. have been initiated by them. In the wake of the unsuccessful experimentation with the Construction management method in this Project, the Ministry also stated that they were now following the General contract method with fixed value lumpsum contract. The Committee cannot remain satisfied with this. They desire that the factors contained in this Report should be thoroughly looked into with a view to fixing responsibility for the various lapses and also for obviating such recurrence by streamlining the policy and procedures for acquisition/construction of property by Indian Missions Abroad.

81. In this connection the Committee have taken note of the guidelines of May 1978 and August 1986 issued by the Ministry of External Affairs which deals mainly with the criteria to determine the economic cost of acquisition of property abroad. The Committee feel that these guidelines be reviewed and detailed instructions be issued in consultation with the Ministries of Urban Affairs and Employment and Finance which apart from laying down the criteria for acquisition of property abroad should also include aspects relating to management of construction, i.e. estimation, approval of the project, evaluation of tenders, appointment of architects, technical supervision of construction and system of payment at different stages as also periodic monitoring in the Ministry. The Committee further desire that these instructions be issued within a period of six months. The Committee also recommend that the Ministry should prepare perspective and Five year Plans for acquisition and construction of property abroad keeping in view the likely overall availability of funds.

82. The Committee have been informed that there were about 20 Projects/Proposals under execution/consideration for construction/acquisition of buildings for Indian Missions abroad which were presently in hand. The Committee desire that the Ministry of External Affairs should review those Projects/Proposals in the light of the Committee's recommendation made in paragraph 81 with a view to ensuring that the rental outgo, which is bound to increase year after year is reduced to the negligible level and also avoiding delays in execution and the concomitant cost escalations.

NEW DELHI;
23 November, 1995

1 Agraphayana, 1917 (S)

RAM NAIK,
Chairman,
Public Accounts Committee.

APPENDIX I

(Vide Para-I)

Audit Paragraph 7.1 of the Report of the C&AG of India for the year ended 31 March, 1994, No. 1 of 1995, Union Government (Civil) relating to building for Permanent Mission at New York

7.1.1 Introduction

In June 1980, a plot measuring 610 Sq m was purchased in Mid-Manhattan, New York at a cost of US \$990000. This was done with the intention of constructing a building which would meet the bulk of the office and residential requirements of the Permanent Mission of India to the United Nations (PMI) as well as the Consulate General of India (CGI), New York.

7.1.2 Scope of Audit

The records of PMI at New York relating to the Project were test checked in audit to examine the factors contributing to delay and cost escalation.

7.1.3 Highlights

- As per their own criteria, the Government considered the Project not financially viable. Despite this they went ahead with the Project resulting in substantial outgo of foreign exchange during a period when the country was reeling under a severe foreign exchange crunch.
- The implementation of the Project was afflicted by series of delays and cost escalation. The Project expected to cost US \$ 5.3 million (1981) was completed in January 1993 at more than 5 times the cost (US \$27 million).
- The Government's decision to appoint an Indian architect without fully studying and comprehending the implications resulted in delays in the execution of the Project and the consequent cost escalation.
- The adoption of the "Construction Management" system rather than awarding the contract on a turn key basis to a Prime Contractor resulted in the project specifications remaining open ended without any benefits of speedy execution; the substantial cost escalation was almost in-built and inevitable.
- Despite selection of the Construction Management method, no technical personnel were posted at New York to scrutinise proposals for changes and the cost estimates.
- Detailed analysis of the cost escalation reveals that local circumstances had not been fully considered while preparing estimates and designs and "superiority of ambience" had been given precedence over considerations of economy even though the Project had already exceeded the budgeted estimates.

Public interest could not be protected in recovering fully the additional costs attributable to changes due to errors and omissions on the part of the Architect. Lack of technical expertise and supervision by the Mission must be considered responsible.

7.1.4 Economic Justification

According to Ministry of External Affairs (MEA) guidelines of 1978 comparison of capital cost of acquiring/constructing property vis-a-vis the recurring rental expenses is an important consideration in determining economic viability. While pronouncing the policy for acquisition of property for missions abroad (1978), MEA had also elaborated detailed guidelines for such evaluation. Simultaneously, MEA also emphasised that their experience had shown that with a few exceptions it would be more economical and advantageous to buy build-up property rather than construct buildings.

An exercise to assess the economic viability of the New York building was carried out by the Integrated Finance Unit of the Embassy of India, Washington in 1981. Taking into account estimates of annual rental costs, maintenance expenses of owned buildings, annual escalation of rentals, the rate of inflation as envisaged in MEA instructions of 1978, the economic cost of a building to suit the projected requirements worked out to US \$ 2.297 million. As the estimated cost of construction was US \$ 5.315 million the Project was not considered viable. The analysis by Integrated Finance Unit was forwarded by the Mission, at the instance of the Ambassador, to MEA. The Government nevertheless finally went ahead with the project.

The final cost of the building having risen to over US \$ 27 million, the economic viability of the project would be even more questionable. Keeping in view the fact that such large outflow of foreign exchange took place during the years 1989 to 1992, when the country faced the severest foreign exchange crunch necessitating harsh measures to conserve the real cost to the economy would be much higher than US \$ 27 million released at the official rate.

Furthermore, the records test checked in Audit did not reveal that the alternate option of buying built-up property, the preferred option of the Government, was explored or examined in detail before going in for the option of construction.

7.1.5 Delays and cost escalation

7.1.5.1 The chronology of events of this project provide material for a case study in series of delays and cumulative cost escalation. MEA had invited all the foreign missions to come up with proposals regarding acquiring of property in April, 1976. The Consulate General in New York came up with the proposal to procure land in March, 1980. The approval of the Government for construction of the buildings was accorded in

May, 1981. A high level Property Team from MEA visited New York in March 1982. Notice for registration of Indian Architects for construction of the Project was advertised in September, 1982.

The project was offered to an Indian Architect firm, sixteen months later in January, 1984. The firm submitted its concept report in July, 1984. An agreement with the firm engaging them as Consultant and Construction Manager was signed after eighteen months, in January, 1986. The firm came up with a revised report after seventeen months (June, 1987) envisaging appointment of a New York based registered firm of architects as their Associates and a separate Construction Manager. Cabinet approval for the project was obtained in May, 1988.

A revised agreement was signed with the Indian Architect firm and their Associates in New York and the Construction Manager, in September and December, 1988 respectively. The construction commenced in June, 1989 and was expected to be completed by January, 1991. The construction work was finally completed only in January, 1993. In the process the project which was expected to cost US \$ 5.315 million in 1981 was completed at more than 5 times the cost US \$ 27 million.

Audit examination of the factors leading to delays at various stages and the exorbitant cost escalation revealed several failures in planning and execution of the project which are discussed in the succeeding paragraphs.

7.1.5.2 The plot purchased for the purpose despite being located close to the UN Headquarters was of an odd size, *i.e.* 200 ft. long and an extremely narrow 25 ft. at one end and 41 ft. at the other. In fact, the three member team headed by the Additional Secretary (Administration) from MEA which visited New York in March, 1982 for selection of an architect was dissatisfied with the size and shape of the plot and recommended that selection of an architect was not necessary till an alternative plot was found. There were indications of problems and delays right from the beginning.

7.1.5.3 The Government appointed (January, 1984) an Indian firm as the Architect, Consultant and Construction Manager on the premise that with limited permission from the local authorities the firm could execute the Project at New York. They failed to take into consideration that the local insurance rules would have created practical problems in the execution of the Project in case of a non-local architect. Considerable time was lost thereafter in the Indian Architect firm associating a local architect so as to appoint the latter as Associates also called the 'Architect-on-Record'. This hampered the progress of the Project from July, 1984 until September, 1988.

Moreover, this entailed engagement of yet another firm as Construction Manager at a later date (December, 1988) resulting in additional payment on this account (\$ 673396). Since the local architect was to be an associate of Indian Architect firm the Government had no say in his selection.

Ironically, the local architect firm was not among the leading firms initially considered by the Government. Soon after construction began, the local architect firm began to face financial problems and their contribution to the project became negligible, thereby causing further delays in the project.

In their reply (July, 1994), the Ministry conceded that the full implications of engaging the non-local architect came to their notice only later and the Indian Architect having done substantial work by then, they had no option but to engage a local architect as Architect-on-Record. The reply is not tenable. The Government could have ascertained all the implications of engaging a non-local architect before commencing a project of this magnitude.

7.1.6 The open ended Management Approach

7.1.6.1 The Government chose to execute the project through the "Construction Management System" coupled with the "fast track method" rather than award the entire contract on a turn key basis to a contractor after firmly determining the detailed technical specifications *i.e.* the Prime Contractor Method. It is not clear from the records audited whether a cost benefit comparison of the two approaches was made before making this choice. This resulted in the Architect being treated as a Consultant and the contractor supervising the work as a Construction Manager and the Government, through the PMI, remaining continuously responsible for the execution of the Project. This further resulted in creating a situation in which there were repeated changes in design and other specifications with the inevitable and concomitant delays and cost escalations.

While the Ministry in their response tried to justify the large number of changes effected during the process of construction on the grounds that they were either necessary due to local bye laws, on aesthetic considerations, etc. the fact remains that it was not possible to control either the time schedule or costs under the approach selected. Apart from this, the multiplicity and piecemeal nature of changes also made it difficult for the Government to consider their total financial impact on the entire project and its financial viability. Had all local legal and climatic requirements been taken into account at the outset, the Government may well have come to refer again to the viability of the Project which did not meet their criteria from the very beginning.

7.1.6.2 Although the Government chose to go in for the Construction Management Method they posted a non-technical career diplomat as the First Secretary (Project) at PMI during the execution of the project. His contribution towards monitoring, management and evaluation of the multiple and piecemeal changes in designs and specifications would obviously have been limited by the lack of appropriate background and experience.

In fact, the role of PMI in scrutiny and evaluation of financial estimates of change orders as well as payments to sub-contractors was restricted to

ascertaining whether these had been duly certified by the Construction Manager and the Architect. Such perfunctory supervision more suited to a turn key contract is indicative of lack of control on the expenditure on the project.

7.1.7 Floor area ratio

Cabinet approval for the project was obtained with the assumption that the floor area ratio (FAR) would be 12. Thus PMI office, 41 residences and car parking for 27 cars would be built on the plot. The building was however constructed with the FAR of 10 as the Government failed to apply for the required approval from the local authorities. This resulted in a shortfall of 19 residences and 16 car parking slots. The Ministry stated that the proposal for FAR of 12 was given up as it would have taken one year to get the approval. This reply is not tenable since the Government had ample time between 1984 and 1988 to obtain the necessary approval.

7.1.8 Diluted cultural uniqueness

An important consideration that led to the selection of the Indian Architect was the main theme of the building presented by him. This theme was based on the stone columns found in the Hall of 1000 columns at Tanjore and other Indian temples and was to dominate the facades along the two streets from which the building could be accessed. For the exhibition entrance of 44th Street, the theme was to be embodied in unpolished granite columns, on 43rd Street a reverse image of mirrored glass columns in a frame work of polished granite were to announce the entrance to the chancery and residence. Further, the theme of these columns was to continue into the entrance foyers, which, with the help of the mirrored glass were to set up multiple images evoking the image of 1000 columns. This architectural concept, on the basis of which the contract was awarded to the Indian Architect, underwent a total change and the final concept, as it stood after revisions made by the Indian Architect did not incorporate any of the original design concepts. As such it was doubtful whether any significant non-monetary advantage had been obtained in constructing a building through an Indian architect thereby delaying the construction process and incurring exorbitant costs.

The Government stated (July 1994) that the building had unique architectural features such as Shekhawati doors, pergola bars, specific structural features borrowed from Indian mythology and use of columns. It is doubtful whether this diluted cultural uniqueness offsets the additional costs of engaging an Indian architect.

7.1.9 Micro analysis of Cost Escalation

Trade costs *i.e.* cost of material and labour provided by individual sub-contractors for various sub-contracts such as stone works, masonry, wood work etc. constitute a major component of a construction project. The budget estimates prepared by the Construction Manager at the time of

commencement of construction had envisaged an amount of US \$ 15,212,825 on the various trades, As of May 1993 the expenditure on this account had gone up to US \$ 18,606,823. Some of the significant increases were visible for the following trades:

- (i) An additional amount of US \$ 305,000 was incurred due to the change in the design from brick cavity wall to metal panel curtain wall. The latter was chosen for its superior maintenance characteristics and greater resilience to environmental deterioration.
- (ii) An additional expenditure of US \$ 220,000 was incurred in changing from red travertine stone to granite since the former which had been selected by the Indian Architect would not have been able to withstand the New York climate.
- (iii) A further amount of US \$ 612,000 was incurred on additional wood work. The Government justified this on the ground that the original design had provided for minimal wood work and additions were made on the recommendations of the interior decorators on aesthetic considerations.
- (iv) An additional expenditure of US \$ 842,000 was incurred on electrical works due to the factors such as replacement of standard by superior fixtures and certain design changes. This included an amount of US\$ 11,071 charged by the firm for deletion of already installed lighting fixtures on account of over head and profit charges.

This illustrative list indicates that the local circumstances had not been fully considered while preparing the estimates and designs. It also reveals that "superiority of ambience" was given precedence over considerations of economy even though the project had already exceeded the budgeted estimates.

7.1.10 Liability for error and omission changes

As per article 17 of the contract entered with the Architect-on-Record for providing architectural and engineering services for the construction of the project, "the architect should re-design at its cost any portion of its work or its consultants, which due to its consultants failure to use a reasonable degree of skill, shall prove elective within one year from the date of start of regular use of the portion of work affected. The owner shall grant the right of access to the architect to those portions of the work claimed to be defective for inspection".

When the construction was under execution, the Construction Manager gave in July 1992 a list of 46 change orders issued between November 1990 and June 1993 involving an amount of US \$ 268,442 owing to errors and omissions. The Mission analysed these change orders and directed the firm to adjust as back charges an amount of US \$ 196,848 which had resulted from architectural errors and omissions. The firm did not accept the liability on several grounds including that the scope and purpose of the

project had not been made clear during the initial negotiations, that they were not aware that the interior decorators appointed later would not accept the products specified by them, that the project would go on for 16 months beyond the anticipated date of completion. They also attributed (October 1992) the number of changes and escalations to the lack of understanding of the local building process by the owner and his indecisiveness.

Finally the firm only accepted liability for US \$ 47,089 the balance had to be borne by the Government. PMI, New York attributed their inability to establish the liability of the firm conclusively to factors such as inadequate documentation, change of personnel and the difficulty experienced by non-technical persons in the Missions in visualising all the inputs that had gone into these change orders.

This is indicative of poor monitoring and supervision by the office at New York resulting in the Government accepting almost entirely the liability for change orders due to errors and omissions which should normally have been borne by one of the architects as the Construction Manager.

7.1.11 Impact of increased trade cost and delay on other costs

The rise in trade costs and the time taken in completion of the project resulted in the general condition costs rising significantly from US \$ 1,964,000 to US \$ 4,590,749. The former also resulted in increased payments to the Indian Architect, Architect-on-record and the Construction Manager since their payments were determined as a percentage of total cost. The total additional expenditure on this account was US \$ 475,907. Additional amounts on insurance aggregating US \$ 85,075 had also to be incurred because of cost escalation and longer duration of the project.

7.1.12 Non-recovery of advance payment/security deposit

Although the work had been completed in January 1993, an amount of US \$ 125,000 out of the total US \$ 200,000 to the Construction Manager was still to be adjusted. Moreover a sum of US \$ 800 paid to the Construction Manager as security deposit for hiring a field office had not been recovered.

7.1.13 Summing-up

The Government's Mid Manhattan Construction Project at New York was not cost effective, the benefits accruing therefrom not being commensurate with the scarce foreign exchange resources appropriated for it. The Government's decisions of associating an Indian Architect, adopting the allegedly fast track method of the Construction Management System and giving precedence to superiority of ambience over economy together contributed to the delays and steep cost escalation. Completion of

the Project at more than 5 times the originally estimated cost of \$ 5.3 millions raises serious questions about the financial prudence of going in for a Project which even at the stage of original estimation was considered financially unviable.

APPENDIX II

Conclusions and Recommendations

Sl. No.	Para No.	Ministry/ Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1.	67	M/O External Affairs	<p>In September 1980, a plot measuring 610 sq. meters was purchased in Mid-Manhattan, New York at a cost of US \$ 990,000 with the intention of constructing a building which would meet the bulk of the office and residential requirements of the Permanent Mission of India to the United Nations (PMI) as well as the Consulate General of India, New York. The approval of Government for construction of the building was accorded in May, 1981. Notice for registration of Indian Architects for construction of the Project was advertised in September, 1982. Sixteen months later, in January, 1984, the Project was offered to an Indian Architect firm who submitted its concept in July, 1984. Thereafter, an agreement with the firm engaging them as Consultant and Construction Manager was signed in January, 1986. Later, the firm came up with a revised report after 17 months in June, 1987 envisaging appointment of New York based registered firm of architects as their associates and a separate Construction Manager. Approval of the Cabinet for the Project was accorded in May, 1988 and subsequently, a revised agreement was signed with the Indian Architect firm and their associates in New York and the Construction Manager, in September and December, 1988 respectively. The construction commenced in June 1989 and was expected to be completed by January, 1991. Eventually, it was completed in January, 1993. In the process, the Project which was expected to cost US \$ 5.315 million in 1981 was completed at more than five times the cost</p>

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			<p><i>i.e.</i> at US \$ 28 million. The Committee's examination of the Audit Paragraph has revealed several failures/shortcomings in the planning and execution of the Project which are dealt with in the succeeding paragraphs.</p>
2. 68	External Affairs		<p>According to the guidelines issued by the Ministry of External Affairs (MEA) in May 1978 to the Indian Missions abroad, comparison of capital cost of acquiring/constructing property <i>vis-a-vis</i> the recurring rental expenses was an important consideration in determining economic viability. While pronouncing the Government policy for acquisition of the property for Missions abroad, the MEA in the aforesaid guidelines also communicated the Missions abroad a formula which was evolved in consultation with the Ministry of Finance to be adopted for such evaluation. Taking into account estimates of annual rental costs, maintenance expenses of owned buildings, annual escalation of rentals, the rate of inflation as envisaged in the instructions of 1978, the Integrated Finance Unit of the Embassy of India, Washington forwarded their analysis to the MEA in 1981. As per the analysis, the economic cost of the building to suit the projected requirements worked out US \$ 2.297 million and as the estimated cost of construction was US \$ 5.315 million, the Project was not considered viable. The Committee are surprised that the Government, nevertheless, finally went ahead with the Project. Pertinently, while according approval for purchase of the plot, the then Finance Minister has noted that "the land may be purchased without commitment regarding construction. Land values are bound to go up in New York in the UN area." The Ministry of External Affairs in the course of examination by the Committee admitted that the costing undertaken by the Integrated Finance Unit of the Embassy in 1981 was in consonance with the policy guidelines issued in 1978. However, they maintained that the economic cost so worked out had never been</p>

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accepted in the Ministry. The reasons cited by the MEA for non-acceptance of the analysis *inter alia* included, the rate of increase in the rental projected in the analysis was unrealistic, the analysis had been made by the Integrated Finance Unit in August, 1981 after the plot had been purchased, an earlier report given by the previous Deputy Financial Advisor had indicated that the Project was viable etc. The Committee are not fully convinced with these arguments and cannot but conclude that the economic viability of the Project from the very beginning itself was not beyond doubt. Considering the fact that approval for purchase of the plot was accorded with explicit orders not to undertake any commitment regarding construction, the Committee fail to appreciate the compulsions for going ahead with the Project without fully examining the viability analysis prepared in 1981 as per the Ministry's own laid down criteria.

3. 69 External
 Affairs

The Committee find that there were clear indications of the problems and delays in the execution of the Project right from the beginning. A property team of the Ministry of External Affairs which had visited New York in March, 1982 for selection of architect had expressed their apprehensions about the size and shape of the plot in which the building was proposed to be constructed. During examination by the Committee, the Ministry of External Affairs stated that the property team's discussions with the architect in New York had highlighted difficulties that would be encountered in constructing a suitable building on the site. However, it was felt by the Ministry at that time that those difficulties would not be insurmountable. Later, these apprehensions were confirmed during the course of construction and, this, in fact turned out to be one of the factors which caused delay in the completion of the Project. The Committee

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consider it unfortunate that having decided to go ahead with the Project and despite having been aware of the possible problems, the Ministry did not succeed in taking adequate and effective steps to deal with them resulting in inordinate delay and incurrence of excess expenditure of sizable magnitude.

4. 70 External
Affairs

The Committee find that one of the main reasons for the delay in the execution of the Project and the resultant cost escalation was the manner in which Architects were appointed/associated in the Project. After purchase of the plot in September, 1980 the Ministry short-listed certain Architects in March, 1982. But before a firm was appointed a directive came from the then Prime Minister that reputed Indian Architects should be appointed for Ministry's construction projects abroad. The Government, thereafter, appointed in January, 1984 an Indian firm as the Architect, Consultant and Construction Manager on the premise that with limited permission from the local authorities the firm could execute the Project at New York. They failed to take into consideration that the local insurance rules would have created practical problems in the execution of the Project in case of a non-local architect. Considerable time was lost thereafter by the Indian Architect firm associating a local architect so as to appoint the latter as associates also called the "Architect on Record". Consequently, this hampered the progress of the Project until September, 1988. Also, this entailed engagement of yet another firm as Construction Manager at a later date (December, 1988) resulting in additional payment of US \$ 6,73,396 on this account. Since the local Architect was to be an associate of Indian Architect firm, the Government had no say in his selection. Soon after construction began, the local Architect firm began to face financial problems and their contribution to the

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Project became negligible, thereby causing further delays in the Project. During examination the Ministry admitted that it was only on closer examination of insurance and liability laws in USA when it became clear to them that appointing a local Architect could not be avoided. This clearly shows the casual manner in which the subject was approached by the authorities concerned. The Committee cannot but express their unhappiness over the failure of MEA in ascertaining and examining all the implications of engaging a non-local architect before commencing a Project of this magnitude.

5. 71 External
Affairs

Another serious shortcoming observed by the Committee related to the adoption of the open ended management approach in the execution of the Project. The Government chose to execute the Project through "Construction management System" coupled with the "fast track method" rather than award the entire contract on a turn key basis to a contractor after firmly determining the detailed technical specifications, *i.e.* the Prime Contractor Method. This resulted in the architect being treated as a Consultant and the contractor supervising the work as a Construction Manager and the Government through the PMI, remaining continuously responsible for the execution of the Project. This further resulted in creating a situation in which there were repeated changes in design and other specifications with the inevitable and concomitant delays and cost escalations. Explaining the reasons for selection of this method, the MEA stated that it was felt to be cost effective and time saving and was also in line with the construction practices prevalent in the United States. The Ministry, however, admitted that the twin advantages visualised could not eventually be derived. They also stated that in the light of the New York

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experience, this method has not been repeated in any other similar project elsewhere. Obviously, this is a self-admission on the part of MEA of the incorrect method adopted in this case. The Committee deplore the lack of prudence on the part of the Ministry in the application of this untried experiment in such a major Project having substantial financial implications without undertaking any analysis in all its ramifications. They expect the Ministry to draw suitable lessons from this unsatisfactory experience and take appropriate corrective measures in the future.

6. 72 External
Affairs

The Committee find that as against the Cabinet approval for the Project with the Floor Area Ratio (FAR) of 12, the building was actually constructed with the FAR of 10 and thus resulting in a shortfall of 19 residences and 16 car parking slots. As against the original plan for 36 floors, the actual number of floors constructed was only 26. The Ministry stated that it was decided to abandon the idea of 12 FAR and concentrate on 10 FAR since it was realised in September, 1988 that application for the approval of 12 FAR would involve considerable negotiations with the local authorities which would entail a period of not less than 12 months and even then there was no surety of getting it. They also maintained that even with the reduced FAR, the Project was economically viable. The Committee consider the Ministry's reply as untenable since Government had ample time between 1984 and 1988 to obtain the necessary approval. The Committee have also no doubt that this reduction would have also upset the economic cost, since the remaining residential accommodation would continue to be hired by the Mission. The Committee regret to point out this as yet another aspect of inadequate planning and unsatisfactory execution resulting in reduction of available benefits from the Project.

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7.	73 External Affairs	<p>Another aspect which engaged the attention of the Committee related to the variations in the total plinth area actually constructed <i>vis-a-vis</i> what was envisaged. The note for Cabinet in 1988 sought approval for construction of specified built up floor area for Chancery, residences, accommodation including circulation area, parking and service area calculated at unit rate per sq. meter. The Committee, however, found that while there was an increase of 419 sq. meters in the accommodation actually constructed for Chancery, residences, basement and service actually constructed underwent reduction of 1723 and 180 sq. meters respectively. As against the proposed built up area of 9237 sq. meters, the actual area constructed was 7823 sq. meters. The Ministry of External Affairs were unable to offer any convincing explanation for the variations. The Committee consider it disturbing that while the total floor area constructed was less by 1413 sq. meters there was an increase in the cost of construction by about US \$ 9 million instead of <i>pro-rata</i> reduction (approximately US \$ 2.2 millions).</p>	
8.	74 -do-	<p>An important consideration that led to the selection of the Indian Architect was to give the building an Indian identity. It was, therefore, expected that the main theme of the building befitted the intended identity. The Committee, however, find that the architectural concept, on the basis of which the contract was awarded to the Indian Architect, underwent substantial changes in terms of the originally designed concepts. The Changes incorporated in the design of the building constructed included, non-adoption of brick cavity wall, use of red granite stone instead of red travernite, change from paver roofing to membrane roofing, removal of granite columns in the entrance lobby etc. The MEA, maintained that the intended purpose of appointing an Indian</p>	

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			<p>Architect has still been achieved as the building stand out with the Shekhavati door, pergola bar etc. Considering the extent of architectural changes subsequently incorporated in the building actually constructed, the Committee wonder whether this diluted cultural uniqueness off-sets the additional costs of engaging an Indian Architect.</p>
9.	75. External Affairs		<p>In this context, the Committee note that the newly constructed building is yet to be named. They suggest that a suitable name be given to the building keeping in view the Indian identity and its cultural uniqueness.</p>
10.	76 -do-		<p>Trade costs <i>i.e.</i> cost of material and labour provided by individual sub-contractors for various sub-contracts such as stone works, masonry, wood work etc. constitute a major component of a construction project. The budget estimates prepared by the Construction Manager at the time of commencement of construction had envisaged an amount of US \$ 15,212,825 on the various trades. As of May, 1993 the expenditure on this account had gone up to US \$ 18,606,823. A scrutiny of some of the significant increases revealed that additional expenditure in those cases had been incurred for reasons like superior maintenance characteristics, greater resilience to environmental deterioration, climatic conditions, aesthetic considerations, superiority of fixtures etc. This is clearly indicative of the glaring inadequacies in the preparation of the design and estimates. What had caused further concern to the Committee was that Government continued to accept such changes designed to improve the ambience of the building even though the cost of the Project had far exceeded the estimates and every such change entailed outgo of additional scarce foreign exchange. The Committee disapprove of this attitude particularly considering the fact that bulk of</p>

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such expenditure had been incurred at a period when the country was reeling under a severe foreign exchange crunch and stringent economy measures were widely applied within the country.

11. 77 External
Affairs

As per the relevant conditions contained in the contract entered into with the Architect-on-Record for providing architectural and engineering services for the construction of the Project, the Architect should redesign at its cost any portion of its work or its consultants, which due to its consultants failure to use a reasonable degree of skill, shall prove defective within one year from the date of start of regular use of the portion of the work affected. The owner shall grant the right of access to the Architect to those portions of the work claimed to be defective for inspection. The Committee find that as against the demand to adjust as back changes an amount of US \$ 1,96,848 which had resulted from architectural errors and omissions, the firm had finally accepted the liability for US \$ 47,089 only and the balance had to be borne by the Government. The Ministry admitted that they did not have sufficient proof to enforce the back-charging in many cases. The PMI, New York was stated to have attributed their inability to establish the liability of the firm conclusively to factors such as inadequate documentation, changes of personnel and the difficulty experienced by non-technical persons in the Mission for visualising all the inputs that have gone into these change orders. During evidence the Foreign Secretary stated that a settlement had to be reached with the firm as per the legal advice given to the Ministry. Clearly, this is yet another aspect of the unsatisfactory execution of the project resulting in the Government accepting almost entirely the liability for change orders due to errors and omissions which should clearly have been borne by one of the Architects as the Construction

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Manager. The Committee deplore the laxity on the part of the Ministry in protecting public interest in recovering fully the additional cost attributable to changes due to errors and omissions on the part of the Architect.

12. 78 External
Affairs

Yet another shortcoming observed by the Committee was the inadequate system of supervision and monitoring of the Project by the Mission and the Ministry. Although the Government chose to go in for the Construction Management Method, they posted a non-technical career diplomat as the First Secretary (Project) at PMI during the execution of the Project. Apparently, his contribution towards monitoring, management and evaluation of the multiple and piecemeal changes in designs and specifications had been limited by the lack of appropriate background and experience. There was hardly any mechanism available in the Ministry also to monitor the implementation of the Project. The MEA stated that the nature of job in the Mission was more administrative than technical and that technical supervision of the Project was the responsibility of Architect/Construction Manager. The Committee do not agree with the manner in which the Ministry have sought to absolve themselves from their responsibility. In the opinion of the Committee, since under the Construction Management Method the Construction Manager acted only as an agent of the employer, it would have been desirable to appoint a technically qualified person with a view to supervising the Project more effectively and it was also imperative that the Ministry monitored its execution closely. The Committee regret to conclude that the nature of the supervision exercised by the authorities was perfunctory and Ministry had failed to exercise adequate control over the expenditure incurred on the Project. While expressing their unhappiness over the same the Committee desire that suitable steps should be

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13.	79	External Affairs	<p>taken by the MEA to ensure that such Projects are effectively supervised and the progress is closely monitored by the Ministry.</p> <p>The Project for construction of building for Permanent Mission in New York was sanctioned by Cabinet in 1988 for a project cost of US \$ 19.023 million. The actual expenditure incurred on the Project was about US \$ 28 million, which is about 9 million in excess of the sanctioned amount. In such cases approval of the Cabinet is specifically required when the actual expenditure incurred exceeds the originally sanctioned amount by more than 10%. The Committee are however, amazed to note that though the Project was completed in January, 1993, the approval of the Cabinet for the excess expenditure incurred is yet to be obtained. In the Ministry's own admission, the draft note seeking Cabinet approval for the revised cost of the project was sent to the Ministry of Finance on 16 January, 1995 only. The Committee cannot but express their displeasure over the delay on the part of the MEA in obtaining the approval of the Cabinet for the revised cost of the Project and desire that the reasons for the same should be thoroughly looked into with a view to obviating such lapses in future. They would also like to be informed whether the approval for the purpose has since been obtained.</p>
14.	80	-do-	<p>The facts stated in the foregoing paragraphs raise certain important questions relating to the cost effectiveness of the Government's Mid-Manhattan Construction Project at New York and whether the benefits accruing, therefrom were commensurate with the scarce foreign exchange resources appropriated for it. Undoubtedly, the Government's decisions of associating an indian Architect, adopting the Construction Management System and giving precedence to superiority of ambience over economy together contributed to the delays and</p>

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steep cost escalation. Completion of the Project at more than five times the originally estimated cost of US \$ 5.3 million raises serious questions about the financial prudence of going in for a Project which even at the stage of original estimation was considered financially unviable. The MEA have sought to maintain that the Project was still economically viable. They attributed the delay in the Project to the decision for associating and appointing an Indian architect and the procedures which had to be followed thereafter, revisions incorporated in the scope of the Project as it went along, longer time taken for digging of foundation due to the layout of the land, break-up of the US architectural firm, bankruptcy of the metal panel erector etc. According to the Ministry the cost escalations had arisen due to design changes made after construction started, increase in general condition cost on account of construction time, increase in cost on account of changes made by interior designer, changes made on account of local code requirements etc. They, however, assured the Committee that in the light of the shortcomings observed in this Project certain measures like undertaking of careful planning, creation of a Technical Cell in the MEA with the association of CPWD etc. have been initiated by them. In the wake of the unsuccessful experimentation with the Construction Management Method in this Project, the Ministry also stated that they were now following the general contract method with fixed value lumpsum contract. The Committee cannot remain satisfied with this. They desire that the factors contained in this Report should be thoroughly looked into with a view to fixing responsibility for the various lapses and also for obviating such recurrence by streamlining the policy and procedures for acquisition/construction of property by Indian Missions Abroad.

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15.	81	External Affairs	<p>In this connection the Committee have taken note of the guidelines of May 1978 and August 1986 issued by the Ministry of External Affairs which deals mainly with the criteria to determine the economic cost of acquisition of property abroad. The Committee feel that these guidelines be reviewed and detailed instructions be issued in consultation with the Ministries of Urban Affairs & Employment and Finance which apart from laying down the criteria for acquisition of property abroad should also include aspects relating to management of construction, i.e., estimation, approval of the project, evaluation of tenders, appointment of architects, technical supervision of construction and system of payment at different stages as also periodic monitoring in the Ministry. The Committee further desire that these instructions be issued within a period of six months. The Committee also recommend that the Ministry should prepare perspective and Five Year Plans for acquisition and construction of property abroad keeping in view the likely overall availability of funds.</p>
16.	82	-do-	<p>The Committee have been informed that there were about 20 Projects/Proposals under execution/consideration for construction/acquisition of buildings for Indian Missions abroad which were presently in hand. The Committee desire that the Ministry of External Affairs should review those Projects/Proposals in the light of the Committee's recommendation made in paragraph 81 with a view to ensuring that the rental outgo, which is bound to increase year after year is reduced to the negligible level and also avoiding delays in execution and the concomitant cost escalations.</p>

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8.	M/s. Usha Book Depot, Law Book Seller and Publishers' Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400 002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, Connaught Circus, New Delhi-110 001. (T.No. 344448, 322705, 344478 & 344508).
9.	M & J Services, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuele Road Naigaum, Dadar, Bombay-400 014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Service India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay-400 001.	23.	M/s. Books India Corporation Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110 052. (T.No. 269631 & 714465).
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