HUNDRED AND TWENTY-EIGHTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1987-88)

(EIGHTH LOK SABHA)

MANICKGARH-CHANDUR NEW BG LINE AND CHITRADURG-RAYADURG NEW MG LINE

MINISTRY OF RAILWAYS
(RAILWAY BOARD)

Presented in Lok Sabha on 27 April, 1988
Laid in Rajya Sabha on 27 April, 1988

LOK SABHA SECRETARIAT
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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Twenty-eighth Report on Paragraphs 11 and 14 of the Report of the Comptroller and Auditor General of India for the year 1985-86, Union Government (Railways) - South Central Railway – Construction of a new broad gauge line from Manickgarh to Chandur and Southern Railway—Unproductive expenditure on construction of a new metre gauge line from Chitradurg to Rayadurg.

2. The Report of the Comptroller and Auditor General of India for the Year 1985-86, Union Government (Railways) was laid in Lok Sabha on 8 May, 1987.

3. The Committee in this Report have noted that the Manickgarh-Chandur Railway line was sanctioned to provide transport facilities for cement plants in the area and for growth of cement industries in the area. A preliminary investigation carried out by the Railways in November, 1978 revealed that based on a projected traffic of 2.5 million tonnes, the line expected to cost Rs. 6.9 crores would yield a return of 2.11 per cent (conventional method). However, the estimate was sanctioned in January 1982, after the Preliminary-cum-Final Location Engineering and Traffic Survey. The Railways assessed that the project would be remunerative yielding a return of 10.8 per cent using Discounted Cash Flow Technique even on the higher estimated cost of Rs. 7.26 crores and with lesser anticipated traffic of 1.05 million tonnes. The Committee have observed that the approach of the Railways was somewhat arbitrary in applying different methods for calculation of returns on different occasions. This practice requires review to ensure objective appraisal leaving no scope for ambiguity and discretion.

The Committee have desired the Railways to examine the matter in greater depth and issue necessary guidelines to Railway administrations with a view to ensuring that basic method for calculating the rate of return for determining viability of the new railway line projects and similarly the assumption about cost and traffic are also done according to predetermined gu delines formulated on the basis of actual experience over the years.

4. The Manickgarh-Chandur Railway line, a project-oriented line constructed from movement of cement only is not being utilised to its optimum capacity for cement transport. According to the Railway Board's reckoning, out of 3,55,005 tonnes cement traffic available, only 78,236 tonnes, which is nearly one-fifth of the total cement traffic is being loaded at Chandur. The rest is being transported by rail from Manickgarh a station on main line without using the new Manickgarh-Chandur railway line. The Committee have recommended to the Railways to pay urgent attention to the problem at an appropriately high level and presail upon the cement manufacturers to fulfil their obligation of cement loading in the interest of economic utilisation of the project-oriented line.

The Committee have also expressed the hope that the Railways would also draw a lesson from this experience and would be careful in drawing project plans for construction of new railway lines of short distance in future so that there is no depletion of meagre economic resources of the country.

5. Chitradurg-Rayadurg Railway line was sanctioned by the Railways as developmental line to establish new growth centre even though the rate of return ultimately assessed was as low as 1.7 per cent under Discounted Cash Flow Technique. The Planning Commission gave its approval to the project practically under duress and ostensibly for development of economically backward and undeveloped areas in Karnataka State. Since there is a gradual change in movement of goods by rail from wagon load to rake load, the Committee doubt whether the anticipated traffic of the project as per details made available to the Committee, will ever be able to make up a rake load and earn enough to meet operating cost and contribution to depreciation in the near future. The Committee have recommended that in view of the serious financial constraints the Railways should be circumspect in approving developmental railway line projects and when such projects are taken up they should have real impact on the economic and industrial development of the backward and undeveloped regions.

6. The Committee have observed that the present practice of issue of Urgency Certificate authorising incurrence of expenditure pending examination of construction estimates needs review as in the instant cases it has not been able to achieve the desired objectives. The Railways should keep a close watch over the issue of Urgency Certificate and all such cases should be subjected to critical analysis so that the powers to invoke the urgency clause are used only in deserving cases.

7. Committee examined these Paragraphs at their sitting held on 9 September, 1987. The Committee considered and finalised this Report at their

sitting held on 12 April, 1988. The Minutes* of the sitting form Part II of the Report.

8. For reference facility and convenience, the observations and recommendations of the Committee have also been reproduced in a consolidated form in Appendix III to the Report.

9. The Committee would like to express their thanks to the officers of the Ministries of Railways (Railway Board), Industry (Department of Industrial Development), and Steel and Mines (Department of Steel) and the Planning Commission for the cooperation extended by them in giving information to the Committee.

10. The Committee also 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;
20 April, 1988
31 Chaitra, 1910 (Saka)

AMAL DATTA
Chairman,
Public Accounts Committee.

*Not printed. Five copie splaced in Parliament Library.

REPORT

A. MANICKGARH-CHANDUR NEW BROAD GAUGE RAILWAY LINE

CHAPTER I

Background

1.1 Maharashtra State Industrial and Investment Corporation (SIICON) requested the Ministry of Industry on May 5, 1978 to lay a new broad gauge railway line from Manickgarh (an existing rail head on Kazipet-Balharshah section on the G. T. route) to Chandur at a distance of 28 kms. in order to provide rail transport to facilitate setting up 5 cement plants in and around Chandur with an installed capacity of 3.8 million tonnes. A copy of the request was also sent to the Ministry of Railways. In addition to this SIICON had addressed Chief Engineer (Construction), South Central Railway, Secunderabad through letter dated 10.4.1978 indicating that at least 2 cement plants could be promoted with individual capacities of 1 million tonnes per annum (with provision for expansion upto 2 to 3 million tonnes per annum) and one plant of 0.4 million tonnes capacity (with provision for expansion upto 1 million tonnes) in order to exploit the lime stone deposits available in the area.

1.2 SIICON had indicated the following five firms intending to set up the cement plants. The dates of licences, however, are not available with the Railways :

Sl. No.	*Name of the Factory*	*Location of the plant*	*Installed Capacity in tonnes*
1	2	3	4
1.	Larsen & Toubro Limited	Awarpur	10.00 lakhs
2.	Century Cements (sub sequently renamed as 'Manickgarh Cements')	Chandur	10.00 lakhs

1	2	3	4
3.	New India Mining Corporation	Chandur	04.00 lakhs
4.	Punalur Paper Mills	Awarpur	10.00 lakhs
5.	Indian Rayons	Chandur	04.00 lakhs

1.3 The Ministry of Railways directed the South Central Railway to carry out investigations regarding the feasibility of construction of the proposed line. A quick assessment was made by the South Central Railway in November 1978. Based on a cursory study, without any field survey or field investigations, the cost of the project was worked out as Rs. 6.9 crores based on an roughly assumed cost per kilometre of construction.

1.4 The return assessed in November 1978 for the project without an actual survey was 2.11 per cent (Conventional method).

1.5 The construction of the line was approved in 1979-80. Annual Plan of the Railway by the Planning Commission, and accordingly, construction of this line was included in the Railway Budget 1979-80 with an outlay of Rs. 30 lakhs.

1.6 The Ministry of Railways have given rail transport clearance on Manickgarh-Chandur section in favour of the following cement plants as per details given against each :

S No.	*Name of the Party*	*Capacity*	*Date of clearance*
1.	M/S Larsen & Toubro Ltd.	11.00 LTPA	12.10.79
2.	— do — (Expansion)	11.00 LTPA	25.06.83
3.	M/S Manickgarh Cements (Century Spg. & Mfg. Co. Ltd.)	10.00 LTPA	16.10.79
4.	M/S New Indian Mining Corpn. (P) Ltd.	4.00 LTPA	17.10.79
5.	— do —	10.99 LTPA	05.09.85

However, while working out the traffic projections as per the Project Report, only 2 cement plants, viz. M/S. Larsen and Toubro and M/S. Manickgarh Cements were taken into account.

1.7 The final location survey commenced in December, 1979. Field work was completed in May, 1980 and survey Report submitted to the Railway Board in August, 1980.

1.8 The financial return worked out at 10.8% as per DCF technique, taking 30 years life of the project and was based on the abstract cost estimate, sanctioned in January 1982 as well as the detailed study of projections of traffic which are given as under :

Inward :	2.63 lakhs tonnes	Coal
	1.00 — do —	— Gypsum
	0.19 — do —	— Gunny bags
	0.05 — do —	— Fuel Oil
	0.13 — do —	— Machinery
	4.0	

Outward : 10.05 lakhs tonnes — Cement

1.9 Priority was accorded for the work and an urgency certificate was sanctioned by the Railway in January, 1981.

1.10 The work on the project was commenced in April 1981 and was completed in March 1985 though the survey report envisaged its commissioning in 1982-83. The servised estimated cost of the Project was Rs. 10.14 crores.

1.11 The two cement factories, namely (i) M/S. Larsen & Toubro and (ii) M/S. Manickgarh Cements were to be set up on this line to synchronise with the commissioning of the railway line. The factory of M/S. Larsen & Toubro (installed capacity of 1.1 million tonnes) was commissioned before the line was opened, while Manickgarh Cements (installed capacity 1.0 Million Tonnes) was actually commissioned late in January 1987. The Committee has been informed that this was mainly due to delay in Government clearnces.

The proposals of M/S, Punalur Paper Mills and M/S. Indian Rayon Corporation were not approved and no letter of intent was issued to them. M/S. New India Mining Corporation Ltd. did not take adequate steps to implement the scheme and, therefore, the letter of intent issued to them was cancelled.

1.12 The National Transport Policy Committee in their reports published in 1986 had laid down the criteria for taking up new lines :

(1) Investment criteria for new lines should take into account the financial return and benefits to the economy. A wider social cost-benefit criteria for appraisal needs to be applied. Construction of new lines should be taken up to fulfil the following objectives :—

(a) as project-oriented lines to serve new industries or tap mineral and other resources;

(b) to serve as missing links which can form alternative routes to relieve congestion on existing busy rail routes;

(c) on strategic considerations;

(d) as developmental lines to establish new growth centres or give access to remote areas. In such cases a lower rate of return than stipulated for normal projects may be agreed to but it will not be advisable to take up new railway lines which cannot meet operating costs including contribution to depreciation.

(2) Any region where natural resources are available an integrated Plan should be evolved to develop new growth centres and promote economic activity, the provision of a new rail line being an element in such developmental plans.

(3) Reducing total transport effort and relieving congestion on the existing saturated network are important criteria for construction of new lines. There is urgent need for developing alternative routes on which traffic can be diverted, reducing leads and consequently total transportation effort.

(4) Where existing routes are heavily congested, even after doubling tracks, building an altogether new route between the main nodal points will give the system a better viability than addition of a third track. This will enable alternative routes to operate during dislocations caused by natural calamities.

1.13 The Committee have been informed that the Government have accepted these recommendations.

1.14 New lines considered to be having potential to fulfil the criteria laid down in the National Transport Policy Committee, 1980 Report are taken up for surveys by the Railways. The survey report is examined in the Railway Board and, keeping in view the criteria for taking up new lines as well as availability of resources and ongoing commitments, decision is taken as to whether a particular project is to be referred to the Planning Commission. If it is decided to forward a particular project to Planning Commission for consideration, the survey report along with a detailed memorandum are submitted to the Planning Commission for consideration and clearance of the project and, based on their advice, further action is taken. If approved by the Planning Commission the Project is included in the Annual Plan for approval by Parliament. After clearance by Parliament, detailed estimates are sanctioned and incurrance of expenditure is permitted.

1.15 According to the Member Engineering, Railway Board, Project Manickgarh-Chandur Railway line was urgently needed for the development of the cement industry. The Railways did not go through detailed survey which means that no detailed cost estimate was made. Based on rough estimates, it was cleared by the Railways and the Planning Commission.

1.16 The construction of Manickgarh-Chandur New Broad Gauge Line has been dealt with in the Audit Paragraph 11 of the C&AG's Report on Railways for 1985 86 which is reproduced in Appendix I.

Financial viability of the Project

1.17 The Ministry of Railways (Railway Board) on being asked as to why they agreed for construction of new line between Manickgarh and Chandur (28.6 Kms.) when the project was found to be unremunerative yielding a return of 2.11%, stated that :

(1) The rate of return of 2.11% projected in 1978, was based on a rough estimate, without the actual survey, and on a conventional method instead of discounted cash flow technique, apportioning only the freight accrued to the new line for a distance assumed as 25 km.

(2) In December, 1978, Chief Minister Maharashtra suggested construction of this line for serving three cement plants being set up around Chandur, with a total production capacity of 2.5 M.T. (million tonnes). In a letter dated 23.1.79 from the Minister of Industry, it was seen that the two cement plants with a total production capacity of 2.1 M.T. were already, approved. Letter of intent had also been issued for a third one with a capacity of 0.4 M.T. The Minister of Industry and emphasised that the line was essential for the cement plants and he had also requested the Planning Commission in this regard.

The construction of the line was approved in 1979-80 Annual Plan by the Planning Commission and, accordingly, construction of this line was approved in the Railway Budget, 1979-80.

(3) Thereafter, Final Location Survey was carried out to facilitate construction of the project and it was assessed to be financially remunerative, yielding a return of 10.8% under DCF technique.

1.18 Explaining the position further during evidence, the Chairman, Railway Board, stated that in the preliminary estimate certain assumptions were made about the drawings. The basic factor which has caused the difference ultimately when the preliminary and final location survey was done, was that the railway had earlier estimated the length to be 25 km and the cost at Rs. 6.9 crores in the preliminary estimate for the engineering works, rolling stock etc. The traffic arising was estimated at 2.5 million tonnes with as average total lead of about 636 km. The total earning of the line was estimated to be Rs. 17 crores of which Rs. 1 crore was estimated to be the project earning for 26 km. length of line. This net return of 2.11 per cent was on a purely conventional method.

1.19 The Member Engineering, Railway Board, added that in the final survey correct norms were followed, and it was realised that the entire traffic was arising only out of this line. If this line was not constructed the cement factories would not have come. Hence, the freight earnings on the entire route of six hundred and odd kilometres was taken into account in the final survey.

1.20 In response to a query, the Chairman, Railway Board clarified that the correct method to calculate the rate of return is to work out the additional traffic to be generated so that the total additional freight potential should be taken into consideration. As in this case, the entire traffic was additional traffic, total additional earnings should have been taken into consideration even in the first instance. He further stated that there was perhaps an omission in the first stage when they arrived at 2.11 per cent, taking the freight earnings over the stretch of 26 km only. When the project was reviewed on the basis of the more detailed survey it was found to be financially remunerative, yielding a return of 10.8 per cent in the final location survey, it was cleared by the Planning Commission.

1.21 Actual earnings of the Railway from the Manickgarh-Chandur Railway line during the last two years are as follows :—

Year	*Earnings*
1985-86	8.23 crores.
1985-87	13.56 crores.

1.22 Financial return for the year 1985-86 and 1986-87 as per Conventional Method as well as Discounted Cash Flow Techique are as follows :—

Year	*Conventional Method*	*Discounted Cash Flow Technique*
1985-86	5.19%	20.8%
1986-87	9.58%	22.7%

1.23 The traffic forecast in the Survey Report was 1.05 million tonnes in the first year (1985-86) and 1.2 million tonnes in the Sixth year (1991-92), but actual materialisation of traffic was only 3.48 lakh tonnes (0.35 million tonnes against 1.05 million tonnes projected i e, less than half the projected traffic. Asked to explain how that financial return for this line was doubled to 20.8% in 1985-86 and 22.7% in 1986-87 respectively in view of low traffic, the Ministry of Railways (Railway Board) have stated that the increase in the rate of return is due to the following factors :—

(i) The classification of cement has undergone a change from 52.5 (1979-80) to 125 (1985-86). As a result, the freight per tonne has been more than doubled.

(ii) While estimating the Working Expenses at the Survey Report stage, Wherein a Return of 10.8% was indicated, the unit cost data current at that time duly updated, was adopted. However, while calculating the return for evaluating the project in 1985-86 and 1986-87 in connection with the Audit Para, the proforma circulated under Railway Board's letter No. F (X) III/87/UBI/2, dated 24-8-1987 was made use of. The proforma provides for taking only 50% of operating ratio for arriving at the Working Expenses of main line. As for branch line expenses, the actuals have been indicated for the base year (85-86 or 86-87 as the case may be) and the expenses for future years are worked out on direct proportion basis using the tonnage figures of the base year (85-86 or 86-87, as the case may be) and future years.

(iii) The actual lead over which the traffic moved in 1985-86 and 1986-87 was 798 km and 777 km respectively, as against the average lead of 550 km obtained as per the projections in the Survey Report. According to the Ministry of Railways, all the above mentioned factors have contributed towards increase in the net earnings (i.e. Gross Earnings minus Working expenses) for evaluation purposes and resulted in a higher rate of return under DCF technique, as compared to the 10.8% return of Survey Report 1980.

1.24 According to the Ministry of Railways (Railway Board), this line was sanctioned to provide transport facilities for the cement plants in the area but as the new plants lead to development of new growth centres, the line may be deemed to have been sanctioned in the first instance for development of a somewhat underdeveloped area. The Ministry of Railway have also contended that as per the survey report subsequently prepared, it was found to be financially remunerative and hence classifiable as a project oriented line.

1.25 The Committee note that the return of 2.11 per cent on the construction of a new Manickgarh Chandur B. G. Line projected in 1978, was based on a rough estimate without an actual survey and on a conventional method. According to the Ministry of Railways and the Planning Commission, normally only financially remunerative or project-oriented lines are given clearnace. Lines with lower rate of returns have also been considered and constructed for developmental purposes to give access to backward and under-developed areas.

1.26 The Manichgarh-Chandur Railway line was sanctioned to provide transport facilities for cement plants in the area. The primary factor for sanction of the line was the growth of cement industries in the area. The representative of the Planning Commission during evidence stated : "the line was projected to them as a 'basic necessity' for the establishment of the cement plants. In a sense, the line was to precede the cement plants."... .. The Committee are therefore, of the opinion that this line was a project-oriented line from the very beginning.

1.27 The manner in which construction of this new railway line was taken up is somewhat puzzling both from the way the project was initiated as well as the manner of calculation of return which kept varying. A preliminary investigation carried out by the Railways in November, 1978 revealed that based on a projected traffic of 2.5 million tonnes, the line expected to cost Rs. 6.9 crores would yield a return of 2.11 per cent (conventional method). However, the estimate sanctioned in January 1982, after the Preliminary-cum-Final Location Engineering and Traffic Survey, the Railways assessed that the project would be remunerative yielding a return of 10.8 per cent using Discounted Cash Flow Technique on the estimated cost of Rs. 7.26 crores even with lesser anticipated traffic of 1.05 million tonnes. It is now seen that with higher cost of construction Rs. 10.14 crores and much less traffic, the rate of return is very much higher 22.7% than even the later estimate using DCF technique which showed 10.8 per cent return. The Committee are constrained to observe that the practice followed by the Railways for determining financial viability of the new railway line projects is not uniform. Though the DCF method has been in vogue for ever a decade, initially conventional method was applied. The Committee feel that the approach of the Railways was somewhat arbitrary in applying different methods for calculation of returns on different

occasions. This practice requires review toensure objective appraisal leaving no scope for ambiguity and discretion.

1.28 It has been conceded by the Railways that there was an omission in the first stage when they arrived at the return of 2.11 per cent in 1978 which was based on a rough estimate without an actual preliminary survey, taking the freight earnings over the stretch of 26 km. only. The Railways are establishing new lines every year in many parts of the country and it is imperative that there should be definite and uniform method of working out return on investment in order to determine financial viability of each project as well as inter se priority of various projects in so far as such priority is dependent upon the rate of return itself. The Committee are of the view that the method to work out the rate of return should be clear, precisc and unambiguons and every care should be taken to ensure that there are no omissions in application of the prescribed method in future. The Committee is anxious to ensure that it should not be open to Railways to apply a method showing low rate of return in case of a project which they may be inclined to reject for other than economic reasons, not to apply a method showing higher rate of return for projects receiving patronage and support of the powers has that be.

The Committee desire that the Railways will examine the matter in greater depth and issue necessary guidelines to the concerned officials with a view to ensuring that basic method for calculating the rate of return for determining viability of the new railway line projects and similarly the assumption about cost and traffic are also done according to predetermined guidelines formulated on the basis of actual experience over the years.

CHAPTER II

Construction of Lines as a Project Work

2.1 The Ministry of Railways stated that while asking for a railway line M/s Larsen and Toubro stated in their letter dated 3.6.78 that they would consider putting up 30 km. private siding from Manickgarh upto a suitable point in concert with other eoncerned parties. They also stated that besides their plant, there were definite possibilities of 2 other plants coming up in the vicinity since there were a couple of cement grade lime-stone deposits in the area. The Railways were suggesting construction of this line as a deposit work on behalf of cement factories. However, the Ministry of Industry stated in their letter dated 23.1.79 that the construction of the Chandur-Manickgarh line must be considered as an area development project and also viewed that if this line did not come up, it may not at all be possible to construct these plants and the target for cement production in the Sixth Plan would not be reached.

The South Central Railway requested the State Industrial and Investment Corporation of Maharashtra Ltd. to deposit the cost of survey in this regard. The Maharashtra Government stated that they were taking up the issue of laying this line with the Railway Ministry at the highest level. Further M/s Century Cement who were setting up the 1 million tonne capacity cement plant also submitted that the provision of rail link should be taken up by Railways as a development project. In the meantime, at a meeting held in the room of Member, Planning Commission, on 30.1.79, to discuss Railways. Annual Plan 1979-80, Member, Planning Commission, mentioned that Railway lines required for cement plants should be included in Railway's Annual Plans within the provisions made for the Annual Plans. Adviser (Transport,) Planning Commission, in his letrer dated 5-2-79, recalled these discussions and advised inclusion of Railway line between Chandur and Manickgarh, as desired by the Minister of Industry. Accordingly, the construction of this new line was included in Railway's Annual Plan and Budget for 1979-80, as a Railway work and not deposit work.

2.2 Asked to explain as to why the Railways did not pursue the matter regarding construction of the line as a deposit work with the cement company, the Chairman, Railway Board, submitted during evidence that "the Ministry of Industry had opined that if the line did not come up, it would not be possible at all to set up cement plants and the target fixed for cement production for the Sixth Plan would not be achieved."

2.3 In this connection, the Member Engineering. Railway Board added. "In the particular case one unit Larsen & Toubro was already established and according to Maharashtra Industrial Development Corporation four more units were to follow. The Ministry of Industry also said that there was a lot of dotential in this line. In this kind of a situation to construct the line as a deposit work for one factory was not considered a proper arrangement."

2.4 In response to a query, the Chairman, Railway Board informed the Committeee that in case of deposit work only the concerned party generally has the right to operate on the line and if anybody else wants to join, it will be with their agreement and with their sharing of the cost.

2.5 According to the Ministry of Industry, the matter was discussed at a meeting held on 4th September, 1978, in the Department of Industrial Development in consultation with the Railway Officials as well as the representatives of the 3 companies. During the course of the discussions the representative of M/s Larsen & Toubro stated that their company was willing to construct the Manickgarh-Chandur Railway line if the other companies proposing to set up their in that area were willing to share the expenditure involved. The representative of Century Spinning and Manufacturing Company (now called Manickgarh Cements) however did not accept the proposition that this section i.e. Manickgarh-Chandur Section, should be treated as a private siding to be maintained by the Railway on the usual terms and jointly owned by the cement plants coming up in that area. He felt there was no justification for the stand of the Ministry of Railways to treat this as a private siding.

When specifically asked whether his company would go ahead with the project or not on the clear understanding that the Manickgarh Chandur Section would be treated as a private siding the representative of the above clarified that it would not be possible to give a definite answer without knowing the share of the company's expenditure in the construction of railway siding. The representative of New India Mining Company was informed that they would also have to bear its share in the expenditure on the construction of the Railway link. The Railway authorities later on worked out the cost of the rail link at Rs. 6 crores and suggested that the cement plants coming up in the area should share the expenditure in proportion to their licensed capacity and provide for the same in their project reports.

2.6 The Ministry of Industry in a note to the Committee have clarified that "the then Minister of Industry had not approved the taking up of construction of Railway line from Chandur to Manickgarh but had only recommended the project to the Ministry of Railways, a final decision had to be taken by them."

2.7 While giving their requirements for rail transport of cement M/s Larsen & Toubro offered in June, 1978, to put up 30 km private siding from Manickgarh to a suitable point around Chandur in concert with other cement plants coming up in the vicinity. The Railways, accordingly, suggested construction of this line as a deposit work. Subsequently, in pursuance of discussions held on 4 September, 1978 in the Department of Industrial Development in consultation with the Railway officers and representatives of the 3 companies, the Railways suggested that the cement plants coming up in the area should share the cost of the rail link which worked out at Rs. 6 crores, in proportion to their licensed capacity.

2.8 The Chief Minister, Government of Maharashtra requested the then Minister for Railways on 13th November, 1978 to agree undertake on a priority basis the construction of the Manickgarh-Chandur Railway Line so that the proposed cement plants were abler to come into existence as early as possible. In a subsequent letter dated 19th December, 1978 addressed to then Railway Minister, the then Chief Minister of Maharashtra pointed out that the policy of the Government of India was not to insist on contributions from the parties concerned in respect of laying of freight-intensive lines and that it had been customary in the past to include such lines in the Railway Plan itself.

2.9 In reply to the Chief Minister of Maharashtra, the then Minister of Railways wrote a letter on 15th January 1979 stating that the proposed rail connection was sought to be built exclusively for cement factories and any change in timing of investment on the cement plants would invariably alter the justification for investment on railway line. The Minister of Railways also pointed out that the proposed link from Manickgarh to Chandur could be taken up as a deposit work. However, on receipt of the letter of the then Minister of Industry by the Minister of Railways on 23rd January, 1979, the Railways reviewed their stand and agreed to construct the linc at their own cost.

2.10 The Committee have also been informed that in a case involving a Government ef India Undertaking for Khetri Copper Complex the line was built at the Railways' cost but a guarantee was obtained in regard to the traffic to be offered by the Khetri Copper Project to the Railways. The Railway Board have also informed that even now construction of the Dallivajhare-Rowghat line for SAIL is being considered with funds to be provided by SAIL as the line would be required primarily for their new mines opened atRowghat. In the circumstances, construction of Manickgarh-Chandur line out of Railway funds, and without forcefully insisting upon construction of the

line as a deposit work was not in the best financial interests of the Railway. The Committee recommend that the Railway Board should lay down and follow a clear cut policy in regard to constructiou of new project-oriented lines to serve new industries or tap mineral and other resources. The policy should envisage obtaining guarantee of traffic from users or there should be provision of their bearing the cost of construction of rail lines in certain proportions or both. The Committee would like to be apprised of further developments in this regard and would like the Railways to ensure that once such a policy is laid down, the same is scrupu lously observed

CHAPTER III

Cement Factories and Under-Utilisation of the Line

3.1 It has been pointed out in the Audit Report that only one cement factory has so far been set up which commenced production from October 1983 and the second one was under construction (December 1986). As four out of five cement factories have not come up so far, the prospect of achieving the projected traffic is bleak.

3.2 According to the Ministry of Railways(Railway Board), the Managing Directorof State Industrial and Investment Corporation (SIICON), Government of Maharashtra in their letters dated 10 April and 5 May, 1978 indicated five firms, namely, (1) M/s Larsen & Toubro Ltd., Awarpur (2) M/s Manikgarh Cements, Chandur (3) M/s New India Mining Corporation Chandur (4) Ms Punalur Paper Mills, Awarpur and (5) M/s Indian Rayon Corporation, Chandur who intended to establish cement factories. However, the Ministry of industry have informed that the proposals of M/s Punalur Paper Mills and M/s Indian Rayon Corporation were not approved and no letter of intent was issned to them. M/s New India Mining Corporation Ltd. did not take adequate steps to implement the scheme and, therefore, letter of intent issued to them was cancelled.

The Railway have intimated that though only 2 cement plants have come up by December, 1986 and that the project was financially justified on the basis of the traffic offered by these two plants along with some agricultural produce. It has been contended that at no stage had the Railways considered traffic from 5 cement factories and hence it is not correct to say that the prospect of achieving the 'projected traffic is bleak'. According to the Railways the traffic projected was in respect of only two cement plants, and both these have materalised.

Under-utilisation of line

3.3 During the course of scrutiny, the Audit has noticed a major portion of the traffic continued to move directly from Manickgarh and the new line between Chandur and Manickgarh remained under-utilised.

3.4 Explaining the position in this regard the Ministry of Railways (Railway Board) have stated :

"The L & T Cement Plant was commissioned in 1983-84, ahead of the commissioning of Manickgarh-Chandur line. Cement was taken by road from the plant and loaded from Manikgarh station until the line was commissioned. The L & T Cement Plant had a labour strike from July to December, 1986, when it was not possible to place any wagon on the siding, due to law and order problems.

It has further been brought out that movement of traffic by road for loading at Manikgarh station does not seriously affect the Railway's earnings, since the distance between Chandur and Manikgarh is only 29 km. and the difference in freight chargeable is marginal.

The Railways have also started that L & T Cement Plant is now loading partly from Chandur and partly from Manikgarh· to utilise the storage terminal facilities created at Manickgarh and the road transpotr arrangement made by them. However, they are gradually switching over more and more to loadidg at Chandur itself and it is expected that, garually they will load substantially from Chandur itself"

3.5 The Ministry of Industry (Department of Industrial Development) have added that after the stabilisation of production from the second unit of Larsen & Toubro, total expected production would be 20 lakhs tonnes per annum and there will be no problem in offering traffic for about 15 to 17 lakh tonnes per annum by rail, the rest being moved by road to short distance destinations. If more wagons are made available by the Railways at Awarpur Railway siding, the utilisation of this portion of the line will further increase.

3.6 During their visit to Hyderabad in October, 1987, the Committee were informed by the South Central Railway that Western Coal Fields Limited has plans to move one million tonnes of coal through this line from siding at Rajure to be served by Pandarpowni station on the Manickgarh. Chandur branch line. This movement is expected to take place after completion of the coal field siding and there will be additional traffic on the line due to this. The plans for this coal siding have been finalised and the construction is being done by RITES, New Delhi.

3.7 From the information furnished by the Railway Board. the Committee find that the earnings from the Manickgarh-Chandur Railway line during the year 1985-86 consist of the following two parts :

(a) earnings from traffic moved from branch line,

(b) earnings from traffic offered by M/s L & T at Manickgarh.

The break-up of the quantity moved and earnings therefrom is given below :

	Tonnage	*Earnings (Rs.)*
(a) L & T Siding, Chandur	78,236	2,02,95,075
(b) Manickgarh Station	2,76,769	6,20,77,902
	3,55,005	8,23,72,977

According to the Railways the cement traffic at Manickgarh would not have arisen but for the fact that the railway line was constructed between Manickgarh and Chandur, as otherwise the cement factories would not have been set up. One of the cement plants, viz. L & T, was set up even before the projet line could be commissioned and, as such, the firm had to make arrangements for storage facility at Manickgarh. They are still continuing to use this facility to supplement their loading from the factory siding.

Further, loading of cement during the year 1987-88 from L & T siding has been showing a substantially increasing trend.

3.8 It is disquieting to note that the Manickgarh Chandur railway line, a project-oriented line constructed for movement of cement only is not being utilised upto its optimum capacity for cement transport. Instead, a major portion of cement traffic by rail projected in the Survey Report is being moved by road for loading at Manickgarh station. According to the Railway Board's reckoning, out of 3.55.005 tonnes cement traffic available, only 78.236 tonnes, which is nearly one-fifth of the total cement traffic, is being loaded at Chandur. The rest is being transported by rail from Manickgarh station without using the new Manickgarh-Chandur railway line. No less distressing is the argument advanced by the Railways that movement of traffic by road for loading at Manickgarh station does not seriously affect the Railway's earnings since the distance between Chandur and Manickgarh is only 29 km. and the difference in freight chargeable is marginal. This argument militates against the basic justification for the construction of this Railway line. The new line is not being utilised for the purpose for which it was constructed and this is clearly indicative of the non-utilisation of scarce economic resources and is a matter of concern. The Committee recommend to the Railway to pay urgent attention to the problem

at an appropriately high level and prevail upon the L & T management to fulfil their obligation of cement loading in the interest of economic utilisation of the project-oriented line.

The Committee hope that the Railways would also draw a lesson from the experience and would be careful in drawing project plans for construction of new railway lines of short distance in future so that there is no depletion of meagre economic resources of the country.

CHAPTER IV

Urgency Certificate and Cost Escalation

4.1 According to Audit para 11.8 the Railway Administration stated in January 1985 that for want of adequate time only preliminary engineering survey had been conducted to arrive at an approximate cost of the work and that final location survey was undertaken concurrently with the execution of work. Consequently, several changes/modifications such as raising the alignment in Reach II, revising the designs and foundations of major bridges, increasing the scope of certain works and provision of additional items, etc. became necessary. All these factors alongwith prices escalation contributed to the increase in the cost of work from Rs. 7.26 crores to Rs. 10.14 crores. Besides, a test review of the execution of the work revealed that the Administration had to incur extra expenditure of Rs. 21.66 lakhs.

4.2 According to the Railways, during execution of such major projects, certain variations in the items of work and/their quantities invariably take place, even where the work is taken up after sanction of estimate. The Railways have further contended that efforts are made to reduce these variations to the minimum, but it is rarely possible to eliminate them totally, especially in situations where the geophysical conditions cannot be fully predetermined. According to the Railways, it is the constant endeavour of the Engineers in charge of the project to effect improvements in the designs, layouts etc. as may be found possible, even during the course of execution, and these may, at times, involve changes in the original plans.

4.3 Explaining as to why the construction work could not be completed by the scheduled date (April, 1984), the Railways have stated that the period of completion of three years indicated in the survey report was assessed by the survey team on the basis of work content and cannot be termed as scheduled date which has to be decided by the Railway Board, the authority which plans allotment of funds for various works. The Railways have been facing severe constraints of resources for new lines and have already heavy commitments on hand due to which, funds were not allotted for this line as per its requirement but according to overall availability of resources and the need for allotment of funds for other new lines.

4.4 According to the Ministry of Railways (Railway Board) the escalation in the cost of construction is due to the following :

	Rs.
(i) Excess due to price escalation	1.84 crores
(ii) Excess due to change in scope of work	0.55 crore
(iii) Excess due to additional items and other reasons	0.74 crore

According to the Railways, the escalation is due to increase in price of rails permanent way materials, cement and labour, etc. The change in scope of work is on account of increase in waterways to be crossed and change in design of bridges based on flood review. The additional items and other reasons are mainly the additional equipment required for signalling to suit future electrification standard and provision of additional buildings.

The Railways have also stated that commencement of the construction on the urgency certificate has not resulted in any cost over-run and that there has been general escalation in cost of work owing to increase in cost of materials and labour, right from the commencement of the work.

4.5 The Committee enquired why urgency certificate was issued in January 1981 whereas the detailed estimates were sanctioned in January 1982. The Chairman, Railway Board stated during evidence that Urgency Certificate is a special railway term to authorise incurrence of certain expenditure on a railway line when the project is already approved but the detailed estimate is not sanctioned. When a detailed estimate of a project is not sanctioned according to rule, no expenditure can be incurred on that project. Urgency certificate is generally not issued for the whole amount of the project. It is only to enable the Project Organisation to go ahead and incur some immediate expenditure including preparatory works, etc. It is an authorisation to incur the limited expenditure. Urgency Certificate is for a limited amount and that is why urgency certificate is sanctioned in many cases where the commencement of work cannot wait for the detailed estimate.

4.6 In this connection, the Member, Engineering, Railway Board, submitted during evidence that normally the Railways require a minimum of 3 to 4 years to construct a line. Although a Survey Report was submitted in August, 1980, the detailed project estimate submitted along with it was still under consideration. The urgency certificate was required because project had to make an early start in 1981 without which they had no chance of completing it in time for the two factories.

4.7 Explaning the position further, the Railways in a note to the Committee have informed that sanction of urgency certificate in this case is in keeping with the spirit of the provision contained in para 1103 of the Railway Engineering Code and according to which the urgency certificates are usually for making preliminary arrangements and commencement of long lead critical items of work such as invitation of tenders and their finalisation. land acquisition, earthwork in formation, bridges etc., pending sanction of the estimates, which normally takes time in the process of detailed examination by various Directorates in Railway Board to decide about the scale of facilities at stations and in yards, type of track structure, signalling and interlocking, etc.

4.8 According to the Railways, rail transport clearances had been given in October, 1979 for 3 cement plants and two cement plants have come up, one of them prior to completion of the new rail line. The Railways are, therefore, of the view that sanction of urgency certificate in 1981 was in order.

4.9 The Committee note that Urgency Certificate is to permit incurrence of expenditure and liabilities for specific items of works. In the case of Manickgarh Chandur line, the Urgency Certificate sanctioned in January 1981 authorised expenditure upto Rs. 50 lakhs on earthwork in embankment, major bridges and stores. The Abstract Estimate itself was sanctioned in January, 1982. However, even before the sanction, Railways entered into contracts with a liability of over Rs. 157.7 lakhs for earthwork alone. Eventually none of these contracts was completed within the scheduled date; the delays ranging from 10 months to 35 months resulted in extra expenditure. The Committee are of the opinion that he invoking of the urgency certificate in this case was not appropriate. Paragraph 1103 of Indian Railways Code for the Engineering Department contains conditions for issuing an urgency certificate and these were not fulfilled in the case. Issue of such sanction in haste results in incomplete surveys and investigations, invitations of tenders without preparation of detailed estimates and designs and consequently receipt of high tender rates, sanction of higher rates for additional quantities and extra items of work at special rates negotiated subsequent to the award of tenders as had happened in the above case and also in the case of Chitradurg Rnyadurg line.

Further, in case ultimately it is decided not to take up the project, the expenditure incurred initially under urgency certificate will prove infructuous. The Committee, therefore, feel that the present practice of issue of Urgency Certificate pending examination of construction estimates needs review as in the instant casesit has not been able to achieve the desired objectives. The Railways should keep a close watch over the issue of urgency certificate and all such cases should be subjected to critical analysis so that the powers to invoke the urgency clause are used only in deserving cases.

B. CHITRADURG—RAYADURG NEW M .G. LINE

CHAPTER V

Background and clearance of the Project

5.1 The proposal to construct Rayadurg - Chitradurg new M. G line was taken up by the then Minister of State for Railways with the then Deputy Chairman, Planning Commission by his letter dated 16 May, 1980 for clearance of the project. The grounds advanced for consideration were: (i) Chitradurg District is one of the industrially backward and economically undeveloped districts in Karnataka and often prone to drought and famine with rainfall of less than 20" per annum and (ii) connecting Chitradurg to Rayadurg by a rail link would benefit this backward area and would give an impetus for its economical development and would be a boon to the people of this area.

After examination in the Planning Commission, the proposal was not approved by the Commission in view of meagre financial resources available even for on-going projects.

Thereafter the Ministry of Railways (Railway Board) pursued the clearance of the project with the Planning Commission as the project was expected to yield 7.4% return under Discounted Cash Flow Technique taking 30 years life of the project.

However, work of Chitradurg-Rayadurg new M.G. line project was included in the Supplementary Demands for Grants 1981-82 - Railways in August, 1981, at an estimated cost of Rs. 18 crores. This was done without obtaining clearance from the Planning Commission. Request was made in November 1981 by the Ministry of Railways (Railway Board) to the Planning Commission for conveying their formal clearance to this Project. Formal sanction by the Planning Commission was given on 19 April, 1982.

5.2 Preliminary Engg.-cum-Traffic Survey for this line was completed and survey report alongwith estimate was submitted by the Southern Railway to the Railway Board in August, 1981. The detailed examination of the estimates by different Directorates in Railway Board particularly in regard to items other than land acquisition, earthwork and bridges for main line portion was to take time. Urgency Certificate was sanctionsd in May 1982, to enable the Railway to commence work on preliminary long-lead items such as land acquisition, earthwork and bridges etc. The estimate was finally sanctioned in August, 1983.

5.3 The financial return for this project in the survey report submitted in August 1981 was assessed at 1.7% under DCF technique against the earlier calculation of 7.4% return also using the same technique. As it was not negative, it was expected to meet the operating cost including contribution to depreciation funds.

5.4 The Committee note that as per established procedure, the proposals for construction of new Railway lines are formulated by the Railways on the basis of a techno-economic survay. The proposals along with the recommendations of the Railway Board thereon are forwarded to the Planning Commission for examination and clearanee. In case of Chitradurg-Rayadurg project, the proposal was sent to the Planning Commission by the Ministry of Railway (Railway Board) in May 1980 for inclusion in the Sixth Plan. The Committee are distressed to find that even before the Planning Commission accorded its approval, the project was approwed through the Supplementary Demands for grants presented to Parliament in August, 1981 thus dispansing with the established normal procedural requirements. The Committee depreeate this approach and urge the Railwars to be careful in future to ensure that the preseribed procedures of financial consequences are not violated. The Committee further note that for the same proposal and using the same method/technique of calculation of return the Railway got widely different rates of return : 7.4% and 1.7% both within the space of one year. The Committee observe that obvioosly the norms regarding various assumptions about costs are revenue are from standardised and leave large scope for applying arbitrary figures and accordingly calculations based thereon are highly unreliable. The Committee therefore, reitrate its recommendations made in para 1.78.

Audit Para

5.5 The present enquiry of the Committee on Chitradurg-Rayadurg new M.G. line arises from Para 14 of the Report of C&AG of India for the year 1985-86, Union Government (Railways) (See Appendix II).

Based on the data collected during the preliminary Engineering-*cum*-Traffic Survey, the Railway Administration proposed in August 1981 the construction of 98.63 kilometres long new metre gauge line between Chitradurg and Rayadurg on the following consideration :

(i) To provide a shorter route between Guntakal-Hubli and Bangalore City-Hubli main lines.

(ii) The existing branch lines Bellary-Rayadurg and Chickjajur-Chitradurg being unremunerative, a link between Chitradurg and Rayadurg may activate the traffic potential.

(iii) To develop the backward area of Chitradurg district of Karnataka.

Traffic Potential

5.6 According to the Ministry of Railways (Railway Board) the Traffic potential on this line mainly consists of the traffic anticipated from the following categories:

(1) Movement of agricultural product from this area;

(2) Movement of Euclyptus wood for industries in Harihar;

(3) Traffic likely to arise on account of the proposed Vijayanagar Steel Plant at Hospet;

(4) Traffic offered by M/s. Visveswaraya Iron & Steel Co., towards the diversion of raw materials like iron ore, lime stone, charcoal, stone coal, etc. which is at present moved partly by road and partly by rail;

(5) Traffic offered by M/s. Mysore Paper Mills, Bhadravathi;

(6) POL traffic offered by Mangalore Refineries for movement over the project line to regions whose distance was shorter by this line viz. Bellary and Hospet;

(7) Traffic potential likely to arise from mini cement plants proposed in this area for which proposals were in blue print stage both for the inward traffic of raw materials and outward traffic of finished products).

5.7 The traffic anticipated by the Railways on this line was as follows :

(i)	Groundnut oil, oil cake, Tamarind, coconuts, Euclyptus wood	: 10,000 t
(ii)	Traffic offered by Mysore Paper Mills	: 14,300 t

(iii) Traffic offered by Visveswaraya Iron & Steel Co. including offer received after the Project Report was submitted. : 5,07,00 t

5.8 According to the Ministry of Railways, Vijaya Nagar Steel Plant was to be set up at Hospet but no investment decision to take up construction of the Plant has been taken and only a token amount is being provided for this Plant.

Developmental Line

5.9 The Railways have submitted that even though the financial return as worked out under Discounted Cash Flow technique was only 1.7%, the project was recommended to be taken up on developmental considerations viz. with a view to providing the infrastructure for the development of a backward region which is drought-prone as this project would bring all round benefits for this area by giving an impetus to the general growth of the backward area and thus contribute to the socio-economic development of the region.

5.10 Giving details of new major developmental activities in the area, the Ministry of Railways have stated that Chitradurg, which occupies a major portion of the project is one of the most backward areas of the Karnatake State which is often affected by drought condition. It is felt that with the availability of rail communications which would provide a shorter route for traffic between the two main lines viz- Guntakal-Hubli and Bangalore-Hubli, this area would acquire potential for industrial and agricultural developments.

Progress of work

5.11 According to the Ministry of Railways due to limited resources, it was proposed to complete the works between Chitradurg-Chellakero (35 kms.) and between Rayadurg-Molakalmuru (15 kms.), which were already connected with rail heads in Phase-I, now estimated to cost about Rs. 18 crores, so that part of the project could be opened for traffic in continuation of the existing lines. The length between Challakere-Molakalmuru was treated as Phase-II. Even land acquisition has not progressed in respect of land required for Phase-II.

5.12 As regards the latest percentage of overall progress of the work and expenditure incurred, the Ministry of Railways have intimated that as on 31.3.1987, the amount spent is Rs. 3.80 crores and the percentage of overall progress is about 11.10 per cent.

Rupees 66.26 lakhs had been allotted for this Project in 1987-88 Budget. Outlay proposed for 1988-89 for this line is Rs. one crore. According to the Railway, completion of the line depend on availability of resources for new lines in the coming years.

5.13 Clarifying the position, the Chairman, Railway Board stated during evidence that the lack of financial viability of this project was known to them from its very begining and approved by the Planning Commission on the basis other than financial viability.

The work had not been frozen. It was considered by them at one time that they should stop provisionally further investment on this line considering other priorities for the limited funds available, but it was felt that the people might not accept that position. They reconsidered and thought of slowing down their investment. The work was not frozen but was continuing on a slow pace depending on availability of resources.

5.14 When it was pointed out by the Committee that at the present pace of progress, the project would take 30 years to be completed, the Chairman, Railway Board submitted that he fully shared the view of the Committee, He added that in fact, in respect of every line undertaken, the people in that region felt that they should get every year atleast not less than the allocation given last year and the Government tried to meet their aspirations. According to him, there was need to give a little more money so that this period of 30 years would be substantially reduced.

5.15 In this connection, the Member Engineering, Railway Board also stated that in the Railways, they had to take on a number of new projects without commensurate increase in the total allocation for new lines. So, depending on the policies from time to time, they had taken up a number of new lines without being able to get a worthwhile progress on many of them for want of funds. But the Railways review the progress of certain projects from time to time so that at least some of them can get completed fast. According to the Railways, since this line was meant to serve a very backward area whose 11 kms. is in Andhra and 89 kms. in Karnataka, they intended to complete the two and portions (Chitradurg-Challakere and Rayadurg-Molakalmuru) totalling 50 km. in the first phase.

5.16 In reply to a query, the Chairman, Railway Board submitted :

"We try, first of all to prioritise them in the category. Amongst them, we try to prioritise those which are nearing completion, depending on the amout given so that benefits are derived after completion".

5.17 The Committee note that the project was sanctioned by the Railways as developmental line to establish new growth centres even though the rate of return ultimately assessed was as low as 1.7 per cent under Discounted Cash Flow Technique. The Planning Commission gave its approval to the project practically under duress and ostensibly for development of economically backward and undeveloped areas in Karnataka State. Since there is a gradual change in movement of goods by rail from wagon load to rake load, the Committee doubts whether the anticipated traffic of the project as per details made available to the Committee, will ever be able to make up a rake load and earn enough to meet operating cost and contribution to depreciation in the near future. The Committee recommend that in view of the serious financial constraints the Railways should be circumspects in approving developmental railway line projects and when such projects are taken up, they should have real impact on the economic and industrial development of the backward and undeveloped regions taken up.

5.18 The Committee observe that the present trend of progress does not suggest that the work will be completed in the near future as Phase II has been deferred and in its absence the small extensions at the two ends would only add to the losses in the working of the Railways. The traffic Projections made in the survey could only materialise if the entire line was constructed in one go. Unless this is done due to constraints of founds, the Committee feel the investment of Rs. 3.80 crores made so far would remain idle and unproductive till commissioning of the rail line. The Committee at this stage can only hope that the Railways would draw a lesson from this experience and would be careful in sanctioning new projects so that their investment is not unproductive as has sadly happened in this case.

NEW DELHI;
April 20, 1988
Chaitra 31, 1910 (Saka)

AMAL DATTA,
Chairman
Public Accounts Committee

APPENDIX I

(*See* Para 1.16 of the Report)

[*Paragraph 11 of the Report of C & AG of India for the year 1985-86, Union Government (Railways)—South Central Railway—Construction of a new broad gauge line from Manickgarh to Chandur*]

11.1 In May 1978, the Maharashtra, State Industrial and Investment Corporation, Bombay, suggested to the Railways the construction of a broad gauge railway line from Manickgarh to Chandur for movement of cement from five cement plants proposed to be set up in the area. A preliminary investigation carried out by the Railway in November 1978 revealed that based on a projected movement of 2.5 million tonnes, the line expected to cost Rs. 6.9 crores would be unremunerative. yielding a return of 2.11 percent (conventional method). The Ministry of Railways (Railway Board), therefore, proposed that the line could be taken up on deposit terms, the cost being shared by the Cement Plants. However the Ministry of Industry opined that if the line did not come up, it would not be possible at all to put up the cement plants and the target for cement production during the VIth Plan could not be reached. The Ministry of Industry suggested that the line should be constructed at Railway's cost.

11.2 Accordingly, in February 1979, the Ministry of Railways (Railway Board) approved the construction of a new broad gauge line (28.6 kms) from Manickgarh to Chandur.

Priority was accorded for the work and an urgency certificate was sanctioned in January 1981.

Subsequently, in January 1982, an estimate for Rs. 7.26 crores was sanctioned.

11.3 Though, initially in May 1978 the proposal was for setting up 5 cement plants in the region by 1981, only two parties came up with firm proposals to establish cement factories of one million tonne capacity each. Work on the line commenced in April 1981 and was scheduled to be completed by April 1984 keeping in view the prospective commissioning of the two cement plants. The line was actually completed and opened to traffic in March 1985. The expenditure incurred up to November 1986 was Rs. 10.39 crores. A revised estimate for Rs. 10.14 crores is still under process.

11.4 In the estimate sanctioned in January 1982 the Railway Administration assessed that the project would be remunerative yielding a return of 10.8 per cent (discounted cash flow method) on the estimated cost of Rs. 7.26 crores on a projected traffic of 1.05 million tonnes.

11.5 Only one cement factory has so far been set up which commenced production from October 1983 and the second one was under construction (December 1986). As four out of five cement factories have not come up so far, the prospect of achieving the projected traffic is bleak.

11.6 Prior to the completion of the line between Chandur and Manickgarh, cement was being moved from the above cement factory by road upto Manickgarh for onward despatch by rail. After the line was opened in March 1985, the traffic offering during 1985-86 was as follows :

	(*In lakh tonnes*)
At Manickgarh station	2.17
At Firm's siding served by Chandur Station	1.24
Total	3.41

11.7 A major portion of the traffic continued to move directly from Manickgarh *and the new line between Chandur and Manickgarh remained underutilised.*

11.8 The Administration had informed the Railway Board in December 1980, that the final location survey had been completed before the sanction of urgency certificate, but in reply to an audit note the Administration stated in January 1986 that for want of adequate time only preliminary engineering survey had been conducted to arrive at an approximate cost of the work and that final location survey was undertaken concurrently with the execution of work Consequently, several changes/modifications such as raising the alignment in Reach II. revising the designs and foundations of major bridges, increasing the scope of certain works and provision of additional items, etc. became necessary.

All these factors along with price escalation contributed to the increase in the cost of work from Rs. 7.26 crores to Rs. 10.14 crores. Besides, a test review of the execution of the work *revealed that the Administration had to incur extra expenditure of Rs. 21.66 lakhs as brought out in the succeeding paragraphs.*

(i) Reduction in the height of embankment in Reaches VI and VII.

While the work was in progress it became apparent that the quantity of earthwork in embankment from borrow pits in Reach VII would exceed the contracted quantity beyond the limit of 25 precent. The Railway Administration decided in February 1983 that the height of the embankment between chainages 21,000 to 25,526 (in reaches VI and VII) should be reduced. This change resulted in rendering infructuous expenditure of Rs. 0.93 lakh already incurred on earth work measuring 1200 cum in Reach VI and 17,100 cum in Reach VII. This change also resulted in an extra expenditure of Rs. 1.96 lakhs on dressing the top surface and side slopes of the embankment work already done.

(ii) Formation of embankment with contractor's earth instead of earth from borrow pits in Railway land.

As per the contract awarded in May 1981 for earthwork in Reach VII the embankment between chainages 24000 and 24700 was to be formed with contractor's earth. In August 1981, it was decided by the Administration that the bank could be formed with borrow pit earth instead of contractor's earth since the bank was not very high. This decision was not implemented as the contractor represented that he had already engaged transport and labour for the work. Consequently, work was completed with contractor's earth. The failure of the Administration to provide in the contract that Railway's earth should be used resulted in an avoidable expenditure of Rs. 3.03 lakhs.

(iii) Variation in quantities of work.

In 4 contracts for earthwork in Reaches II, III, IV & VI the quantities were increased after the award of contracts. The increases ranged between 70 and 246 percent and were attributed to changes in alignment, inadequate collection of data during survey, increase in the number of bridges etc. The Railway Administration negotiated the rates with the contractors for the quantities exceeding 25 percent of the originally contracted quantities and paid higher rates ranging from 33 to 480 percent. The extra expenditure on account of variation in quantities, in excess of the 95 percent, worked out to Rs. 13.77 lakhs.

The Railway Administration stated (January 1986) that normally during execution of work some variations occur owing to site conditions, strata of soil, etc.

(iv) Incorrect fixation of rates for RCC works

The contracts for earth work and bridges in Reaches II, V and VI provided for RCC work with 1:2:4 mix at the rate of Rs. 250, Rs. 180 and Rs. 200 per cum. respectively. Due to technical considerations subsequently it became necessary to have RCC work done with 1:1½:3 mix for which rates had to be negotiated. The negotiated rates per cum were Rs. 308 for Reach II, Rs. 670 for Reach V and Rs. 610 for Reach VI. The change in mix did not involve any increase in the quantity of sand or stone to be supplied by the contractor. Steel and cement required for the work being supplied by the Railway to the contractor free of cost, the fixation of higher rate was incorrect and resulted in an extra expenditure of Rs. 1.97 lakhs.

APPENDIX II

(*See* Para 5.5 of the Report)

[*Paragraph 14 of the Report of C&AG of India for the year 1985-86, Union Government (Railways—Southern Railway—Unproductive expenditure on construction of a new metre gauge line between Chitradurg and Rayadurg.*]

The Railway Board sanctioned in July 1980 a preliminary Engineering-cum-Traffic Survey for construction of a new metre gauge line between Chitradurg and Rayadurg at a cost of Rs. 3.97 lakhs. Based on the data collected during the survey, he Railway Administration proposed in August 1981 the construction of 98.63 kilometres new metre gauge line between Chitradurg and Rayadurg on the following considerations :

(i) To provide a shorter route between Guntakal—Hubli and Banglore City—Hubli main lines.

(ii) The existing branch lines Bellary—Rayadurg and Chickjajur—Chitradurg being unremunerative, a link between Chitradurg and Rayadurg may activate the Traffic potential.

(iii) To develop the backward area of Chitradurg district of Karnataka.

The Financial Adviser and Chief Accounts Officer (Construction), while giving concurrence to the new project, however, observed that the anticipated return on capital was very meagre viz., 1.7 per cent and hence its sanction had to be based on non-financial considerations.

The work on the project commenced on urgency certificate sanctioned by the Railway Board for Rs. 30 lakhs in May 1982. Subsequently, detailed estimate of Rs. 16.92 crores was sanctioned by the Railway Board in August 1983.

The work had been phased in such a manner that the sub-sections Chitradurg—Challakere(35 km. in Karnataka) and Rayadurg—Molakalmuru(11 km. in Andhra Pradesh and 4 km. in Karnataka) which were connected with rail heads at either ends were to be progressed for completion as Phase-I by 1987-88 or so and the middle stretch of 50 km. Challakere—Molakalmuru progressed latter as Phase-II. Accordingly for the works to be executed between Chitradurg —Challakere and Rayadurg—Molakalmuru, requisite lands over a total distance of 50 km. had been taken over on consent letters from land owners and acquisition proceedings were in progress (January 1986). Out of a total area of 688 hectares proposed to be acquired, 350 hectares had been covered by consent letters from the owners, for which the compensation amounts were to be settled. Contracts for earthwork, construction of minor bridges, building of quarters, etc., were finalised in 1983 and work was commenced in 15 reaches totalling a distance og 50 68 kilometres. The progress of execution as at the end of January 1986 was as follows :—

Particulars	Quantities as in the estimate	Quantities executed
1. Land	688 hectares	350 hectares entered upon consent letters
2. Earthwork	37,04,120 cum.	8,38,200 cum.
3. Quarters	121 units	18 units
4. Minor Bridges	140 Nos.	15 Nos.

The cumulative progress of the work is 10.90 per cent (January 1986). The expenditure incurred upto March 1986 was Rs. 2.80 crores.

While considering the Works Programme for 1986-87 in November 1985, the Railway Board decided to freeze this project and to submit a proposal to the Minister for Railways for a final decision to close down the project.

It is significant to mention that most of the traffic anticipated at the time of the traffic survey did not materialise. The traffic anticipated by the Administration was from an iron and steel works and a paper mill which was already being carried by the Railway through a longer route (via Hubli, Birur etc.). Consequently, identifying this quantum as fresh traffic to justify the laying of a new line was not in order. Projectious were also made of cross traffic which had already been passing via the existing routes. The setting up of the steel plant at Hospet was a remote possibility and no traffic could, therefore, materialise on this account.

Further, the anticipated passenger earnings of Rs. 12.36 lakhs in the very first year of opening of the line and the assumption of its extending upto Rs. 27.19 lakhs in 16th year was very much on the high side, since the branch lines Chitradurg—Chickjajur and Bellary to Rayadurg were unremunerative, The financial appraisal of the project also showed that the return on the investment would be as low as low as 1.7 per cent. Nevertheless, the project was sanctioned by the Railway Board in 1982, and was frozen in November 1985 after investing Rs. 2.67 crores.

The Railway Administration stated in October 1986 as under :

"The Railway Board during discussion of the works Programme for 1986-87, had allowed an outlay of Rs. 1.2 crores against this work to provide for the contractual obligations (Rs. 90 lakhs) and land acquisition (Rs. 36 lakhs) for 35 kilometres in Karnataka and 15 kilometres in Andhra Pradesh. It was further decided that no further liability should be entered into ; the work stand frozen and a note to be put up to Minister as to whether the work could be closed down and contracts finalised duly paying compensation, if any, and desist from further land acquisition. The Minister of State (Railways) and the Transport Minister during their visit to Bangalore agreed to un additional grant of Rs. 50 lakhs in May 1986 for this project. Final orders reappropriating the amount have since been issued on 1 September 1986. Board after considering the pros and cons of alternative of closing the existing contracts have approved that the existing contracts may be allowed to continue".

It is significant to mention that the reappropriation of Rs. 50 lakhs to this work has been made for completing the ongoing contractsand fulfilling the contractual liabilities. This work, which was sanctioned in August 1983 for Rs. 16.92 crores, is expected to cost Rs. 35 crores at present day cost. Though it has been stated that additional funds have been made available during the year 1986-87 to cover contractual liabilities there is no indication as to how the work would be progressed and completed. Considering the fact, that the work would cost Rs. 35 crores at persent day cost, the meagre allotment during 1986-87 without giving an indication of the allotment of funds in subsequent years to complete the project within a time bound programme is an indication that the expenditure of Rs. 2.80 crores incurred on this project would remain idle for an indefinite period.

APPENDIX III

Statement of Observations and Recommendations

Sl. No.	Para No.	Ministry concerned	Observations/Recommendations
1	2	3	4
1.	1.25	Ministry of Railways (Railway Board)	The Committee note that the return of 2.11 per cent on the construction of a new Manickgarh Chandur B.G. Line projected in 1978, was based on a rough estimate without an actual survey and on a conventional method. According to the Ministry of Railways and the Planning Commission, normally only financially remunerative or project-oriented lines are given clearance. Lines with lower rate of returns have also been considered and constructed for developmental purposes ; to give access to backward and under-developed areas.
2.	1.25	—do—	The Manickgarh-Chandur Railway line was sanctioned to provide transport facilities for cement plants in the area. The primary factor for sanction of the line was the growth of cement industries in the area. The representative of the Planning Commission during evidence stated : "the line was projected to them as a 'basic necessity' for the establishment of the cement plants. In a sense, the line was to precede the cement plants."...... The Committee therefore, of the opinion that this line was a project oriented line from the very beginning.

3.	1.27	—do—	The manner in which construction of this new railway line was taken up is somewhat puzzling both from the way the project was initiated as well as the manner of calculation of return which kept varying. A preliminary investigation carried out by the Railways in November, 1978 revealed that based on a projected traffic of 2.5 million tonnes, the line expected to cost Rs. 6.9 crores would yield a return of 2.11 per cent (conventional method). However, the estimate sanctioned in January 1982, after the Preliminary-cum-Final Location Engineering and Traffic Survey, the Railways assessed that project would be remunerative yielding a return of 10.8 per cent using Discounted Cash Flow Technique on the estimated cost of Rs. 7.26 crores even with lesser anticipated traffic of 1.05 million tonnes. It is now seen that with higher cost of construction Rs. 10.14 crores and much less traffic, the rate of return is very much higher 22.7% than even the later estimate using DCF technique which showed 10.8 per cent return. The Committee are constrained to observe that the practice followed by the Railways for determining financial viability of the new railway line projects is not uniform. Though the DCF method has been in vogue for ever a decade, initially conventional method was applied. The Committee feel that the approach of the Railways was somewhat arbitrary in applying different methods for calculation of returns on different occasions. This practice requires review to ensure objective appraisal leaving no scope for ambiguity and discretion.
4.	1.28	—do—	It has been conceded by the Railways that there was an omission in the first stage when they arrived at the return of 2.11 per cent in 1978 which was based on a rough estimate without an actual preliminary survey, taking the freight earnings over the stretch of 26 kms. only. The Railways are establishing new lines every year in many parts of the country and it is imperative that there should be definite and uniform method of working out

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			return on investment in order to determine financial viability of each project as well as inter se priority of various projects in so far as such priority is dependent upon the rate of return itself. The Committee are of the view that the method to work out the rate of return should be clear, precise and unambiguous and every care should be taken to ensure that there are no omissions in application of the prescribed method in future. The Committee is anxious to ensure that it should not be open to Railways to apply a method showing low rate of return in case of a project which they may be inclined to reject for other than economic reasons, not to apply a method showing higher rate of return for projects receiving patronage and support of the powers has that be. The Committee desire that the Railways will examine the matter in greater depth and issue necessary guidelines to the concerned officials with a view to ensuring that basic method for culculating the rate of return for determining viability of the new railway line projects and similarly the assumption about cost and traffic are also done according to predetermined guidelines formulated on the basis of actual experience over the years.
5.	2.7	Ministry of Railways (Railway Board)	While giving their requirements for rail transport of cement M/s Larsen & Toubro offered in June, 1978, to put up 30 kms. private siding from Manickgarh to a suitable point around Chandur in concert with other cement plants coming up in the vicinity. The Railways, accordingly, suggested construction of this line as a deposit work. Subsequently, in pursuance of discussions held on 4 September, 1978 in the Department of Industrial Development in consultation with the Railway officers and representatives of the 3 companies, the

			Railways suggested that the cement plants coming up in the area should share the cost of the rail link which worked out at Rs. 6 crores, in proportion to their licensed capacity.
6.	2.8	—do—	The Chief Minister, Government of Maharashtra requested the then Minister for Railways on 13th November, 1978 to agree to undertake on a priority basis the construction of the Manickgarh-Chandur Railway Line so that the proposed cement plants were able to come into existence as early as possible. In a subsequent letter dated 19th December, 1978 addressed to then Railway Minister, the then Chief Minister of Maharashtra pointed out that the policy of the Government of India was not to insist on contributions from the parties concerned in respect of laying of freight-intensive lines and that it had been customary in the past to include such lines in the Railway Plan itself.
7.	2.9	—do—	In reply to the Chief Minister of Maharashtra, the then Minister of Railways wrote a letter on 15th January, 1979 stating that the proposed rail connection was sought to be built exclusively for cement factories and any change in timing of investment on the cement plants would invariably alter the justification for investment on railway line. The Minister of Railways also pointed out that the proposed link from Manickgarh to Chandur could be taken up as a deposit work. However, on receipt of the letter of the then Minister of Industry by the Minister of Railways on 23rd January, 1979, the Railways reviewed their stand and agreed to construct the line at their own cost.
8.	2.10	—do—	The Committee have also been informed that in a case involving a Government of India Undertaking for Khetri Copper Complex the line was

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			it at the Railways' cost but a guarantee was obtained in regard to the traffic to be offered by the Khetri Copper Project to the Railways. The Railway Board have also informed that even now construction of the Dallivajhare-Rowghat line for SAIL is being considered with funds to be provided by SAIL as the line would be required primarily for their new mines opened at Rowghat. In the circumstances, construction of Manickgarh-Chandur line out of Railway funds, and without forcefully insisting upon construction of the line as a deposit work was not in the best financial interests of the Railways. The Committee recommend that the Railway Board should lay down and follow a clear cut policy in regard to construction of new project-oriented lines to serve new industries or tap mineral and other resources. The policy should envisage obtaining guarantee of traffic from users or there should be provision of their bearing the cost of construction of rail lines in certain proportions or both. The Committee would like to be apprised of further developments in this regard and would like the Railways to ensure that once such a policy is laid down, the same is scrupulously observed.
9	38	Ministry of Railways (Railway Board)	It is disquieting to note that the Manickgarh-Chandur railway line, a project-oriented line constructed for movement of cement only is not being utilised upto its optimum capacity for cement transport. Instead, a major portion of cement traffic by rail projected in the Survey Report is being moved by road for loading at Manickgarh station. According to the Railway Board's reckoning, out of 3,55,005 tonnes cement traffic available, only 78,236 tonnes, which is nearly one-fifth of the total cement traffic, is being loaded at Chandur. The rest is being transported by rail from Manickgarh station without using the new Manickgarh-Chandur railway line. No less distressing is the argument

			advanced by the Railways that movement of traffic by road for loading at Manickgarh station does not seriously affect the Railway's earnings since the distance between Chandur and Manickgarh is only 29 km. and the difference in freight chargeable is marginal. This argument militates against the basic justification for the construction of this Railway line. The new line is not being utilised for the purpose for whieh it was constructed and this is clearly indicative of the non-utilisation of scarce economic resources and is a matter of concern. The Committee recommend to the Railway to pay urgent attention to the problem at an appropriately high level and prevail upon the L & T management to fulfil their obligation of cement loading in the intercst of economic utilisation of the project-oriented line. The Committee hope that the Railways would also draw a lesson from the experience and would be careful in drawing project plans for construction of new railway lines of short distance in future so that there is no depletion of meagre economic resources of the country.
10	4.9	— do -	The Committee note that Urgency Certificate is to permit incurrance of expenditure and liabilities for specific items of works. In the case of Manickgarh-Chandur line, the Urgency Certificate sanctioned in Januarry 1981 authorised expenditure upto Rs. 50 lakhs on earthwork in embankment, major bridges and stores. The Abstract Estimate itself was sanctioned in January, 1982. However, even before the sanction, Railways entered into contracts with a liability of over Rs. 157.7 lakhs for earthwork alone. Eventually none of these contracts was completed within the scheduled date; the delays ranging from 10 months to 35 months resulted in extra expenditure. The Committee are of the opinion that the invoking of the urgency certificate in this case was not appropriate. Paragraph 1103 of Indian Railways Code for the Engineering Department contains conditions for issuing an urgency certificate and these

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			were not fulifilled in the case. Issue of such sanction in haste results in incomplete surveys and investigations, invitations of tenders without preparation of detailed estimates and designs and consequently receipt of high tender rates, sanction of higher rates for additional quantities and extra items of work at special rates negotiated subsequent to the award of tenders as had happened in the above case and also in the case of Chitradurg-Rayadurg line.
			Further, in case ultimately it is decided not to take up the project, the expenditure incurred initially under urgency certificate will prove infructuous. The Committee, therefore, feel that the present practice of issue of Urgency Certificate pending examination of construction estimates needs review as in the instant cases it has not been able to achieve the desired objectives. The Railways should keep a close watch over the issue of urgency certificate and all such cases should be subjected to critical analysis so that the powers to invoke the urgency clause are used only in deserving cases.
11.	5.4	Ministry of Railways (Railway Board)	The Committee note that as per established procedure, the proposals for construction of new Railway lines are formulated by the Railways on the basis of a techno-economic survey. The proposals along with the recommendations of the Railway Board thereon are forwarded to the Planning Commission for examination and clearance. In case of Chitradurg-Rayadurg project, the proposal was sent to the Planning Commission by the Ministry of Railways (Railway Board) in May 1980 for inclusion in the Sixth Plan. The Committee are distressed to find that even before the Planning Commission accorded its approval, the project was approved through the Supplementary Demands for

			Grants presented to Parliament in August, 1981 thus dispensing with this established normal procedural requirements. The Committee deprecate the approach and urge the Railways to be careful in future to ensure that the prescribed procedures of financial consequences are not violated. The Committee further note that for the same proposal and using the same method/technique of calculation of return the Railway got widely different rates of return : 7.4% and 1.7% both within the space of one year. The Committee observe that obviously the norms regarding various assumptions about costs and revenue are far from standardirsed and leave large scope for applying arbitrary figures and accordingly calculations based thereon are highly unreliable The Committee there fore, reitrate its recommendations made in Para 1.28 heretofore.
12.	5.17	—do—	The Committee note that the project was sanctioned by the Railways as developmental line to establish new growth centres even though the rate of return ultimately assessed was as low as 1.7 per cent under Discounted Cash Flow Technique. The Planning Commission gave its approval to the project practically under duress and ostensibly for development of economically backward and undeveloped areas in Karnataka State. Since there is a gradual change in movement of goods by rail from wagon load to rake load. the Committee doubts whether the anticipated traffic of the project as per details made available to the Committee. will ever be able to make up a rake load and earn enough to meet operating cost and contribution to depreciation in the near future. The Committee recommend that in view of the serious financial constraints the Railways should be circumspect in approving developmental railway line projects and when such projects are taken up they should have real impact on the economic and industrial development of the backward and undeveloped regions taken up.

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13.	5.18	—do—	The Committee observe that the present trend of progress does not suggest that the work will be completed in the near future as Phase II has been deferred and in its absence the small extensions at the two ends would only add to the losses in the working of the Railways. The traffic projections made in the survey could only materialise if the entire line was constructed in one go. Unless this is done due to constraints of funds, the Committee feel the investment of Rs. 3.80 crores made so far would remain idle and unproductive till commissioning of the rail line. The Committee at this stage can only hope that the Railways would draw a lesson from this experience and would be careful in sanctioning new projects so that their investment is not unproductive as has sadly happened in this case.