

SEVENTY-NINTH REPORT
ESTIMATES COMMITTEE
(1983-84)

(SEVENTH LOK SABHA)

(MINISTRY OF RAILWAYS)
RAILWAY PURCHASES



Presented in Lok Sabha on April 19, 1984

LOK SABHA SECRETARIAT
NEW DELHI

April 19, 1984 (Chancery, 1984 (Vol. 1))

Printed at the
Central Press

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I : ORGANISATION FOR RAILWAY PURCHASES	
A. Organisational set up at Board level	1
B. Regionalisation of Railway Purchases.	6
C. Stores Organisations at Divisional/ Local Levels	8
D. Purchase Agencies	10
E. Import content of Railway Purchases	14
CHAPTER II : TENDER SYSTEMS	
A. Open Tender Systems	17
B. Open Tenders	17
C. Limited Tender System	19
D. Proprietary Purchases	21
E. Stores Bulletin	25
F. Rate Contract Purchase	26
G. Financial Powers of Purchase Officers	27
H. Procedural Matters	30
CHAPTER III : INVENTORY CONTROL	
A. Efficiency Level of Inventories	35
B. Planning and Programming of stores	36
C. Professionalisation of Purchase Operations	39
D. Standardisation	42
E. Value Analysis	43
F. Off-loading some items to Trade	44
APPENDIX : STATEMENT OF RECOMMENDATIONS/OBSERVATIONS	46

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(1983-84)

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INTRODUCTION

I, the Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Seventy-ninth Report on the Ministry of Railways—Railway Purchases.

2. The Committee took evidence of the representatives of the Ministry of Railways on 24 & 25 January, 1984. The Committee wish to express their thanks to the officers of the Ministry for placing before them the material and information which they desired in connection with the examination of the subject and giving evidence before the Committee.

3. The Committee also wish to express their thanks to Shri V.C. Paranjpe, Ex-Director, Railway Stores, New Delhi and Shri L.D. Aggarwal, Chairman, Government Supply Standing Committee of Bharat Chamber of Commerce, Calcutta, for giving evidence and making valuable suggestions to the Committee.

4. The Committee also wish to express their thanks to all other Organisations/Institutions for furnishing memoranda on the subject to the Committee.

5. The Report was considered and adopted by the Committee on 10 April, 1984.

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

NEW DELHI;

April 12, 1984
Chaitra 23, 1906 (S)

BANSI LAL

*Chairman,
Estimates Committee*

CHAPTER I

ORGANISATION FOR RAILWAY PURCHASES

A. *Organisational Set up at Board Level*

1.1 One of the important factors, contributing to the successful operation of the Indian Railways is procurement and timely supply of thousands of items of stores for their day to day requirement such as parts and fittings for locomotives, carriages and wagons, EMUs, materials and supplies required for signalling and telecommunication etc. and various other items like electric stores, engineering stores, rubber leather goods, paints, enamels, varnishes, crockery, cutlery, cloth, clothing, equipment, petrolium products, stationery, raw materials, fuel, etc. etc.

1.2 The total value of fuel materials, and supplies purchased by Railways has gone up from Rs. 486 crores in 1972-73 to Rs. 1,747 crores in 1981-82. Bulk of the purchases (47%) are made at Zonal Railways level. 27 per cent of the purchases are handled at Railway Board and the rest are made through DGS&D. The organisational set-up of the Railways for purposes of purchases can be viewed as a three tiers set up.

- (a) Railway Board is responsible for procurement of items centralised in the Board's office, such as axles, Special steel etc.
- (b) Zonal Railway Headquarters is responsible for procurement of all the items required by a Railway/Production Unit except those reserved for centralised procurement through Railway Board or any other agency like DGS&D. Central Stationery Office, other Railways/Production Units etc. and petty small value purchases made at Divisional/extra divisional/Depot officers' level. Even in the case of items centralised for procurement by different agencies, the Zonal Hd. Qrs. does all work relating to provisioning, funds certification, follow-up etc., while the actual contracting is done by the central agency.
- (c) Procurement of small requirements and emergency within the powers delegated to them is done at Divisional/Extra-divisional/ depot Officers' level.

Organisation for procurement of Stores in Railway Board's office is headed by the Member (Mechanical) of the Railway Board with Director of Railway Stores supported by Additional Directors, Joint Directors and Deputy Directors.

1.3 While welcoming the establishment of Indian Railway Stores Service, a non-official has in a Memorandum pointed out that transfer of work relating to procurement from stores Department to Engineering Department in 1979 has "resulted in slackening of budgetary control, lack of moderating influence resulting in high inventory."

1.4 It has therefore been suggested to the Committee *inter alia* that "all purchases of stores including track items, machinery and plants, etc. must be made by the Stores/Materials Management Department and advantage must be taken of their expertise and control in avoiding unnecessary and uneconomic purchases."

1.5 On the question of deviations creeping into the procurement functions, the Chairman, Railway Board stated during evidence that it was correct that sometime in 1979 the Member (Engineering) had suggested that to speed up delivery of the track material, this should be taken out from the hands of the Stores Organisation and be directly dealt with by the Engineering Branch. Prior to 1979, the procedure was always that there was a track material supply officer attached to the Controller of Stores. He used to look after the interest of the Civil Engineering Department.

1.6 The Chairman, Railway Board added that "there has been no specific deviation resulting in the slackening of budgetary control; we have been able to improve on the budgetary control. We have set up a committee in each railway to go into this headed by one of the additional GMs. There has been a substantial improvement in the inventory compared to what it was about 10 years ago." He assured "I expect that with the rationalisation of the Civil Engineering Track Material Organisation, we will be in a position to bring it back under the aegis of the Stores Department."

1.7 With regard to machinery and plant he stated that this was a specialised item and there should be a separate cell for this. He informed the Committee that Railways were being asked to go into the rationalisation of production of various items in the shops. This being a highly specialised item, this would have to continue under this organisation and not Stores.

1.8 It has been suggested in a memorandum submitted to the Committee that Stores Depot should be placed not under Member representing a consumer Department (Member Mechanical at present) but under the exclusive charge of Member Railway Board to be designated as Member (Stores). In another memorandum submitted to the Committee it has been stated that :

"At present there is no strong and high powered machinery and authority at the Railway Board level to coordinate and monitor purchases by the Zonal railways. Currently, the Director of Stores, Railway Board, who enjoys more or less the status of Controller of Stores of any Zonal Railway, is not authorised to do this. He is under the control of Member, Mechanical. The existing arrangement does not seem to be satisfactory."

Strengthening of the organisational set-up at the Railway Board level through creation of the following positions has been suggested :

- (i) Member, Materials management; and
- (ii) Director General Stores.

According to this suggestion while the Member, Materials Management of the Railway Board will be responsible for formulation of overall policies in respect of procurement, purchase and payment for stores centrally procured, the Director General (Stores) in the Railway Board would work on the lines of the DGS&D in the Union Ministry of Supply, in executing the policies formulated. The following reasons have been adduced in support of the suggestions (i) Indian Railways have merged as one of the largest purchasers of a wide variety of industrial products, with a total purchase bill of Rs. 1,747 crores during 1981-82. The gross traffic receipts during the same year amounted to Rs. 3,538.24 crores.

(ii) If smaller organisations like Ordnance Factories, ONGC etc. can have such an arrangement, there is no reason why a much bigger organisation like that of Railways should not have this type of organisational set up.

1.9 As regards the suggestion that the stores department should be placed under the exclusive charge of a separate Member, and not under the Member, Mechanical as at present looking after these functions, the Chairman, Railway Board expressed the following view in this matter :

"Today the portfolio of Stores is with the Member (Mechanical). You will be agreeing with me, that once an official becomes the Member of a Board he is above board, in the sense that he does not have any other thing to do. To my mind it would be advantageous to continue him in that portfolio which is also concerned with his work, in the sense that out of Rs. 1,747 crores spent for stores, the Mechanical Department is answerable to more than half of the total. There is a drive to bring down expenditure on

stores by a proper analysis and by a proper husbanding of the stores to bring down the consumption of materials etc. who else can order better than the Mechanical Member and when he as himself purchasing half of that ? No other person is more well versed than him. To my mind this assessment has withstood the test of time."

He added, however, that the existing arrangement could be improved by upgrading the post of Director, Railway (Stores) to that of Adviser.

1.10 When asked if there was any disadvantage to the Railways with the existing set up the representative of the Railway Board stated :

"Ordinarily, there should be no disadvantage. But we have always been having this thought in the back of our mind that the large user is the Mechanical Department; and therefore a Member, Mechanical should have a say in the matter of procurement. That advantage we have lost.

We are talking also that the material requirement by the Railways be taken over from the DGS&D. Here also we are bringing in the concept that the main user should have a say in the purchase of the material.

It will be conflicting with that thought that if we have a totally independent man looking after the purchase his direct responsibility for meeting the requirements may not be as intense as that of the largest user of the materials purchase. So, it could have some disadvantage, if the Member in charge of procurement is totally divorced from the interests of the User Department."

1.11 When asked if it would not be better to have a separate department to help purchase quality goods and to fix responsibility therefor, the representative of the Railway Board replied :

"What you say is perfectly correct. There must be a separate department for procurement. Now, it is a question of who should control that department, whether it should be the Member (Mechanical) or whether a new Member should be brought in. But apart from all the merits and demerits, there is an under-current of departmental interests getting involved in some of these suggestions. Because of the organisation of the railways into various separate departments, there is departmental rivalry, in that each department would like to have the high post of a Member available to the

members of that service. Now, there is a continuous demand for a post of Member (Railway Stores) being created and there is a continuous demand for the post of a Member for Electrification being created. But we have some sort of compactness in five Members. Now, regarding disadvantages in this system, they are not there to any great extent first because the Member (Mechanical) has been in charge of the stores department since the interest of other departments had not suffered. Moreover, every purchase is processed through a tender committee where the representatives of stores, Finance and the user department are present and only either recommend procurement proposals accepted. It is not accepted by the Member alone but it passes through me, Member (Mechanical) and depending upon the value, it is finally accepted at the Minister's level."

1.12 A representative of the Ministry of Railways informed the Committee, however, that the entire question of organisational structure was being examined by the Railway Reforms Commission who were working on the idea of increasing the number of Members, as according to them five Members were not adequate. One of the items they were stated to be considering was whether stores, projects etc. could be placed under a separate Member taking away these functions from the existing five Members.

1.13. The total value of purchases of Fuel Materials and supplies by Railways has grown from Rs. 486 crores in 1972-73 to Rs. 1747 crores in 1981-82. The variety quantum and value of the Purchases call for a modern, scientific and professional approach. In this context, establishment of Indian Railway Stores Service was a step in the right direction.

1.14 The Committee, however, find that in 1979 responsibility for track material was transferred from Stores Department to the Engineering Department. A non-official has pointed out, in his Memorandum, that such deviations have resulted in "slackening of budgetary control and increase in inventory level." Chairman Railway Board assured the Committee in evidence that transfer of this work from Stores to Engineering Department was not a permanent feature and that "with the rationalisation of the Civil Engineering Track Material Organisation, it will be possible to bring this item of work under the aegis of the Railway Stores Department. The Committee recommend that this change over may be completed soon.

1.15 At present the purchase of stores and materials at the Board level is being looked after by Member (Mechanical). Defending this arrangement, Chairman Railway Board pleaded in evidence that a user Department ought to have a say in the matter of stores and materials. He was prepared to

upgrade the post of Director (Stores) to the level of Adviser but saw no advantage in having a Member Stores.

1.16. The Committee feel that considering the growth in the volume of railway purchases, ungradation of the post of Director (Stores) would not do. There should be Member (Stores) at the Board level to head the Stores Organisation in Railways and to provide leadership & guidance. In fact when much smaller organisations like Ordnance Factories and ONGC do have such an arrangement there is no valid reason why the Railways with a purchase bill of Rs. 1747 crores should not have a full fledged Member incharge of this function. In fact, the Committee understand that Railways Reforms Committee are already thinking more or less on the same lines. The Committee, therefore, urge that this matter may be studied by the Ministry of Railways in depth to see if induction of Member (Stores) at the Board level would bring about greater economy and efficiency in the Railway purchases in particular and Stores management in general.

B. Regionalisation of Railway Purchases

1.17 It has been suggested in a memorandum that while purchase organisation in the Railway Board should be strengthened to additionally make purchases from the public sector undertakings, like IOC, MMTC direct and not through DGS&D as at present, regional central purchase organisations should be set up at Bombay, Calcutta, New Delhi and Madras to make bulk procurement of selected high value items of annual usage value over Rs. 5 lakhs for the region. In addition, they could deal with procurement of selected high value items of annual usage value over Rs. 5 lakhs for the region. In addition, they could deal with procurement of a few nominated items on all Railway basis.

1.18 It has been added that zonal Railways may continue to make normal purchase of other items required by them and may also be given powers of emergency purchases of these centralised items as in the case of DGS & D items.

1.19 On the question of regionalisation of purchases the Chairman, Railway stated, during evidence that :

“We cannot more agree with the Committee's view that Regional Central Purchase Organisation will go a long way in helping us... This suggestion is worth following and we will try and go into this in a very great detail to bring it in as quickly as possible.”

He added, however, that :

"while we appreciate that this would perhaps be a step in the right direction, I visualise slightly differently from what has been mentioned in the regionalisation of purchase. I would say that if regionalisation is to cover 2 or 3 railways and purchase of stores in that area, it is acceptable. But it is to cover certain materials of the Indian Railways to be purchased in that region, that would lead to lot of heart burning to suppliers. With regard to regionalisation we can have the headquarters at Calcutta, Madras, Bombay and Delhi. Calcutta regional committee will look after the Eastern Railway, South-eastern Railway and North Frontier Railway. Madras region would look after, ICF, Wheel and Axle Plant and Southern Railway. Bombay region would look after Central Railway, Western Railway, and South Central Railway. And the Delhi region will look after Northern Railway and North-eastern Railway."

Spelling out the advantages accruing from regionalisation of railway purchases the Chairman, Railway Board added :

"This, to my mind, would also be a very good step for meeting the availability and also making it available from rationalised and common prices. It is specifically a point to note that at the same place when there are different headquarters of different railways, they have to pay different price for the same item. But with this regional committee, this would be sorted out because there would be representatives of each Railway on that committee. They would club together the requirements of their Railways. There should be no difficulty in obtaining common prices and distributing those items directly from those areas to the various depots instead of through another depot. This will also bring down the cost of freight and total handling. I certainly contribute to the idea that regionalisation and setting up the regional committees for purchase of two or three Railways at a time is a step in the right direction."

1.20 In another memorandum centralisation of purchase of common items of different railways which account for nearly 60-65% of the total value of stores procured annually has been suggested to the Committee. Considering the aggregate value of purchases by all the zonal Railways and production Units taken together working out to Rs. 2000 crores a year it has been argued that centralisation of purchases would ensure wider participation in purchase programme by manufacturers and suppliers, competitive tendering, assured supply at competitive rates, uniformity in purchase policy

and procedure and economies. It has been pointed out that the apprehension of shortage is more in case of decentralised purchase where suppliers are fewer in number and in the case of centralised purchase the Railways can take advantage of supplies drawn from different parts of the country. The economic size in requirement of sophisticated items might encourage indigenous production not otherwise feasible. Again the difficulties at times experienced by NE, NEF, and SC Railways can also be eliminated through centralised purchase.

The Chairman, Railway Board stated in this connection that :

"Regionalisation of stores will also lead to part Centralisation of purchases which will give benefit to various railways. The only exception will be Diesel Locomotive Works at Varanasi and C.L.W. at Chittaranjan. As far as these two organisations are concerned, CLW already maintain its Controller of Stores office in Calcutta. We can ask them also to join hands in the regional committee to suit our requirements and to get better prices because a large number of locomotives in the Eastern Railway and South-eastern Railway are electric driven. With regard to D.L.W., it has to continue with the separate existence because quite a lot of diesel components required by the various Railways are also channelised through DLW which is the Central agency to purchase especially, imported components.

Quite a few problems which are existing at present should come down and we are expecting quite competitive quotations from the regional manufactures and it will give boost to the industries in the region."

1.21 Under the existing arrangements, different zonal railways sometimes pay different prices for the same item. The Committee therefore recommend that in place of the zonal level purchases a system of regionalisation of railways purchases through Regional purchases Committees with headquarters at Calcutta, Madras, Bombay, and Delhi, may be evolved and introduced early to ensure better availability of stores at competitive and common prices. The demands of the Railways falling in these regions could be clubbed together to elicit advantages accruing from bulking of requirement. The Committee feel that such a system could go a long way in encouraging development of industries in the regions.

C. *Stores Organisation at Divisional Local Levels*

1.22 With a view to improving the stores organisation at Divisional level, it has been suggested to the Committee in a memorandum that on zonal Railways, there is need to set up proper divisional stores organisation to

look after receipt and distribution of stores besides controlling and checking the divisional requirements.

1.23 In this regard the Chairman, Railway Board observed during evidence that already a start had been made in so far as a post of Executive Assistant had been given to the Divisional Railway Manager. With a view to ensure that whoever operates as Stores Officer, he should be common to all departments whether it was electrical, civil engineering, mechanical, signal and tele-communication or medical, a common post had been given directly under the Divisional Railway Manager. The Executive Assistant was in charge of stores. He informed the Committee that it had also been specifically mentioned that at the divisional level monthly meetings would be held by the Divisional Manager alongwith the Executive Assistant and the Consumer Deptt. The Consumer Deptt. would bring forth their specific suggestions with regard to particular items of stores which would be taken note of and acted upon.

1.24 It has been suggested to the Committee that a certain amount of decentralisation of purchases was called for at the sheds level as well. The indents for spares originate from the sheds maintaining locomotives. These sheds should be empowered to purchase their own maintenance spares upto a specified amount. It has been reported that even for a small amount of Rs. 5,000/- the matters are processed by the Office of the Controller of Stores which is situated as far way as 600 Kms. from the sheds. Such order of things necessarily involves waste of time and energy all round.

1.25 In this connection, the Chairman Railway Board stated that each divisional officer had got a limited amount of powers. Whenever that limited amount of powers had to be utilised, they could always draw upon the Divisional Railway Manager's powers of purchase which they were doing but the main problem, in his opinion was, not that. He explained that most of these divisional headquarters and most of these major sheds and depots were located at places which were nowhere near a market and hence the market being at distant places like Bombay, Calcutta, Delhi, Madras, Bangalore, etc., necessarily the division had to send a team to those places because local purchases powers were such that they had to call quotations from 3-4 suppliers of that area and then decide on the spot. So, instead of these constant meetings, it was perhaps more in the fitness of things that those regional committees were set up at places where these stores were available viz. Bombay, Delhi, Calcutta, Madras etc. Then they could be in a better position to see that the Stores were supplied directly to the depots.

1.26 Proper divisional stores organisation to look after receipt and distribution of stores at the local level is imperative for successful operations in Railways and deserves to be given due importance. In a non-official memo-

random attention of the Committee has been drawn to the need for adequate organisational set up at divisional level to look after receipt and distribution of stores besides controlling and checking the divisional requirements. The Committee have been informed that some initiative e.g. creation of the post of an Executive Assistant common to all departments and directly under the Divisional Manager have already been taken in this direction. The Committee hope that the divisional stores organisation would be placed on a sound footing.

1.27 It has been represented to the Committee, however, that very little purchasing powers are available at the shed level and even for purchases of a small amount of Rs. 5000/- the matter has got to be processed in the Office of the Controller of Stores which is sometimes situated at a distance of say 600 Kms. Markets are also located at distant places. The Chairman, Railway Board during evidence expressed the hope that when the proposed Regional Committees are set up at places where stores were available viz. Bombay, Delhi, Calcutta, Madras etc. it would be possible to make supplies direct to the sheds depots. The Committee however feel that adequate power should be delegated to sheds/local levels to enable them to meet their day to day requirements.

D. Purchase Agencies

1.28 The main agencies through which stores are procured by the Indian Railways are :

- (a) Director General, Supplies & Disposals
- (b) Railway Board
- (c) Individual Zonal Railways' and the Production Units' own purchase set-up.

1.29 The total value of purchase made by Railways during each of the last 10 years i.e. from 1972-73 to 1981-82 and the share of each of the three agencies was as follows :

VALUE OF PURCHASES

Year	Material & Supplies	Fuel	Total	Dept. of Supply	Railway Board	Zonal Railways
			(Rs. crores)	%	%	%
1972-73	378	108	486	28	28	44
1973-74	404	103	507	29	23	48
1974-75	470	122	592	32	21	47
1975-76	604	172	776	40	15	45
1976-77	567	197	764	32	28	40
1977-78	525	207	732	25	26	49
1978-79	573	207	780	24	26	50
1979-80	721	234	1005	21	28	51
1980-81	994	383	1377	24	27	49
1981-82	1224	523	1747	27	27	46

1.30 DGS&D purchases on behalf of the Railways all items except those which are peculiar to Railways or where the individual requirement is of low value i.e. below Rs. 1 lakh. Purchases made through DGS&D constitute 27 percent of total Railway purchases.

It has been pointed out in a memorandum that :

"This arrangement has led to dual responsibility and has been responsible for failure to fix responsibility in cases where shortage have occurred at different levels. The first and the most important change the Railways, therefore, is to do away with this dual responsibility and to put the entire purchase of railway stores in the hands of the Railways themselves. Recommendation to this effect has been made several times by the various Committees which have been appointed to streamline Store Purchases but for some reason this important recommendation has not been implemented so far. In my opinion this is a basic change which must be made in order to ensure that the divided responsibility does not come in the way of achievement of Railways targets."

1.31 An ex-Director of stores has expressed the view that "the bulking of DG helps; it helps the industry; it helps the railways also. The pricing is arranged by them. The only difficulty is the lead time by them for their indent. You have to send indent practically a year or 18 months in advance. If you start placing an indent 18 months in advance for 12 months contract period, the estimates are not that accurate. And some variations taking place during the intervening period does not get correct."

The Chairman Railway Board stated during evidence in this connection that :

"Out of Rs. 450 crores, Rs. 327 crores represent fuel oil and about Rs. 16 crores paint. We feel that positively we can straightaway take over this purchase of fuel and paint from the DGS&D. There will be no difficulty. We can perhaps save about Rs. 1½ crores which we pay for doing this."

He added :

"We consider that there is no formidable problem or difficulty for the Railways to take over residuary purchases especially when most of them pertain to public sector undertakings like I.O.C.. The point is very well taken that perhaps the DGS&D may not have a total appreciation of the havoc that is caused

due to the delay in supply of materials to the various depots of the Railways. The contention has always been that there are many other Ministries and many sectors which are purchasing the same material and therefore to take care of run-away of prices or price variation, it should be channelised through the DGS&D. While that may have existed in the past when there was proliferation of oil companies, today it does not exist. Most of the purchases are major purchases and heavy purchases which have been getting from many public sector undertakings. The railways had taken over three-fourths of the purchases. There is no difficulty in taking over the remaining. The question of dual responsibility therefore, should not arise, if the purchases are completely done by the railways."

1.32 With regard to advantage accruing from bulking of demand the Chairman Railway Board observed that while bulking did help, the lead time under the aegis of the DGS&D was much higher than if the Railway Stores directly purchased these items. He added that :

"The lead time, I am sure, will certainly come down. The railway has to do the work."

As regards pricing, the Chairman, Railway Board observed that :

"It is always open even now where railways bulk purchases are made, especially where public sector organisations are involved, like BHEL etc., that we have to go to the Bureau of Industrial Costs and Pricing and we get the prices and we agree with the public sector undertaking with regard to giving them the price as suggested by the Bureau. That should not create any further problem just because DGS&D is not doing the purchase."

1.33 The Chairman, Railway Board assured that since Railway was already doing two-thirds of this job no elaborate machinery would have to be created for taking over of the remaining one-third work. That should not give any specific difficulty to the Railways and with minimal staff, it should be possible.

1.34 A non-official pointed out in his Memorandum that a lot of complaints had been received regarding the functioning of the inspection mechanism—RITES—who do not have regular cadre of inspectors. They are people taken from the Railway Workshops etc. on deputation and have no particular knowledge of inspection and are trained for the job.

In this regard the Chairman, Railway Board stated that the inspection personnel in RITES had been taken from the railway workshops and were therefore qualified to inspect railway material. They were in the know of the specifications to which the material should conform. Further that as consumers they would be more conscious of the quality. He conceded, however, that :

"With regard to people taken from the railway workshop on deputation for doing the work of Inspector, certainly some of the persons selected lack certain capabilities with regard to later and modern techniques in inspection which we call non-destructive tests and things like that. For that, the point is well taken. We are now insisting that such of those RITES Inspectors who have to do specific work involving inspection with the use of Gama Ray equipment must be trained by competent training establishment with BHEL or Defence Units so that they come up to the levels of inspection which we expect along with use of modern technology. Otherwise, for visual dimensional check, quality check composition etc. the railways and the RITES also take advantage of the railways' chemists and metallurgists wings."

He added :

"With regard to the men being drawn from the Railway, there is no difficulty because they are also the ultimate users and they know much about it than anybody else."

1.35 The Committee find that at present only 27% of the purchases for Railways are being made through DGS&D. Out of Rs. 450 crores worth of purchases made through DGS&D, Rs. 327 crores are stated to represent fuel oil and Rs. 16 crores paints. Chairman, Railway Board indicated during evidence "we can straight away take over this purchase of fuel and paints from DGS&D. This, he estimated would result in a saving of Rs. 1½ crores annually to the railways, which had to be paid to DGS&D for doing almost nothing as all that DGS&D is to do is to purchase the fuel oil from IOC. If purchase of this item is given to the Railways, they can purchase it directly from the IOC instead of through DGS&D. It has also been reported that purchases through DGS&D entail a lead time of as many as 18 months. There can be substantial reduction of the lead time if the purchase of such items are made directly. Moreover the Committee feel that quality specifications of Railways could not be better looked after than through their own personnel specially when Railways have developed the necessary expertise for stores inspection in RDSO and RITES. The Committee therefore recommend that in order to reduce lead in procurement of Stores for railways

and to ensure quality specifications the function of railway purchases at present being done through DGS&D may be taken over by the Railways in due course of time in a phased manner. To begin with purchases of Fuel Oil and Paints may be taken over by Railways from DGS&D and for this purpose matter may be taken up with the Ministry of Supplies. The Committee are of the view that there is scope and the Railways do recognise the need, to train up people in RITES in modern inspection techniques so that the disadvantages resulting from the non-availability of DGS&D expertise after purchases have been taken over could be made up by the expertise developed in the Railways' own set up. The Railways should take up measures to develop inspection expertise to match their requirements.

E. Import content of Railway Purchases

1.36 Import content of the Railway Purchases since 1972-73 had been as follows :—

Year	Total Purchases Rs. (in crores)	Value of imports (Rs. in crores)	Imports Percentage of total purchases
1972-73	486	60	12.3
1973-74	507	60	11.8
1974-75	592	63	10.6
1975-76	776	63	8.1
1976-77	764	50	6.5
1977-78	732	44	6.0
1978-79	720	44	5.6
1979-80	1005	75	7.5
1980-81	1377	144	10.5
1981-82	1747	152	8.7
1982-83	1928	144	7.5

1.37 The Ministry of Railways have claimed that with elaborate measures towards reducing the import content in Railway Purchases, they have been able to achieve considerable success in this regard and imports are now limited only to certain raw materials, proprietary items and other 'hard core' items. The manufacture of such specialised items calls for sophisticated manufacturing techniques, high capital investment and foreign collaboration in most cases. Due to limited off-take of these items by the railways, not many units in private/public sector are keen to take up their indigenous manufacture. Examples of such items are turbo chargers and their spares, crankshafts, trimetal bearings, governors, pistons, pistonrings special type of

steel (Corton), wheels and axles etc. Efforts continue to be made to attract entrepreneurs, as also public sector units to take up their indigenisation.

In this connection, it has been represented on behalf of a Chamber of Commerce that :—

“.....It is very much necessary that Railways shuld have an ancillary approach. If they are importing a particular quantity of items per annum and for the same if somebody is setting up an industry, it can be termed as 'ancillary'. Basically the approach has to be ancillary, and once the capacity is established, the Railway, should assure them of the market. If this approach of ancillary does not come up, the items which are on the import list will remain on the import list for 20 years.”

1.38 Explaining the reasons for upward swing in import content of railway purchases from 1979-80 onwards. The Chairman, Railway Board stated that upward trend was due to price rise. He pointed out that distress purchases had to be resorted to as indigenous industry had failed to make up the shortfall in production. This was stated to be one reasons for fluctuations in imports on year to year basis. In addition, it was also pointed out that it could not be rigidly ensured that only one year's requirement was imported in a year. Some fluctuation in import content would accrue on this account.

1.39 The Committee wanted to know if an ancillary approach in the matter could produce results. The Chairman, Railway Board stated :—

“The Ministry of Railways do feel that ancillary approach in the matter could produce results and vendors for import substitutions should be encouraged. The Railways offer special incentives to those people who come forward for development of such items.....”

1.40 The Committee enquired why like public sector undertakings Railway Ministry could not accept such units as were prepared to take up import substitution as ancillary units. The representative of the Railway Ministry stated that this suggestion had legal implications. He assured that it would be examined.

1.41 The import content of Railway Purchases has shot up from Rs. 75 crores (7.5 per cent of total purchases) in 1979-80 to Rs. 144 crores (10.5 per cent of total purchases) in 1980-81. In the subsequent year i.e. 1981-82 the value of import increased to Rs. 152 crores though in terms of percentage it was less by 1.75 per cent. The import content, however, came down to Rs. 144 crores (7.5 per cent of total purchases) in 1982-83. A

Chamber of Commerce has urged that if the Railways adopt ancillary approach, it should be possible to reduce the import bill. The Committee understand that some of public sector enterprises have already set up ancillary units. The Committee recommend that if any unit evinces interest in taking up manufacture of items which are being imported by Railways at present, it should be treated as an ancillary unit and assured of market. The Committee have every hope that adoption of ancillary approach would help indigenisation and encourage import substitution.

CHAPTER II

TENDER SYSTEMS

A. *Open Tender System*

2.1 The basic principle underlying procurement on the Indian Railways is that of acceptance of the "lowest acceptable offer" from amongst competitive bidders, exceptions being single tender purchases of low value items and the proprietary article purchases. In the matter of policy on procurement, Ministry of Railways are generally guided by the policies framed by the Ministry of Supply.

Following types of tenders are prevalent on the Railways :

Tender System	Value of Purchases for which used
1. Advertised/commonly known as Open Tender	Above Rs. 1.0 lakh
2. Global Tender	for imports
3. Spl. limited tender	upto Rs. 1.0 lakhs
4. Bulletin tender	upto Rs. 1.0 lakhs
5. Single tender	upto Rs. 0.10 lakhs

B. *Open Tenders*

2.2 It has been pointed out in a memorandum that :

"Open tender system is time consuming and lengthy process because it involves screening of tenders submitted, their tabulation and vetting of rates by the Accounts so tabulated etc. Besides, due to late publication of open tenders in many instances, the time available for submitting quotations becomes insufficient and response against such tenders also becomes poor. In case of new bidders, capacity examination often creates a serious problem. What is more disappointing is that the limit for open tendering has been kept for purchases exceeding Rs. 1 lakh only and this amount is much too low in the present context of hike in costs and prices."

It has, therefore, been suggested that open tenders may be resorted to only for purchases exceeding Rs. 5 lakhs in place of Rs. 1 lakh as at present.

2.3 Reacting to the aforesaid suggestion of a non-official, the Chairman, Railway Board conceded during evidence that open tender system did involve the problem of the types mentioned. It should be said that it was preferable to resort to limited tender for as many purchases as possible but he expressed the view that limited tender also suffered from a serious handicap where the new bidders could not come in and hence it kept out new manufacturers of proven quality to come in because of the limited tender system. The rates obtaining against the open tender were likely to be lower than those against the limited tender. He added, however, that the restricted purchases through the limited tenders had to be commensurate with the organised market research, market intelligence vendor development functions etc in that organisation. In his view under the present set up it was not considered feasible to substantially enhance the value limit for calling of open tenders. But for specific items where only limited forms were available or where the items were meant for safety, limited tender were issued regardless of the value because safety was primary criteria.

2.4 A point was raised during evidence regarding the necessity of having the open tender system at all when Railways had effective and efficient machinery for quality control testing. Even in open tender system apart from submitting a quotation a sample had also to be submitted and if the sample did not conform to the standards prescribed by Railways it could be rejected even though material was not sub-standard. The Chairman, Railway Board pointed to the danger that in open tender, the supplier may not actually have the acquired manufacturing facility and may have bought the sample from others. The Financial Commissioner added that on the other hand in the limited tender system there was the danger of proven suppliers forming rings and quoting monopoly prices. It was explained further that unless a minimum order was given which could be a break even point for them for a viable quantity or which gave them a minimum profit margin, they could resort to short cuts in manufacture.

2.5 It has been represented to the Committee further that :

"Now, as far as open tender is concerned the system is that it first goes to the Press and when the railways send it to the Press they keep a margin of sixty days. Although the real intention is to get competitive quotation the purpose gets defeated as sufficient time duration is not available... The ideal thing would be that since there are DAVP approved advertising agencies they should be involved and clear 45 days are given to the tenderer."

2.6 On the question of involving DAVP in the publication of tenders and allowing clear 45 days to the tenderer the Chairman, Railway Board observed :

“ . . . the suggestion *prima facie* is very reasonable, that it can be done through DAVP. But we will have to go into the further ramifications of this as to whether there are any complications. It should be our intention to give clearly 45 days to the tenderer so that there can be maximum and correct response to our tenders.”

2.7 The Committee agree that a judicious approach has to be adopted between calling upon tenders and limited tenders while open tender system ensures competitive bidding, the limited tender system shuts out new manufacturers. Quite often bidders in the limited tender system form rings and dictate their own price. So far as Railways are concerned urgency and safety are the main criteria for arriving at such decisions. However the Committee are strongly of the view that where decision to call open tenders is taken it should be ensured that a minimum of clear 45 days are given to the tenders so that maximum and correct response is available to the tenders issued by the Railways. The Committee recommend that the Railway Board should examine whether it would not be of advantage to utilise the services of the DAVP approved publication agencies to ensure timely publication of the tenders.

C. *Limited Tender System*

2.8 It has been stated in a memorandum that :

“Purchases through limited tenders are generally made by sending tender enquiries to only such parties who in the opinion of the Purchase Officer, will be in a position to deliver the goods in time, being regular manufacturers of the items required. In case of such tendering, the question of showing favouritism or ring formation cannot be ruled out altogether. This method may be adopted for items to be procured as per drawings/specifications and of items of peculiar nature”.

2.9 It has been further suggested that the tendering in such cases should be broad-based to cover as many suppliers as possible and that for this purpose services of different Chambers of Commerce and Industrial Associations should be availed of in locating sources of supply of equipment and stores especially those in short supply.

2.10 The Chairman, Railway Board explained during evidence that “the Ministry of Railways agree that limited tender should be broad-based. They do not, however, agree that services of different Chambers of Commerce and Industrial associations should be availed of formally indi-

cating sources of supply. It may or may not be correct because some of them may not be members and we want to make it really broad-based".

He added that individual enquiries were made. Individual industries either directly or through State Development Corporation or through the Chambers of Commerce were already free to approach the Railways for registration as suppliers of items of their interest.

He stated further that the list of approved suppliers is formulated based on the firms registered with the Railways, developed through trial orders, approved by centralised agencies like RDSO, CLW, DLW, DGS&D etc. These lists were up-dated from time to time depending on the performance of the suppliers and the currency of their registration.

2.11 When asked if the Ministry had examined to see whether adequate proportion of units were registered with the Railways, the Chairman, Railway Board stated that such a study had not been carried out and would be a part of the market research function. He agreed that such a system should be set up by the railways.

The Committee were informed during evidence that there was no formal liaison presently. However, under the single point registration scheme, firms registered with the NSIC enjoyed automatic privileges in the purchase programmes of the railways.

2.12 A Chamber of Commerce has represented to the Committee that "there were earlier consultative Committees in Railways but the same have now been dissolved. Such type of Committees should be there at the national and State levels. These Committees play a very useful role".

The Chairman, Railway Board stated that :—

"The point needs to be checked up. Incidentally it is pointed out that RRC have also recommended formally organising certain functions like market research, market intelligence, vendor development etc. Organisation of these functions will pave the way for implementing the suggestions made."

2.13 The Committee recommend that limited tender system on Railways should be made as broad-based as possible so as to counter the tendency among the suppliers towards ring-formation under the limited tender system and charging monopolistic prices. In this connection, the Committee understand that no study has been carried out at any time to see if adequate proportion of suppliers are registered with Railways for supply of various items. This points to need for a formal organisation of the market research

market intelligence and vendor rating and development system on Railways as recommended by the Railway Reforms Committee. The Committee recommends that such studies should form part of efforts at reorganisation of the purchase mechanism. Limited tender system could then be placed on a more stable and fair footing.

D. Proprietary Purchases

2.14 Articles of proprietary nature are purchased on single tender basis against proprietary certificates issued by the consuming department.

The volume of purchases made by the Indian Railways and the production units in the last 2 years on proprietary basis is given below :—

Year	Total Purchases	Purchases on PAC (App. value)	(Value in Crore of Rs.)	
			PAC purchases	% of total
1980-81	1377	31.14		2.26%
1981-82	1747	27.53		1.58%

2.10 It has been represented to the Committee that proprietary purchase should be looked down upon and avoided at all costs.

It has been suggested that :—

- (i) No item of proprietary nature should be allowed for more than two years and it should be the duty of the Railways to develop 2 to 3 sources of each of these items.
- (ii) Items declared proprietary should be examined by a special Committee consisting of executive, financial and technical personnel.
- (iii) Quarterly statements should be forwarded to recognised Chambers of Committee so that parallel purchases are developed and encouraged.
- (iv) No proprietary certificate should be issued with brand names.

However, from the information furnished by the Ministry it is seen that safeguards have been provided against misuse of powers with regard to purchase of materials under this system, such as :—

- (i) limited powers to sign the proprietary certificate ;

- (ii) powers of purchase of stores officers have also been laid down;
- (iii) the proprietary certificates are not to be accepted as a matter of course;
- (iv) steps have been taken to eliminate dependence on single source and to develop alternative sources; and
- (v) Purchases made by Railways are also published in periodical stores Bulletin regularly and in the India Trade Journal to bring such purchases to the notice of the potential suppliers.

2.15 It has been represented to the Committee further that while one Railway is bying an item on proprietary basis the same item is being purchased by another Railway on a much lower price on the basis of competitive bidding. It has been pointed out further that DGTD has developed more than one source of almost all items.

2.16 When asked how the same article could be certified as proprietary on the Railways and not on the other, the Chairman, Railway Board stated :—

“The vast organisation that the railway is, the same problems are happening, but they should not happen. If any case does come to our notice, we shall certainly follow up. We do not know how the statement has come about. We are always anxious to see that nothing is treated as proprietary articles because it does involve much more expenditure for the railways. Railways are always on the look out for alternative sources for proprietary articles. In fact, we have developed a cell whose main function is to locate more and new sources especially proprietary items. Incidentally, it is also expected that whenever new souces are being developed by DGTD especially for railway items, the source will automatically approach the Railways for their sales programme.”

2.17 Asked to state the norms prescribed for giving such certificates the witness stated :—

“The technical officers by their experience and knowledge they must be having an idea of the materials. For example about items for electrical locomotives they must be knowing which item is developed, where it is used, which firm is manufacturing it is India etc. Then they can certify. Some Indian firms may be having

collaboration with a foreign firm for manufacture, and they can give the specifications of the items required. We do not have the drawings or the specifications of that item; we go to the same firm and obtain the drawings in consultation with them. We have to identify the specifications first, and then obtain them In this connection as far as the development officer is concerned, he also takes advantage of being on the Board of DGTD with check all these things and see whether there are other manufacturers of similar items which are specified and to specifications. In this way we have tried and substituted bearings and other kinds of materials of similar quality. But the main problem is material specification and which are not at all under production, items which are not available. These items are to be specified before hand whether they are essential, and this the technical officers have to see and certify. And here also the certificate of an officer of the grade of JAC only is accepted."

2.18 The Committee enquired as to how the Railways satisfy themselves about the reasonableness of the price of a proprietary item. The Chairman Railway Board explained that :--

"We see the prices for the last two or three years. We see the inflationary trend with regard to any raw material cost etc., normally utilised for such items and only on that proportionate basis, if it is justified, we accept. Otherwise, we do not accept the price."

Another representative of the Railways added :--

"As regards the very high price of proprietary item, whenever we find that the price is very high, we try to get other people's interest to find out whether they are able to meet the quality. We give the sample to them to analyse it chemically and find out whether they can take it up. But, Sir, that is a long process and in the meanwhile, we have to go to the same original manufacturer."

2.19 It has been stated in a memorandum that :

"It is understood that certain instructions have been issued to the Purchase Officers to the effect that for buying spares for Diesel/Electric Loco/FMJ Coaches/AC Coaches the Tenders are to be issued only to such parties as are recommended by the consuming departments. This, according to the Chamber, is a very unhealthy practice leading to favouritism at the cost of

competition... Besides, such a procedure amounts to giving the power of purchase directly to the consumers and develops a lot of vested interest at their end. In case there is any such procedure, the same should be immediately dispensed with and the procurement should be done as per normal purchases procedure of the Railways."

A view has been expressed before the Committee in this connection that the consumer should be at liberty to suggest 2-3 names but those already on the approved list of Railways should also be considered.

A representative of the Railway Board clarified the point thus :—

"... the correct position is that consumers can suggest the firms in addition to the approved firms and see that lists are readily available with the railway for getting the stores. If there has been any misunderstanding on account of this Circular, we will see that it is clarified. We will take necessary action."

2.20 In regard to efforts being made to create alternative sources of supply apart from publishing in the bulletin the Chairman, Railway Board stated :—

"Presently not much efforts are made to develop alternative sources apart from publishing in the bulletin. In fact, Railways have organised an exhibition on wheels of the items for which they wanted development of new sources. This function certainly needs to be organised on the Railways."

2.21 The Committee have been assured that all possible safeguards have been adopted on Railways against misuse of powers governing purchases of materials of proprietary nature such as limited powers to sign the proprietary certificate to officers at sufficiently high level. Purchases made by Railways are also published in periodical Stores Bulletins regularly and in the India trade journal to bring such purchases to the notice of the potential suppliers. Possible safeguards are also adopted to ensure that as far as possible the stores are purchased on correct prices and of right qualities. While these efforts are all useful and welcome, the Committee cannot help observing that positive measures towards developing alternative sources of supply are lacking. It is here that the need for organisation of market research, market intelligence and vendor rating and development system is relevant. The Committee hope that when the system is organised formally, this important aspect of stores purchases will be taken care of.

2.22 A discrepancy in regard to proprietary purchase system that has been brought to the notice of the Committee relates allegedly to the fact that while one Railway is buying on proprietary basis the same item is being purchased by another Railway on a much lower price on the basis of competitive bidding. Railways would do well to take measures to obviate such possibilities. One way to achieve this objective can be to identify and publish the items which can be had only on proprietary basis. This list could be reviewed periodically and updated.

E. Stores Bulletin

2.23 Weekly stores Bulletin is somewhat akin to open tendering and is circulated to registered suppliers of the Railways borne on the subscribers' list. A view has been expressed before the Committee that :—

"This type of tendering should be made use of in items of common purchase with timely publication of such bulletins so that sufficient time is available to the suppliers to quote in time. This is not, however, recommended for procurement of stores to be purchased as per drawing/specification of peculiar nature."

2.24 It has been added that normally quotations received from parties not registered with the Railways for any particular item are not considered. However, with attempts being made by the manufacturers to diversify their product range, such restrictions should not be imposed without checking their capability for making such items.

2.25 The Chairman, Railway Board shared the view that Bulletin tender should be made use of in items of common purchase with timely publication of such bulletins giving sufficient time to suppliers to quote in time.

2.26 With regard to the quotations received from the parties not registered with the Railways, the witness expressed the views that weekly stores Bulletin should not be thrown open to the unregistered firms. He explained that :—

"...such unsolicited offers are generally ignored as it is not possible for the Railways to start verifying the capabilities of such parties for all their small purchases. Such parties can always request the Railway for registration which is granted after due verification of the firm's financial and technical capability, as well as the quality control."

2.27 The Committee have been assured that the system of Bulletin tender is being made use of by Railways only for items of common purchase.

Even so, the Railways must ensure that weekly Bulletins are published regularly and in time so as to allow adequate time to registered suppliers to put in their quotation. The Committee are not in favour of Railways entertaining any unsolicited offers. But if there are, the parties making such offers may be advised to seek registration.

F. Rate Contract Purchase

2.28 Ministry of Railways have, in a note, furnished to the Committee intimated that Rate/Running Contracts are special features of DGS&D and are not used on Railways.

In this connection, it has been stated, in a memorandum furnished to the Committee, that Rate/Running Contract is a useful device for ensuring purchase of important items of Stores covered by rate contract within the specified ceiling of prices. Wherever DGS&D rate contracts are available the same should be operated to cut short the delay in placement of orders. Similarly Repeat order system prevalent on the DGS&D is absent on the Railways.

2.29 The Committee enquired that if Rate/Running Contracts and the Repeat Order Systems were not suited for Railways. The Chairman, Railway Board stated :

"As far as the rate or running contract arrangement for purchases is concerned, I for one certainly would specifically say that it is quite advantageous and it will help us to bring down the inventory etc. As long as there are well-versed purchases, the rates have been fixed and we can directly draw from them instead of getting the whole lot and stocking them. But unfortunately, trusted large scale manufacturers so far have been few and far between. But we expect that things would improve with the rapid pace of industrialisation." When this takes place, there would be nothing like rate or running contracts and anybody could draw at any time from any place."

The Financial Commissioner, Railways, however, stated :

"We also have the rate and running contract... we have certain principles of rate contract but not the volume which perhaps DGS&D has. We would like to establish that standardisation on electric loco and various other components, if there are adequate number of manufacturers."

He added :

"There are a large number of manufacturers available and we take advantage of the running and rate contracts of the DGS&D also."

2.30 When asked if it had been found that of goods supplied under rate/running contracts were not of requisite quality, the Financial Commissioner stated :

"It depends upon the quality of inspection. Some failures might have been there but I do not think that is correct. A particular lot may not come up to the standard and the Inspector might have passed it negligently. Such instances can happen. But it is not general complaint."

2.31 The Chairman, Railway Board however pointed out that :

"The proper working of rate contract system specifically envisages quality manufacture of fairly large numbers who can always ensure that quality. We do inspect before we certify them. But sometimes sub-standard and poor quality material is supplied. We see to it that such people are dealt with severely. At the same time, we also tighten up our inspection and do not take things for granted."

2.32 Rate/Running contract system is a useful device for ensuring purchase of selected items of stores covered by this system within the specified ceiling of prices and to cut short delays involved in going through the routines of issue of tenders. The Committee, however, find that the Railways have not adopted this system on Railways even though it is known to result in considerable economy of time and effort. With proper system of inspections there should be no reason for apprehension about quality of goods under the system. The Committee recommend that Railways should examine the advisability and scope introducing this system on an experimental basis. If the Railways decide to try this system, it will be necessary to simultaneously tighten the inspection machinery so that sub-standard goods are not accepted.

G. Financial Powers of Purchase by Officers

2.33 It has been stated, in a memorandum, that the financial powers of purchases by officers of the Controllers of Stores in Railways are very much

limited when compared with similar powers vested in officers of equivalent ranks of the D.G.S.&D. as would be evident from the following table :

Powers of Purchase of the Officers in the DGS&D		Powers of Purchase of Officers in the Rlys.	
Asstt. Director	Rs. 1.5 lakhs	ASOP	—Rs. 15,000/-
Dy. Director	Rs. 7.5 lakhs	SSOP	—Rs. 40,000/-
Director	Rs. 25 lakhs	Dy. COS	—Rs. 2 lakhs
Dy. D.G.	Rs. 75 lakhs	Addl. ,,	—Rs. 5 lakhs
ADG/DG	Rs. 1.5 crores	COS/COMM	—Rs. 10 lakhs

It has been suggested therefore that the powers of purchases of the Railway Officers should be enhanced as follows for the time being :

ASOP	—Rs. 30,000.00
SSOP	—Rs. 1.5 lakhs
Dy. SOS	—Rs. 5 lakhs
Addl. COS	—Rs. 15 lakhs
COS/CMM	—Rs. 30 lakhs

2.34 The Chairman, Railway Board explained during evidence that the reason for the wide variation between the powers delegated to the offices of the D.G.S.&D. and to the corresponding officers on the Railways was that DGS&D did not undertake procurement against demands rating less than Rs. 1 lakh. In fact for all common user items where the railway demand exceeded Rs. One lakh, Railways had to buy through the agency of DGS&D. The Purchase powers on the Railways were based on the quantum of purchases involved in each slab of powers delegated and the corresponding organisation available on the Railways.

2.35 The Chairman, Railway Board added that these powers were reviewed as and when required to balance the work-load and to take care of inflation. The delegation of powers, he stated, was subject to discussions in all the Conferences of the Controller of Stores. Even in the Conference held in November, 1983 certain decisions had been taken and certain changes were currently in the process in the Ministry of Railways. A part from the annual review, individual railways and production units continued making suggestions for adjustments and revision of powers wherever a bottleneck was felt by them. Such proposals were being looked into and revision

authorised, if found desirable. The witness indicated that the current proposals for enhancement of powers are :

Level of Officer	Current powers
1. Assistant Senior Scale	Rs. 15,000-40,000 (not proportionately changed for the asstt. officer but increasing the limit of Rs.40000 to * Rs. 50000).
2. Deputy Controller of Stores	Rs. 2 lakhs. (We are increasing it to Rs. 3 lakhs)
3. Additional Controller of Stores	Rs. 5 lakhs (increasing to Rs. 10 lakhs)
4. Controller of Stores/Chief Materials Manager	Rs. 10 lakhs (proposed Rs. 25 lakhs)
5. General manager	Rs. 2 crores (No change envisaged)

2.36 The Committee have been informed that purchase officers have been delegated financial powers to release foreign exchange in DGS&D. The powers vary from Rs. 1 lakh to Rs. 5 lakhs based on the level of officer, Assistant Director to Director General. No such powers exist on the Railways where General Manager alone is authorised to release foreign exchange up to Rs. 10,000 in each case with half-yearly ceiling of Rs. 1 lakh. It has, therefore, been suggested that if General Managers are delegated with adequate powers of release of foreign exchange say up to Rs. 50,000 in each case and Rs. 5 lakhs in aggregate in 6 months, delays in obtaining foreign exchange sanctions can be avoided.

2.37 The Chairman, Railway Board stated during evidence that :

“I may submit that the Railways have not been treated at par with the DGS&D as far as imports are concerned. Railways do experience constraint because of the limitations in imports of materials.”

2.38 It has been suggested to the Committee further that similar to DGS&D purchases, if Railway purchases are exempted from the formality of Import Licence, delays in obtaining Import Licence can be obviated.

2.39 The representative of the Railway expressed the following view in this regard :

“...But certainly we do feel that this is the step in the right direction if the railways be made a major Ministry and equally

responsible Ministry which can be exempted from import licences."

2.40 In reply to a subsequent question the representative of the Railway Ministry stated that :

"The Inventory Management Committee in a recommendation had desired the Ministry of Railways to consult Ministry of Finance to see if the import licence formalities could be simplified, similar to the procedure in vogue for purchase by DGS&D. The import policy of the Government of India had in the recent past, been making an exception for the Railways in respect of items of Railway usage. These items were generally exempted from the purview of the import licence. However, the Ministry of Finance had not agreed to the procedure as obtaining in DGS&D. The Railway Reforms Committee is also said to have recommended it and we shall pursue this recommendation."

2.41 The Railways are experiencing difficulties because of limitation on import of materials. Government might re-examine if in the interest of their operational efficiency the Railway could be exempted from the formality of obtaining import licences and allowed powers at appropriate levels release foreign exchange of an agreed amount to meet their day to day requirements. The Committee on Inventory Management and the Railway Reforms Committee are also reported to have made recommendations to this effect.

2.42 The Committee find that the purchase power available to the officers of the Stores Department of Railways at present are much less than those available to their counter-parts in DGS&D. Chairman, Railway confided during evidence that the question of enhancement of powers of Deputy Controller of Stores, Additional Controller of Stores and the Controller of Stores was under their consideration. The Committee hope that an early decision will be taken in this matter.

H. *Procedural Matters*

2.43 In memoranda furnished to the Committee by non-officials, it was represented that :

- (i) Even though Railway tender forms prescribe a time limit of as long as 60 days, extensions beyond that limit are sought by Railways with the result that the bidders have to quote inflated prices to keep cushion for price increases during this long validity period;

- (ii) For submitting their quotations bidders are required to obtain the Indian Railways specifications and drawings from RDSO, Lucknow and because of this bidders are not sometimes able to submit their quotations in time.
- (iii) Parties have to chase the railways for over 4 to 8 weeks to get payment of their bills whereas in the case of DGS&D this exercise does not take more than a week.
- (iv) DGS&D reject the Stores within 45 days of its supply whereas Railways have not prescribed any time limit. All that the Railways terms and conditions stipulated is that payments should be made within a reasonable time;

2.44 The Committee asked if the existing validity period of 60 days was not too long. In reply, the Chairman, Railway Board explained during evidence that :

“Sometimes railways have to request the firms to give extension for validity beyond 60 days. The existing purchase Organisation specifically needs to be suitably modified to reduce the time-limit for settling the tenders. We accept this need. Proposals are already under examination to achieve this objective on how to cut down the time between tendering and to get the quotations and finalising the same and placement of orders. But it is difficult to have a system in which decision, especially in a big organisation like the Railways could be taken 15 days. Being a departmental organisation, the element of accountability requires the compliance with many procedures including the vetting of finance from time to time. However, as and when the re-organisation comes into being, there is likely to be further improvement and we expect that we would be able to work well within 60 days limit and not ask for any further extensions.”

2.45 In reply to another question the Chairman, Railway Board informed the Committee that the present stores system was still “desk-oriented and clerical-oriented.” The Railway Reforms Commission have suggested a radical change and have favoured a supervisor-oriented system.

2.46 Asked if obtaining of specification and drawings from RDSO was not a time consuming process, the Chairman, Railway Board conceded :

“I agree that this is a time-consuming process and whichever railway invites the quotations, it is for them to make available the latest drawings and specifications instead of going to some

other railway to get these specifications. It will be our endeavour to devise ways and means whereby the RDSO will send the latest drawings and specifications to the Controller of Stores who are asking for these bids but today as things stand the procedure is that latest specifications and designs should be obtained from RDSO. This also is taking time."

2.47 Referring to delays in payment of Bills by Railways, the Financial Commissioner of Railways explained during evidence that :

"By and large we are considered to be good pay masters. There are delays in some cases when the Bills are not properly submitted or when the supporting documents are not available. Towards the end of the year there is a little slowing down of payment because the adjustment is made with reference to the Budget provision available."

He added :

"Now, in the absence of the liability register, the order quite often is for quantities much more than what can be accommodated within the budget. With this Liability Register coming up and the Funds certification becoming effective, this sort of a situation should normally get corrected. Moreover, during this period the level of inflation is quite substantial. The money provided for buying the material has not been adequate. For the same money provided in the Budget they were getting less and less quantity. In the last two years we went in for supplementary demands and tried to correct it, but this year this too was by the large I can say the Railways payments are reasonably quick."

2.48 When asked how DGS&D was able to make payment within a short time, the Chairman, Railway Board stated that DGS&D had no headache of footing their purchases within their budget provisions.

2.49 As regards absence of time limit for rejection of stores, the Chairman, Railway Board conceded during evidence that :

"It is a fact that as far as the Railways are concerned, there has been no specific time limit laid down for rejection of stores by the Railways as per our IRS conditions of contract. But the Railways are expected to issue the rejection within a reasonable time and especially for items which are liable to deteriorate with the

passage of time. And the Zonal Railways issue instructions to the respective Depot. Officers do comply with this. In the case of DGS&D, the legal opinion is that rejection has to be issued within 45 days from the date of receipt of supply. As such the Railways on the same analogy are not expected to exceed these time limits by and large. It is, however, pointed out that only in few cases rejections are issued after an abnormal period of time. This shall take place when there is a contest between the supplier and the Railways and when we do hold a dialogue with him. Under the circumstances we do not consider any change is necessary under the present IRS conditions."

He added :

"By and large we follow the DGS&D procedure about 45 days whatever has been the advice given to them."

2.50 The tender forms issued by the Railway Stores organisation prescribe a time limit of 60 days for keeping tenders open. It transpired during evidence that sometimes extensions beyond this period are sought whenever a decision about acceptance of a tender is not taken during the period of validity. It is, therefore, no wonder that bidders inflate their quotations to keep a cushion for possible rise in prices during the period of validity. Chairman, Railway Board attributed delays in acceptance of tenders to the fact that the present system of purchases was "desk oriented and clerical oriented." He assured the Committee that the system would be so reorganised that the need for seeking extension of time beyond the validity period of 60 days would not arise. While this assurance is no doubt welcome, the Committee feel that the validity period itself is on the high side and should be reduced to about a month by streamlining the existing procedures.

2.51 An inconvenient procedure prevails in Railway purchases whereunder the bidders are required to obtain Indian Railways specifications and drawings from RDSO, Lucknow (U.P.). Apart from being inconvenient to the bidders, the procedure is also time consuming. The Committee recommend IRS specifications and drawings should be available for sale at the Headquarters of each Zonal Railway and Railway Production Unit.

2.52 There are reasons to believe that the payments on the side of Railways for the purchases made by them are not sufficiently prompt as compared to DGS&D. A non-official has pointed out that for bulk of payment of 90/95/98 per cent a hard chase of 4 to 5 weeks is required against one week in the case of DGS&D. It is also conceded by the Financial Commissioner Railways that there is a slowing down of payments towards

the end of the year. It is too well known that on account of delayed payments tenders tend to keep a price margin to compensate for the expected delays. The gearing up of the payment system in Railways stores in the interest of cost reduction for the purchases made is therefore long overdue. The Committee would like the matter to be examined and systems streamlined to ensure prompt payment within a week for services rendered and goods supplied to Railways.

2.53 The Committee find that while on the DGS&D side, the supplies have to be rejected within 45 days, the terms & conditions of Railway contracts do not stipulate any time limit but only provide that stores be rejected "within a reasonable time". The Committee feel that this vague stipulation virtually gives an unreasonable leverage in the hands of the Railway stores department and could cause harassment to suppliers. Since 45 days is on principle accepted as a reasonable time limit on the analogy of DGS&D, this period should be fixed in the case of Railway purchases also and adhered to.

CHAPTER III

INVENTORY CONTROL

A. *Efficiency Level of Inventories*

3.1 Given below is statement showing the efficiency level of maintenance of inventories on Indian Railways :

Year	Stores balance (Rs. crores)	Issues (Rs. crores)	Ratio of Stores balance to issues.
1978-79	162.2	683.6	24
1979-80	223.4	802.7	28
1980-81	297.9	1043.1	29
1981-82	360.1	1297.8	28
1982-83	335.0	1428.9	23

3.2 While inventory control systems on Railway have in general been considered quite sound the Committee asked if it was the Ministry's view that the efficiency levels achieved had reached optimum standards considering the industrial infrastructure and monitoring facilities available in Railways. The Chairman, Railway Board stated :

"The Ministry is of the considered opinion that the efficiency levels (turn over ratio achieved) have reached optimum standards considering the present available facilities. We do not consider that present is the limit, we should be in a position to bring down the inventory further."

He, however added :

"...Still better level can be achieved by introduction of suitable facilities such as improved communications, computerisation, strengthening of review organisation, suitable support in the form of market research, vendor development, etc., etc. Computerisation plan is already in hand."

3.3 The Committee asked if the inventory Control was as effective as it should be and what had been the constraints in this process. The Chairman Railway Board explained :

"...one of the main specific constraints has been that inter-railway coordination by means of computers has not been possible so far.

So one railway may be very well equipped with certain items and the other may be in short supply. This has been one of the main areas where there has not been much progress.'

The Director, Stores elaborated the point thus :

"The main reason why the figure of stores balance has since gone up considerably from 1979-80 to 1982-83 is the price inflation. With the result, while we are able to improve the issue figure, the balance has also gone up on account of the price rise but for which the inventory turnover ratio could have been better. It has been adversely affected because of the inflation. This you would see from the figure that while in 1981-82 (the peak season) it was Rs. 360 crores, in 1982-83, it was Rs. 335 crores. We hope to improve the ratio. We are having plans for having more powerful computers with which we are able to improve our information system. The present system is that the surplus or over-stock of one Railway is collected through the letters and statements are circulated to the various Railways so that they examine what is over-stock in another Railway and whether that can be used in other Railways. Now, in the computer itself, it will be printed out and the action would be fast. That is what, we are planning to do."

3.4 As regards inventory level it has been conceded by the Railway Ministry that "Still better level can be achieved by introduction of suitable facilities such as improved communications, computerisation, strengthening of review organisation, suitable support in the form of market research, vendor development, etc." In this connection, the Committee note that strengthening of the review organisation through improved computerisation in all its stages and support facilities in the form of market research and vendor development are also being planned. The Committee are confident that if these measures are followed up assiduously inventory level could be brought down considerably and economy achieved

B. Planning and programming of Stores procurement

3.5. It has been represented to the Committee that :

"It has been observed that the quantity of stores purchases made by the Railways fluctuates from year to year. This is particularly so in running contract items i.e. train lighting alternators. Because of the fluctuations in the railway demand the capacities created exclusively for the Railways at times remain

unutilised. The Government should devise a system whereby the capacities already created at exorbitant costs are not kept idle. One way of doing this would be to plan for the purchase of items for a three-year period and ensure the ordering of atleast 75% of the average in one year".

It has been suggested further that :

"Quantitative targets fixed in each plan for Railway rolling stock, track material and other stores, which are well below the need-based requirements, should be made public immediately on finalisation of the respective five year plans and that such targets should not generally be altered or any uncertainty created in regard to their purchases. This will enable the industry to serve the Railways better and the performance of Railways would also improve".

3.6 When asked to comment on the suggestions in the interest of optimum utilisation of capacities created for the sake of Railways and in the interest of Railways own functioning the Financial Commissioner of the Railways stated :

"As far as the spirit behind these suggestions is concerned, we agree with them. But in actual working, we are faced with a number of constraints, constraint of resources and other things. The main problem is the allocations which are made on an annual basis. Although the Five Year Plan is finalised, the actual implementation is through annual plans. The budget is also framed and passed on an annual basis and there is no regularity or evenness of allocations year to year basis. To give an example, in the current year, our total Plan allocation, to start with, was Rs. 1742 crores. Through a Supplementary Grant, an amount of Rs. 160 crores was allocated and the total amount went up. But because of the economy cut, this has been pushed down to Rs. 1442 crores. Now, with this sort of non-stability, it becomes difficult for us to ensure that the ordering also will maintain in an even phase. In the case of rolling stock, when the Sixth Plan was finalised, the target was to produce one lakh wagons in terms of 4-wheelers. Now, because of the escalation of prices, the target was reduced to 77,000 wagons. Even that may not be achieved. So, if we keep on ordering on a three-year basis, we will be saddled with commitments which will be very difficult for us to honour with the money made available to us. While we accept the spirit behind it, in actual implemen-

tation what we do is, where there are items of long lead, we give advance purchase orders. The Railways are permitted to place orders against next year's requirement of about 60 to 70% which are likely to be purchased next year. Even 18 months ahead, a certain level of purchase attempt is made once the order is placed, but because of the price variations we will not be able to maintain with whatever money we have and we have to consider purchasing them within the budget allocation. So, we are faced with the difficulties of balancing between purchase orders and the budget allocations. Otherwise, we get into trouble with the PAC because the question of balancing becomes a little more difficult. But in the case of wagon ordering, we have accepted, in principle, that fluctuations of a large order should not be there and we are trying to ensure it in the Seventh Plan.

He added :—

“It is not only happening in the private sector but in our own sector, in the production capacity, we are not able to utilise it fully..... It is very true that we should not kill those industries. There are other situations. We went a particular level of supply in time because for profitable items capacity is created far to excess of the requirement. In those cases, we will not be able to utilise that capacity.”

3.7 The Committee enquired as to what measures had been taken by the Board to ensure that the capacities once created were utilised. The Chairman, Railway Board stated that while Railways do try to utilise the capacities they were helpless in utilising the capacity fully until finances were made available. As regards the industries installed to manufacture import substitute items the witness assured the Committee that these industries were being taken into confidence constantly and Finances were being set apart for 75 per cent utilisation.

He added that great uncertainty prevailed in wagon industry for which it had been decided that forward ordering to the tunes of 66 to 75 per cent would be done and not more.

3.8 The Committee are unhappy over the existing lack of budgetary planning for railway purchases resulting from uncertainty, irregularity and lack of evenness prevailing in the annual allocations for railways. The Committee are surprised why yearly allocations should be known and adhered to as soon as five year allocations are finalised. The Committee are still more surprised that even escalations in prices are not taken care of in annual allocations. While such fluctuations must be hampering the functioning of

railways in general, this has led to under utilisation of the industrial capacities created exclusively for the Railways. The Committee would like this matter to be examined carefully with a view to finding an abiding solution to this problem.

C. Professionalisation of Purchases Operations

3.9 A leading Chamber of Commerce has suggested :

"Currently the position is that every Railway has within itself an organisational set up charged with the responsibility for purchases. Thus there is an Office of Controller of Stores in each Railway. A general comment which has been made on the working of this Office is that it lacks a professional approach. The usual tendency in this office is to process a file rather than to take a decision quickly. In this connection the Chamber feels that there is scope for greater involvement of the user departments with the working of the office of the Controller of Stores. The absence of special coordinating cells either in the Railway Board or in the corresponding railway systems, which could act as monitoring agency for all user departments is conspicuous. While the Chamber understands and appreciates the need for the due processing of a file, it is unable to appreciate the stress on "file-processing approach" in disregard of the need for a timely decision."

It has been added that :

"A railway system is an enterprise and not a mere office and this does call for an altogether business like operations. In matters of purchase of stores like spares parts, rolling stock equipment and the like professionalisation is of the utmost importance."

3.10 With this end in view, the Chamber has suggested the creation of special organisations within the present set up for modernisation of purchase operations

The Chairman, Railway Board observed in this connection that :

"We certainly do agree. There has been this basic approach to this problem merely because so far the stores Deptt. has been saddled or handled by a very large number of clerical type staff. In this connection, the Railway Reforms Commission has gone into it in great detail and it has, at every stage, considered it. Both at the supervisory level as well as at the officers' level, there should be technical people. With technical Inspector joining in larger numbers in the Stores Organisation, there would be a

thorough change in the atmosphere and much more professionalism will be introduced. This is our view and we will necessarily more and more tend towards bringing up a core of professional Inspectors, Officers and Supervisors into the Stores Organisation with a view to help the industry as well as help ourselves. Along with these professionals, there will also be the approach of adaptability and ensuring of quality at each stage so that they will be in a position currently to advise the manufacturers if anything goes wrong and much can be done quickly and the railway will get quality material."

Elaborating his conception of professionalisation, the Chairman, Railway Board stated :

"One needs an approach whereby we understand the manufacturers' problems and points of view also and at the same time ensure quality with regard to the components which are being supplied to it. Today it is not possible, because by and large at most stages other than the Officers' level, which is the ultimate stage of signing a requisition, the problem comes up because all the persons who deal with these are clerical staff. Even the people who check the indents belong to the clerical staff, they will immediately refer it back to the Mechanical Department where an Officer or an engineer has to sift and go through it and see whether it is as per specification and as per the drawings. Then it is sent to Stores. After that it goes forward. All this means delay. By professionalism I mean that if there are technical experts, the indent will be passed straight away. You know delay causes vicious cycle. Because of the delay the requirement is boosted up. Because we know the requirement is to be supplied in four to five months time, we have to indent four to five months in advance. As a result inventory of the material goes up. Whereas a technically competent man can take a decision and say yes this is approved and get the material, a clerical man will send it to the Mechanical Department for its certificate and then it goes forward, and this causes delay."

3.11 Asked if a Material Sciences Directorate of Institute could not be set up under RDSO for carrying out Market Research, product evaluation value engineering etc. he expressed the view that :

"Now, with regard to the other items for setting up an institute under the aegis of the RDSO, Market research and evaluation

product and engineering are all professional functions. One is stores' purchase organisation. Value Engineering is an item where very intimately a technical user has to come forward to see whether a substitute can be found equally good. Then we come to the question of product evaluation. Here also a similar professionalism comes. So, these are all items part of which do not have anything to do with the RDSO's present set up. So, I am of the view that these are all essential, but they cannot come under the RDSO. This will have to come first item under the Stores. Second item under the user for example is electrical and mechanical department. With regard to the product evaluation again it is a joint effort between the Stores and the consumer. So, specific organisation cannot come in."

He further added that :

"With regard to the RDSO's role the point is well taken that RDSO can give broad type of standards equipment which we can get manufactured by the people with the proliferation of half a dozen manufacturers.

Now the problem which has cropped up is different. Within the specifications there are five manufacturers that have offered to supply the equipment. Today's rules and regulations make it compulsory for me to take the material from the lowest quotations.

Now, when we call for another route inter-locking at some station, at that time some other supplier's quotations are the lowest. As long as we do not have a free hand, as long as we are not allowed to decide that insisting on a standardised product, these proliferations of three or four parties depending upon the lowest quotation will continue. This cannot be helped. The only system is that we issue standard drawings. We call manufacturers who have the in-built capacity, to manufacture only to our standard design and supply it at the determined rate that can be fixed. But today with the system of deciding on the lowest tender, the proliferation of five to six varieties will continue."

3.12 The organisation of Stores Department in the Railways has so far lacked a professional approach and has had basically a file-processing approach in its functioning. This approach is attributable to the fact that the Stores Department has been saddled with a large number of clerical staff both at supervisory and lower levels necessitating reference of tenders

etc. to technical departments thus resulting in delayed decisions on purchase proposals. It is heartening to note that Railways are aware of the situation that prevails and are conscious of the need for reorientation of the organisation by means of bringing up a core of professional inspectors, officers and supervisors into the store organisation alongwith an approach of adaptability at each stage, understanding the problems and points of view of the manufacturers and at the same time ensuring quality. The Committee hope these concepts will take a concrete form and the staffing pattern will be given in a phased manner a shape worthy of an enterprise like Railways.

3.13 The Committee are of the considered view that a conscious and integrated approach towards subjects like market research, value engineering product valuation, and vendor development is wanting in the existing conditions in Railway purchases. Such an approach, if adopted, would necessarily result in considerable economies and comfortable availability of materials for Railway usage. The Committee on Inventory Control and Railway Reforms Committee are understood to have also suggested action on these lines. The Committee recommend that suitable steps may be taken to bring about this approach.

D. Standardisation

3.14 It has been stated, in a non-official memorandum, that :

"An analysis of unified items stocked on the Railways reveals that 78% are stocked only on one Railway Production Unit indicating lack of standardisation. As against 102998 unified items Railways are having 32161 non-unified items which is very high. A very urgent review on all Railway basis of the lists of unified and non-unified items may be taken to analyse the reasons for lack of more common items and uniformity amongst the Railway and take necessary remedial measures so that stocking of items is streamlined and properly controlled."

In this connection the Chairman, Railway Board stated during evidence that the process of standardisation and reviews towards that end were a continuous process. While on 1.4.74, the number of items on the Railways was of the order 4.13 lakhs. Out of these, there were 135,159 items of common use purchased by the Railways and out of these 102,998 had been standardised so far. He added that "the percentage of unified items though quite substantial, however, requires to be further improved." He added further that this was an ongoing process and Railways are regularly converting non-standard items to standard items. There was no interval fixed for review and Railways were expected to do this regularly. Due to various

reasons, the inventory control cells on the Railways had not been able to function as actively as before and as such the monitoring of various inventory control activities had becomes less than desired. This was essentially, of course, due to insufficient creation of posts. The staff of the Inventory control Cell being diverted for other activities like purchase/depots, stores keeping required in connection with operation of new assets. However, the RRC had strongly recommended that the Inventory Control Cells should be revived not only in their original form but also be upgraded. This recommendation, he stated, was under examination of the Board. An action was expected to be taken shortly on this.

3.15 There has undoubtedly been some progress in the matter of standardisation in Railways. The number of items has been reduced from 4.13 lakhs on 1.4.74 to 2.87 lakhs on 1.4.84. Out of these there were 135,159 items of common use purchased by Railways out of which 102,998 are stated to have been standardised. The Committee note with concern that there has been slowing down in the process resulting from lack of proper monitoring and diversion of staff from inventory control cells for other functions. Inventory Control Cells have been rendered ineffective. There are still 32161 non unified items which is quite high a number. Standardisation being the key factor towards achieving cost control and better inventory management, the Committee recommend that this should be pursued with renewed vigour.

E. Value Analysis

3.16 The following suggestions were put forward with a view to reducing costs in purchases :

- (i) Development of substitutes by the application of techniques such as 'value analysis' may lead to significant cost reductions in purchases. This will also facilitate the development of alternative sources for Railway materials.
- (ii) It would be advantageous for the Railways to compile a list of their major suppliers and, as a systematic procedure, secure their Annual Report and Accounts for study. This may lead to the identification of firms charging high monopoly prices for Railway products and the taking of appropriate steps, if necessary, through the concerned Ministries for securing reasonable prices.

The Chairman, Railway Board observed in this connection :

"As far as suggestions are concerned, these are very well taken care of and they will be very useful to the railway. It is very

correct that it may lead to a significant cost reduction in purchases. Similarly with regard to other suggestions, we are making efforts in this direction. The Ministry has decided to formally organise a scheme to that end. We have introduced a course in the value analysis in our Staff College at Baroda; and we are putting through officers in the course. We have asked the production engineers to take up substitute items. We expect that in course of time this will be done. This is quite common in private industry especially abroad and in the major, public sector undertakings. We will follow this up."

3.17. The Committee are of the view that efforts at development of substitutes by application of techniques of 'value analysis' already in vogue in purchase systems of public undertakings and private sector if made applicable in Railway Purchase would lead to considerable reduction in prices.

F. *Off Loading some items to Trade*

3.18. It has been stated, in a memorandum, that :

"With rapid industrialization the position of availability of store indigenously has improved. This calls for a review of items manufactured in Railway workshops and if advantageous from financial point of view, such items may be off-loaded to trade to the maximum extent possible thus improving their availability reducing inventories of both raw material and finished product and releasing shop capacity for maintenance and repair work."

It has been added that :

"A total review has to be taken in view of the phasing out of the old stocks by taking into account the modernisation of the workshops and the industrialisation of the country that has taken place in the country. We should really use that capacity for repair and maintenance—not for manufacture of spares. To the extent that we cannot obtain spares from the industry, we should keep those items for the manufacture. But, the rest of the items for can safely be off-loaded. A total review is called for."

The Chairman, Railway Board stated during evidence in this connection that :

"It is a fact that the indigenous production of stores due to rapid industrialisation has improved. We are constantly also review-

ing our position and seeing to it that such of those items which do not require manufacture by standard machines and are not specifically required statutorily as safety items in the Railways, are not manufactured here. We are trying to off-load it as far as possible. In other words it is only items which require specialised machines, something like steel rods or special types of machines or those which are statutorily required to be manufactured as safety items, are done by specialised high industries. In assessing our requirements we take special care in all these areas and not creating capacity on the lines in which we were doing earlier than when the industries were not so well developed. Things like nut-bolts and rivets, etc. which we used to manufacture in the workshops, we have stopped manufacturing those and we are buying from the industry. Similarly, any other item which comes to our mind and on a review by the Workshop Committee under the Production Engineer, we are off-loading that."

3.19 With rapid industrialisation the indigenous industry is becoming increasingly capable of taking over of a number of items being manufactured in Railway workshops. It is the contention of the Railway Ministry that they are constantly reviewing the position regarding off-loading to the indigenous industry the manufacture of such of the items which do not require manufacture by standard machines or are not statutorily required to be manufactured by those workshops as safety items. However, from the examples cited of items so off-loaded, it would be seen that the progress so far is limited to only simple items like nuts, bolts and rivets etc. The Committee recommend that the Railway Ministry should have the matter examined in its totality so as to see if some more items could be passed on to the industry profitably so that the capacities so released can be used for maintenance and repairs.

NEW DELHI:

April 12, 1984

Chaitra 23, 1905 (Saka)

BANSI LAL,
Chairman,
Estimates Committee.

APPENDIX

Statement of Recommendations/Observations

Sl. No.	Para No. of Report	Recommendations/Observations
1	2	3
1	1.13	<p>The total value of purchases of Fuel Materials and supplies by Railways has grown from Rs. 486 crores in 1972-73 to Rs. 174.7 crores in 1981-82. The variety quantum and value of the Purchases call for a modern scientific and professional approach. In this context, establishment of Indian Railway Stores Service was a step in the right direction.</p>
2	2	<p>The Committee, however, find that in 1979 responsibility for track material was transferred from Stores Department to the Engineering Department. A non-official has pointed out, in his Memorandum, that such deviations have resulted in 'slackening of budgetary control and increase in inventory level.' Chairman, Railway Board assured the Committee in evidence that transfer of this work from Stores to Engineering Department was not a permanent feature and that "with the rationalisation of the Civil Engineering Track Material Organisation, it will be possible to bring this</p>

item of work under the aegis of the Railway Store Department. The Committee recommend that this change over may be completed soon.

3 1.15

At present the purc hasce of stores and materials at the Board level is being looked after by Member (Mechanical). Defending this arrangement, Chairman Railway Board pleaded in evidence that a user Department ought to have a say in the matter of stores and materials. He was prepared to upgrade the post of Director (Stores) to the level of Adviser but saw no advantage in having a Member Stores.

4 1.16

The Committee feel that considering the growth in the volume of railway purchases, upgradation of the post of Director (Stores) would not do. There should be a Member (Stores) at the Board level to head the Store Organisation in Railways and to provide leadership & guidance. In fact when much smaller organisations like Ordnance Factories and ONGC do have such an arrangement there is no valid reason why the Railways with a purchase bill of Rs. 1747 crores should not have a full fledged Member incharge of this function. In fact, the Committee understand that Railways Reforms Committee are already thinking more or less on the same lines. The Committee, therefore, urge that this matter may be studied by the Ministry of Railways in depth to see if induction of Member (Stores) at the Board level would bring about greater economy and efficiency in the Railway purchases in particular and Stores management in general.

5 1.21

Under the existing arrangements, different zonal railways sometimes pay different prices for the same item. The Committee therefore recommend that in place of the zonal level purchases a system of regionali-

sation of railways purchases through Regional Purchases Committees with headquarters at Calcutta, Madras, Bombay and Delhi, may be evolved and introduced early to ensure better availability of stores at competitive and common prices. The demands of the Railways falling in these regions would be clubbed together to elicit advantages accruing from bulking of requirements. The Committee feel that such a system could go a long way in encouraging development of industries in the regions.

48

6 1.26 Proper divisional stores organisation to look after receipt and distribution of stores at the local level is imperative for successful operations in Railways and deserves to be given due importance. In a non-official memorandum attention of the Committee has been drawn to the need for adequate organisational set up at divisional level to look after receipt and distribution of stores besides controlling and checking the divisional requirements. The Committee have been informed that some initiatives e.g. creation of the post of an Executive Assistant common to all departments and directly under the Divisional Manager have already been taken in this direction. The Committee hope that the divisional stores organisation would be placed on a sound footing.

7 1.27 It has been represented to the Committee, however, that very little purchasing powers are available at the shed level and even for purchases of a small amount of Rs. 5000/- the matter has got to be processed in the office of the Controller of Stores which is sometimes situated at a distance

of say 600 Kms. Markets are also located at distant places. The Chairman, Railway Board during evidence expressed the hope that when the proposed Regional Committees are set up at places where stores were available viz. Bombay, Delhi, Calcutta, Madras etc. it would be possible to make supplies direct to the sheds depots. The Committee however feel that adequate powers should be delegated to at sheds/local levels to enable them to meet their day to day requirements.

1.35

The Committee find that at present only 27% of the purchases for Railways are being made through DGS&D. Out of Rs. 450 crores worth of purchases made through DGS&D, Rs. 327 crores are stated to represent fuel oil and Rs. 16 crores paints. Chairman, Railway Board indicated during evidence "we can straight away take over this purchase of fuel and paints from DGS&D." This, he estimated would result in a saving of Rs. 1½ crores annually to the railways, which had to be paid to DGS&D for doing almost nothing as all that DGS&D is to do is to purchase the fuel oil from IOC. If purchase of this item is given to the Railways, they can purchase it directly from the IOC instead of through DGS&D. It has also been reported that purchases through DGS&D entail a lead time of as many as 18 months. There can be substantial reduction of the lead time if the purchase of such items are made directly. Moreover the Committee feel that quality specifications of Railways could not be better looked after than through their own personnel especially when Railways have developed the necessary expertise for stores inspection in RDSO and RITES. The Committee therefore recommend that in order to reduce lead in procurement of Stores for railways and to ensure quality specifications the function of railway purchases at present being done through DGS&D may be taken

over by the Railways in due course of time in a phased manner. To begin with, the purchases of Fuel Oil and Paints may be taken over by Railways from DGS&D and for this purpose matter may be taken up with the Ministry of Supplies. The Committee are of the view that there is scope, and the Railways do recognise the need, to train up people in RITES in modern inspection techniques so that the disadvantages resulting from the non-availability of DGS&D expertise after purchases have been taken over could be made up by the expertise developed in the Railways' own set up. The Railways should take up measures to develop inspection expertise to match their requirements.

The import content of Railway purchases has shot up from Rs. 75 crores (7.5 percent of total purchases) in 1979-80 to Rs. 144 crores (10.5 per cent of total purchases) in 1980-81. In the subsequent year i.e. 1981-82 the value of import increased to Rs. 152 crores though in terms of percentage it was less by 1.75 percent. The import content, however, came down to Rs. 144 crores (7.5 percent of total purchases) in 1982-83. A Chamber of Commerce has urged that if the Railways adopt ancillary approach, it should be possible to reduce the import bill. The Committee understand that some of public sector enterprises have already set up ancillary units. The Committee recommend that if any units evince interest in taking up manufacture of items which are being imparted by Railways at present, it should be treated as a ancillary unit and assured of market.

The Committee have every hope that adoption of ancillary approach would help indigenisation and encourage import substitution.

10 2.7 The Committee agree that a judicious approach has to be adopted between calling upon tenders and limited tenders while open tender system ensures competitive bidding, the limited tender system shuts out new manufacturers. Quite often bidders in the limited tender system form rings and dictate their own price. So far as Railways are concerned urgency and safety are the main criteria for arriving at such decisions. However the Committee are strongly of the view that where decision to call open tenders is taken it should be ensured that a minimum of clear 45 days are given to the tenders so that maximum and correct response is available to the tenders issued by the Railways. The Committee recommended that the Railway Board should examine whether that it would not be of advantage to utilise the services of the DAVP approved publication agencies to ensure timely publication of the tenders.

11 2.13 The Committee recommend that limited tender system on Railways should be made as broad-based as possible so as to counter the tendency among the suppliers towards ring-formation under the limited tender system and charging monopolistic prices. In this connection, the Committee understand that no study has been carried out at any time to see if adequate proportion of suppliers are registered with Railways for supply of various items. This points to the need for a formal organisation of the market research, market intelligence and vendor rating and development system on Railways as recommended by the Railway Reforms Committee. The Committee recommend that such studies should form part of efforts

at reorganisation of the purchase mechanism. Limited tender system could then be placed on a more stable and fair footing.

12

2.21

The Committee have been assured that all possible safeguards have been adopted on Railways against misuse of powers governing purchase of materials of proprietary nature such as limited powers to sign the proprietary certificate to officers at a sufficiently high level. Purchases made by Railways are also published in periodical Stores Bulletins regularly and in the India trade journal to bring such purchases to the notice of the potential suppliers. Possible safeguards are also adopted to ensure that as far as possible the stores are purchased on correct prices and of right qualities. While these efforts are all useful and welcome, the Committee cannot help observing that positive measures towards developing alternative sources of supply are lacking. It is here that the need for organisation of market research, market intelligence and vendor rating and development system is relevant. The Committee hope that when the system is organised formally, this important aspect of stores purchase will be taken care of.

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2.22

A discrepancy in regard to proprietary purchases system that has been brought to the notice of the Committee relates allegedly to the fact that while one Railway is buying on proprietary basis the same item is being purchased by another Railway on a much lower price on the basis of competitive bidding. Railways would do well to take measures to obviate such possibilities. One way to achieve this objective can be to identify and

publish the items which can be had only on proprietary basis. This list could be reviewed periodically and updated.

14 **2.27** The Committee have been assured that the system of Bulletin tender is being made use of by Railways only for items of common purchase. Even so, the Railways must ensure that weekly Bulletins are published regularly and in time so as to allow adequate time to registered suppliers to put in their quotation. The Committee are not in favour of Railways entertaining any unsolicited offers. But if these are, the parties making such offers may be advised to seek registration.

15 **2.32** Rate/Running contract system is a useful device for ensuring purchase of selected items of stores covered by this system within the specified ceiling of prices and to cut short delays involved in going through the routines of issue of tenders. The Committee, however, find that the Railways have not adopted this system on Railways even though it is known to result in considerable economy of time and effort. With proper system of inspections there should be no reason for apprehension about quality of goods under the system. The Committee recommend that Railways should examine the advisability and scope introducing this system on an experimental basis. If the Railways decide to try this system, it will be necessary to simultaneously tighten the inspection machinery so that sub-standard goods are not accepted.

16 **2.41** The Railways are experiencing difficulties because of limitation on import of materials. Government might re-examine if in the interest of their operational efficiency the Railways could be exempted from the formality of obtaining import licences and allowed powers at appropriate levels

to release foreign exchange of an agreed amount to meet their day to day requirements. The Committee on Inventory Management and the Railway Reforms Committee are also reported to have made recommendations to this effect.

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2.42

The Committee find that the purchase powers available to the officers of the Stores Department of Railways at present are much less than those available to their counterpart parts in DGS & D. Chairman, Railway confided during evidence that the question of enhancement of powers of Deputy Controller of Stores, Additional Controller of Stores and the Controller of Stores was under their consideration. The Committee hope that an early decision will be taken in this matter.

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2.50

The tender forms issued by the Railway Stores organisation prescribe a time limit of 60 days for keeping tenders open. It transpired during evidence that sometimes extensions beyond this period are sought whenever a decision about acceptance of a tender is not taken during the period of validity. It is, therefore, no wonder that bidders inflate their quotations to keep a cushion for possible rise in prices during the period of validity. Chairman, Railway Board attributed delays in acceptance of tenders to the fact that the present system of purchases was "desk oriented and clerical oriented." He assured the Committee that the system would be so reorganised that the need for seeking extension of time beyond the valid-

dity period of 60 days would not arise. While this assurance is no doubt welcome, the Committee feel that the validity period itself is on the high side and should be reduced to about a month by streamlining the existing procedures.

2.51 19 An inconvenient procedure prevails in Railway purchases, whereby the bidders are required to obtain Indian Railways specifications and drawings from RDSO, Lucknow (U.P.). Apart from being inconvenient to the bidders, the procedure is also time consuming. The Committee recommend IRs specifications and drawings should be available for sale at the Headquarters of each Zonal Railway and Railway Production Unit.

2.52 20 There are reasons to believe that the payments on the side of Railways for the purchases made by them are not sufficiently prompt as compared to DGS&D. A non-official has pointed out that for bulk of payment of 90/95/98 percent a hard chase of 4 to 5 weeks is required against one week in the case of DGS&D. It is also conceded by the Financial Commissioners Railways that there is a slowing down of payments towards the end of the year. It is too well known that on account of delayed payments tenderers tend to keep a price margin to compensate for the expected delay. The gearing up of the payment system in Railways Stores in the interest of reduced costs for the purchases made in therefore long overdue. The Committee would like the matter to be examined and systems streamlined to ensure prompt payment within a week for services rendered and goods supplied to Railways.

2.53 21 The Committee find that while on the DGS&D side, the supplies have to be rejected within 45 days, the terms & conditions of Railway con-

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materials for Railway usage. The Committee on Inventory Control and Railway Reforms Committee are understood to have also suggested action on these lines. The Committee recommend that suitable steps may be taken to bring about this approach.

3.15

There has undoubtedly been some progress in the matter of standardisation in Railways. The number of items has been reduced from 4.13 lakhs on 1.4.74 to 2.87 lakhs on 1.4.84. Out of these there were 135,159 items of common use purchased by Railways out of which 102,998 are stated to have been standardised. The Committee note with concern that there has been slowing down in the process resulting from lack of proper monitoring and diversion of staff from inventory control cells for other functions. Inventory Control Cells have been rendered in-effective. There are still 32,161 non unified items which is quite high a number. Standardisation being the key factor towards achieving cost control and better inventory management, the Committee recommend that this should be pursued with renewed vigour.

3.17

The Committee are of the view that efforts at development of substitutes by application of techniques of 'value analysis' already in vogue in purchase systems of public undertakings and private sector if made applicable in Railway Purchase would lead to considerable reduction prices.

3.19

With rapid industrialisation the indigenous industry is becoming increasingly capable of taking over of a number of items being manufactured

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in Railway workshops. It is the contention of the Railway Ministry that they are constantly reviewing the position regarding off-loading to the indigenous industry the manufacture of such of the items which do not require manufacture by standard machines or are not statutorily required to be manufactured by these workshops as safety items. However, from the examples cited of items so off-loaded it would be seen that the progress so far is limited to only simple items like nuts, bolts and rivets etc. The Committee recommend that the Railway Ministry should have the matter examined in its totality so as to see if some more items could be passed on to the industry profitably so that the capacities so released can be used for maintenance and repairs.

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