

SEVENTIETH REPORT

PUBLIC ACCOUNTS COMMITTEE  
(2007-2008)

(FOURTEENTH LOK SABHA)

AVOIDABLE EXPENDITURE DUE TO DELAY IN TAKING  
DECISION—CHENNAI PORT TRUST

[Action taken on 49th Report of Public Accounts Committee (14th Lok Sabha)]

MINISTRY OF SHIPPING, ROAD TRANSPORT AND HIGHWAYS  
(DEPARTMENT OF SHIPPING)



*Presented to Lok Sabha on 28.04.2008*

*Laid in Rajya Sabha on 28.04.2008*

LOK SABHA SECRETARIAT  
NEW DELHI

*April, 2008/Chaitra, 1930 (Saka)*

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2007-2008)

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5. Shri Brijesh Kumar — *Committee Assistant*

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\*Ceased to be a Member of the Committee on Public Accounts *w.e.f.* 9th January, 2008 on his resignation from Rajya Sabha.

† Ceased to be a Member of the Committee on Public Accounts *w.e.f.* 2nd April, 2008 consequent to expiry of his term of Rajya Sabha.

# Ceased to be Members of the Committee on Public Accounts *w.e.f.* 6th April, 2008 on their appointment as Ministers.

## INTRODUCTION

I, the Chairman, Public Accounts Committee, as authorised by the Committee, do present this Seventieth Report on action taken by the Government on the recommendations of the Public Accounts Committee contained in their 49th Report (14th Lok Sabha) on “Avoidable expenditure due to delay in taking decision—Chennai Port Trust”.

2. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 7th April, 2008. Minutes of the sitting form Part II of the Report.

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

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

5. The Committee also place on record their appreciation for the invaluable assistance rendered to them by the officials of Lok Sabha Secretariat attached with the Committee.

NEW DELHI;  
9th April, 2008  
*20th Chaitra, 1930 (Saka)*

PROF. VIJAY KUMAR MALHOTRA,  
*Chairman,*  
*Public Accounts Committee.*

## CHAPTER-I

### REPORT

This Report of the Committee deals with the action taken by the Government on the Recommendations/Observations of the Public Accounts Committee contained in their Forty-ninth Report (14th Lok Sabha) on Paragraph 12.1 of the Report of the C&AG of India for the year ended 31 March, 2005, No. 3 of 2006, Union Government (Civil—Autonomous Bodies) relating to “**Avoidable expenditure due to delay in taking decision—Chennai Port Trust**”.

2. The Forty-ninth Report (14th Lok Sabha) which was presented to Lok Sabha on 22nd August, 2007 contained 10 Recommendations/Observations. The Action Taken Notes have been received from the Ministry of Shipping, Road Transport and Highways (Department of Shipping) in respect of all the Recommendations/Observations and are broadly categorized as follows:—

- (i) Recommendations/Observations which have been accepted by the Government:

Sl. Nos. 1, 2, 4, 5, 6, 7, 8 and 10 (Para Nos. 41, 42, 44, 45, 46, 47, 48 and 50)

Total: 8  
Chapter-II

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the replies received from the Government:

- NIL -

Nil  
Chapter-III

- (iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee and which require reiteration:

Sl. Nos. 3 and 9 (Para Nos. 43 and 49)

Total: 2  
Chapter-IV

- (iv) Recommendations/Observations in respect of which Government have furnished interim replies:

- NIL -

Nil  
Chapter-V

3. In their 49th Report on the subject, the Committee had examined the issues involved in the evaluation, selection, construction and procurement of dredger by the

Chennai Port Trust Authorities for dredging operations. The Committee had noticed that the inconsistent decisions of the Port Trust and the Ministry, after placing a work order for construction and supply of a dredger, led to belated delivery of the dredger with consequent avoidable additional expenditure of Rs. 2.61 crore incurred on dredging operation done through outsourcing. The scrutiny of the subject by the Committee had brought out the following lacunae in the decision-making process in the Chennai Port Trust, for the procurement of dredger:

- (i) Shifting stands taken by the Ministry and Chennai Port Trust at various points of time in respect of owning/outsourcing of the dredger;
- (ii) Taking the decision to sell the dredger under construction to Dredging Corporation of India (DCI) on cost basis and then to in-charter it for dredging activities in the Port, without conducting feasibility study/cost analysis;
- (iii) Non-utilisation of new dredger during September 2003—March 2004;
- (iv) Deficiencies in the cost evaluation method adopted by the Port Trust;
- (v) Shortage of crew for dredging operations; and
- (vi) Uncalled for interference from the Ministry in the internal working of the Chennai Port Trust and that too in matters relating to commercial decisions such as owning *vis-à-vis* outsourcing of dredger.

#### **A. Gist of Committee's Recommendations/Observations made in 49th Report**

4. The Committee had made the following important Recommendations/Observations in their 49th Report on the subject:—

- The Ministry should do a detailed study/analysis of the pros and cons involved in the owning vs. outsourcing issue, keeping in view the emerging operational requirements in the Ports.
- While deploring the all-round delay on the part of Chennai Port Trust in taking crucial decisions concerning the procurement of the dredger, the Committee have recommended that the Ministry should oversee and ensure setting up of an in-built mechanism in the Port Trust to pre-empt such avoidable delays in decision-making.
- The Port Trust Authorities should review their internal processes for better evaluation of financial decisions.
- The Port Authorities should initiate early action for filling up vacant positions so as to carry out dredging operations optimally.
- A thorough cost-benefit analysis is required while taking major financial decisions for better working of the Port Trust.
- While viewing the interventions by the administrative Ministry in the internal matters of the Port Trust, with particular reference to commercial and investment

decisions, the Committee have urged the Ministry to desist from such interference and allow functional and operational autonomy to the management of all the Port Trusts in the country.

5. The Government have accepted most of the recommendations made by the Committee. The Action Taken Notes as furnished by the Ministry of Shipping, Road Transport and Highways (Department of Shipping) on the various Observations/Recommendations of the Committee contained in the Report have been reproduced in the relevant chapters of this Report.

## **B. Dredging Operations**

(Recommendation Sl. No. 4)

6. In regard to the Committee's recommendation for conducting a detailed study/analysis of the pros and cons involved in the owning vs. outsourcing of dredger and dredging operations, the Ministry of Shipping, Road Transport and Highways (Department of Shipping) in their Action Taken Note have informed as under:—

“As advised by the Public Accounts Committee, a Committee has been constituted which has been entrusted with undertaking a detailed study/analysis on the pros and cons involved in owning vs. outsourcing issues keeping in view the emerging operational requirements in the Ports. The composition of the Committee is as under:—

- (i) Joint Secretary (Ports) — Chairman
- (ii) Chairman, Chennai Port Trust
- (iii) Chairman, Visakhapatnam Port Trust
- (iv) Chairman, Cochin Port Trust

The terms of reference for the Committee is as under:—

- (i) Detailed study of various aspects which may be taken into account to analyse the pros and cons of the options of owning a dredger by the port vs. outsourcing the same.
- (ii) Apart from the financial and other criteria, the Committee will also keep in view the emerging operational requirements of the Ports.
- (iii) Formulate a policy for decision on owing vs. outsourcing the dredger by the Port.

The recommendations of the Committee will be examined and implemented without delay."

**7. The Committee recommend that the study entrusted by the Ministry on issues connected with taking decisions for in-house dredging or outsourcing should be completed expeditiously and the Committee be apprised on the study findings and the follow-up action taken thereon.**



### C. Delays in decision-making

(Recommendation Sl. No. 5)

8. Regarding setting up of an in-built mechanism in the Port Trust in order to avoid delays in decision-making, on crucial issues such as dredging, the Ministry have informed:—

“The delay in the procurement of dredger was due to re-invitation of the Global Tender as the earlier tender had to be cancelled on technical grounds. Since the Port has to follow the normal procedures while re-inviting the tender again, the process took more time. However, as recommended by the Committee, in future, efforts will be made to reduce the delay in the process of decision-making.

It is further informed that a Standing Committee under the Chairman with Dy. Chairman, FA&CAO, the concerned Chief Engineer and Head of the Project as Members of the Committee is in existence in the Chennai Port Trust. The Standing Committee considers the investment proposals of the Port Trust before recommending the same for consideration of the Port Trust Board. The Standing Committee has been requested to ensure that all efforts are made to reduce the delay in process of decision-making. It shall also monitor the status of various projects/proposals of the Port Trust and report the progress to the Port Trust Board on a quarterly basis."

**9. Considering the fact that the delay in the procurement of a replacement dredger by Chennai Port Trust was enormous, exceptionally long and beyond reasonable time frame, the Committee would like to emphasize that the Ministry's request to the Standing Committee of Chennai Port Trust to reduce the delays in the process of decision-making should not be treated as a routine advice. The Committee would like the Standing Committee of the Port Trust to function in a professional manner while ensuring that important decisions are taken with alacrity. The Department of Shipping should also remain pro-active and facilitate professional functioning of the Standing Committee and the Port Trust through their nominees.**

10. Apprising the Committee about the specific action taken to review their internal process for better evaluation of financial decisions, and for making cost-benefit analysis while taking major financial decisions, the Ministry have stated as follows:—

“Chennai Port has been advised that the Standing Committee should consider the project viability, financial and technical viability, analysis of alternatives, sources of financing, mode of execution of project, calculation of IRR/ERR, phasing of expenditure and provision in the plan outlay and annual plan while considering the investment proposals of the port trust. The Port has also been advised to undertake due diligence studies, keeping in view all possible factors, including anticipated scenarios. The Standing Committee of Chennai Port shall consider the analysis and recommend the investment proposal for approval of the competent authority."

**11. The Committee trust the Ministry's advice to the Chennai Port Trust and its Standing Committee for better and more comprehensive evaluation of financial**

**decisions including investment proposals will be adhered to in letter and spirit for efficient functioning of the Port Trust.**

#### **D. Functional Autonomy of Port Trusts**

(Recommendation Sl. Nos. 3 and 9)

12. The Committee's examination of the subject has brought into sharp focus the policy issue relating to the autonomy of the Port Trust and the larger role and responsibility of the administrative Ministry *vis-a-vis* Port Trust Management. The Committee had observed that since the Port Trust is in a better position to assess its requirements relating to dredging and the various operational/functional difficulties connected therewith, the Ministry should have left the matter regarding owning and outsourcing of dredger to the commercial wisdom of the Port Trust. It was further observed by the Committee that although the Dredging Corporation of India has offered a very competitive rate to undertake dredging operations, the Ministry did not accept the same for a long term agreement with them. Thus the Chennai Port Trust could not take a decision which would have been prudent commercially.

13. The Ministry have stated in their Action Taken Note that during a meeting held on 29th September 2001 to review the performance of Chennai Port Trust, then Secretary (Shipping) suggested that Chennai Port may explore the possibility of selling the new dredger under construction and in-charter the same on the lines of Jawaharlal Nehru Port Trust. Accordingly, the Port explored the possibility of selling the Dredger under construction to Dredging Corporation of India "on cost plus basis".

14. On the issue of allowing adequate functional and operational autonomy to the management of all the Port Trusts, the Ministry have informed in their Action Taken Note that with a view to optimizing the performance of major ports so as to contribute to the development of the country's infrastructure and to remain globally competitive, the Ministry issue directives to the organizations under their administrative control. According to the Ministry, these directives may not be construed as an interference in the internal affairs of the autonomous bodies/PSUs.

**15. The Committee regret to note that the Ministry's reply is silent about Committee's observation regarding the possibility of a long term agreement with the Dredging Corporation of India at the first instance itself instead of initially deciding to construct own dredger and then changing the position in favour of outsourcing by way of in-chartering the same for the dredging operations at the Port. The Committee expect that replies of the Government are point-wise and specific. The Committee would accordingly, await specific reply from the Ministry on this issue. They would also reiterate their viewpoint that the Ministry should desist from intervening in the commercial/operational matters concerning the Port Trust, decisions on which should be best left to the professional experts serving the Port.**

## **CHAPTER-II**

### **RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT**

#### **Recommendation**

The Chennai Port being an artificial Port has to be dredged throughout the year to remove the siltation/material spilled alongside the berths in order to maintain the required depths in basin, berths and approach channels. The Chennai Port Trust maintains the required depth in the Port with its own dredger Coleroon and by engaging dredgers of the Dredging Corporation of India (DCI). The Port Dredger Coleroon had completed its economic life of 20 years by 1996 and therefore required replacement. The Port had decided in August 1996 to procure a dredger for replacing Coleroon, which was ultimately procured in 2004, after frequent shifting of stands between owning and outsourcing during the years 2001 to 2004. Audit had pointed out that failure to decide between outsourcing the Chennai Port's dredging requirements and owning a dredger contributed to the delay in delivery of the dredger ordered by the port and resulted in avoidable expenditure of Rs. 2.61 crore. The Committee's examination of the Audit Para has revealed major flaws in the decision-making process in the Chennai Port Trust which are dealt with in the succeeding paragraphs.

[Sl. No. 1 Appendix..... Para 41 of 49th Report of PAC (14th Lok Sabha)]

#### **Action Taken**

It has been brought out that Chennai Port is an artificial Port and requires dredging throughout the year to maintain the depth in the approach channel basins and the alongside berths. The Port required a dredger in 1996 as replacement for the Trust's old dredger Coleroon which had outlived its economic life of 20 years. The observation of Audit that by deploying the new dredger for maintenance dredging, Port has incurred an additional expenditure of Rs. 2.61 crores is not correct. The Audit has arrived at the above amount by applying the rate of Rs. 61.68/- cu.m on dredged quantity of 891437 cu.m for the period from September, 2003 to March, 2004. It is understood that Audit has taken into account the operating expenditure of Rs. 2,63,54,560/- and depreciation of Rs. 2,86,30,478/- to arrive at the per unit cost of Rs. 61.68/- cu.m. However, Audit has not considered the component of interest on Capital which is also part of any costing exercise undertaken to arrive at the rate for deployment of any equipment. Though TAMP has proposed a return on capital @13.50% even assuming a conservative rate of interest of 6.50% and taking into account the corresponding general administration expenses, the per unit cost of dredging by deploying Port's own Dredger works out to Rs. 110.33 per cu.m. If the above rate is applied on the dredged quantity of 891437 cu.m. the total dredging expenditure works out to Rs. 9.83 crores, by deploying the Port's own dredger. As against this, the Port had spent a sum of Rs. 7.58 crores only towards dredging by

DCI. (Owing to the large quantum of dredging, the rate offered by DCI was low for that particular period). Thus, the Port did not incur any additional expenditure but instead it saved an amount of Rs. 2.25 crores by outsourcing the dredging work to DCI. However, recommendations of PAC will be taken into consideration for future acquisitions.

Sd/-

(RAKESH SRIVASTAVA)

### **Recommendation**

The Committee have noted that the Chennai Port Trust initially made a strong case for procuring a new dredger, as the most economical option and decided in May 1996 to procure the dredger to replace the old dredger "Coleroon". After four years of dithering, the work order was finally awarded to Cochin Shipyard only on 18.11.2000 to construct and deliver the dredger within 24 months. The justification for procurement of a new dredger was that the Dredging Corporation of India (DCI) was not able to provide the dredger, whenever the Port required to carry out the maintenance dredging on need basis or during emergency situation. However, noting the high cost of dredging by the Port owned dredger, the Secretary (Shipping) suggested in September 2001 to the Port Trust to examine the possibility of selling the dredger under construction and then to in-charter it for dredging activities in the Port. The factors attributed for the higher unit cost of dredging by the Port dredger, due to which it had been decided to sell the dredger, were under-utilization of the dredger due to non-availability of a dredger master and shortage of crew and the extra expenditure incurred on account of the salaries etc. of crew members.

Subsequently, in December, 2001 the Chennai Port Trust constituted a committee to examine the suitability and capacity of the proposed dredger for their operational requirements. In its report submitted in January, 2002, the Committee *inter-alia* came to the conclusion that the proposed dredger under construction was capable of catering to the requirements of maintaining dredging to the requisite levels and to carry out all maintenance dredging including sand trap dredging, which thus only re-inforced the original decision taken by the Port Trust in 1996 that owning of a dredger was the most economic option. Instead of taking into consideration the Report of the Committee of officers and bringing out the findings of the committee to the notice of the Ministry, the Port Trust based on the suggestion of the Secretary (Shipping), simply approached Dredging Corporation of India (DCI) in January, 2002, to buy the dredger under construction, which speaks volume of the casual approach of the Port authorities in the matter. The Ministry have however contended that Chennai Port Trust had compared the cost of outsourcing only with respect to the rate of unit cost quoted by Dredging Corporation of India (DCI) at that time which was very low during that period, which led to their conclusion that outsourcing of dredging operation was more economical than owning the dredger.

[SL.No. 2 Appendix.....Para 42 of 49th Report of PAC, 14th (Lok Sabha)]

### **Action Taken**

Observations of the Committee is noted.

Sd/-

(RAKESH SRIVASTAVA)

### **Recommendation**

The Committee further note that as per the own admission of the Ministry, since the dredging operations are essential and are required to be undertaken on a continuous basis in order to maintain adequate depths, the Chennai Port Trust had decided to procure a dredger of its own to meet the operational requirements under all circumstances. The Committee are surprised that instead of taking into consideration all these factors and bring to the notice of the Ministry the operation requirements in the long run, the Chennai Port Trust simply obeyed the Ministry's diktat to sell the dredger ignoring the cost effectiveness of owning a dredger at that given point of time. Even though the Ministry and Chennai Port Trust have pleaded that the dithering and delay in decision-making did not lead to additional costs of the Port Trust, it is obvious the dredger which should have been in place by the year 2002 actually came to be installed at the Port Trust only in 2004, resulting in avoidable additional expenditure incurred on dredging operations done through outsourcing. In this context, the Committee desire that the Ministry should do a detailed study/analysis of the pros and cons involved in the owning vs. outsourcing issue, keeping in view the emerging operational requirements in the Ports and apprise the Committee about the policies formulated as a result thereof.

[Sl.No. 4 Appendix.....Para 44 of 49th Report of PAC, 14th (Lok Sabha)]

### **Action Taken**

As advised by the Public Accounts Committee, a Committee has been constituted which has been entrusted with undertaking a detailed study/analysis on the pros and cons involved in owning vs. outsourcing issues keeping in view the emerging operational requirements in the Ports. The terms of reference for the Committee is as under:

- (i) Detailed study of various aspects which may be taken into account to analyse the pros and cons of the options of owning a dredger by the port vs. out-sourcing the same.
- (ii) Apart from the financial and other criteria, the Committee will also keep in view the emerging operational requirements of the Ports.
- (iii) Formulate a policy for decision on owning vs. outsourcing the dredger by the Port.

The recommendations of the Committee will be examined and implemented without delay.

Sd/-

(RAKESH SRIVASTAVA)

### **Recommendation**

The Committee are astonished to note that Chennai Port decided in August, 1996 to procure a replacement dredger, but floated a global tender only in 1998 for the same. This tender was however, cancelled on technical grounds and the tender was re-invited in 1999. Subsequently, the work order was placed for the replacement dredger on M/s. Cochin Shipyard Limited in 2000 with the scheduled delivery date in December 2002. However, the new dredger could be delivered only in May 2004. It is thus clearly evident that there was inexplicable delay at every stage of decision-making. In this regard, the Secretary (Shipping) during his deposition before the Committee also conceded that there was indeed a delay in the process of acquisition of new dredger and that the action for procurement should have been initiated by the Port Trust in 1993-94 itself. While deploring the all-round delay on the part of Chennai Port in taking crucial decisions concerning their operations, the Committee would like to emphasise that the Ministry should oversee and ensure setting up of an in-built mechanism in the Port Trust to pre-empt such avoidable delays in decision-making.

[Sl.No. 5 Appendix.....Para 45 of 49th Report of PAC, 14th (Lok Sabha)]

### **Action Taken**

The delay in the procurement of dredger was due to re-invitation of the Global Tender as the earlier tender had to be cancelled on technical grounds. Since the Port has to follow the normal procedures while re-inviting the tender again, the process took more time. However, as recommended by the Committee, in future, efforts will be made to reduce the delay in the process of decision-making.

It is further informed that a Standing Committee under the Chairman with Dy. Chairman, FA&CAO, the concerned Chief Engineer and Head of the Project as Members of the Committee is in existence in the Chennai Port Trust. The Standing Committee considers the investment proposals of the Port Trust before recommending the same for consideration of the Port Trust Board. The Standing Committee has been requested to ensure that all efforts are made to reduce the delay in process of decision-making. It shall also monitor the status of various projects/proposals of the Port Trust and report the progress to the Port Trust Board on a quarterly basis.

Sd/-

(RAKESH SRIVASTAVA)

### **Recommendation**

The Committee further observe that the unit cost calculation for Dredging with own dredger and outsourcing the operation varied over the period 2002-04. While the initial calculations before the decision to sell the dredger indicated owning a

dredger as cheaper, the calculation made after the decision to sell the dredger was taken concluded that outsourcing was cheaper. Then again, after taking over the dredger finally, the Port Trust reported that dredging with newly owned dredger was more economical than outsourcing. Such varying conclusions over a period of less than three years *i.e.* from January 2002 to October 2004 would only point to serious deficiencies in the cost evaluation method adopted by the Port Trust. Although the Ministry have contended that the evaluation is based on the circumstances prevailing during a particular period, contradictory conclusions arising out of cost evaluations based on same assumptions only brings out the serious deficiencies in the financial system obtaining in the Port Trust. The Committee cannot agree with the Ministry's contention that decisions may vary according to circumstances, as the decision relating to owning a dredger is a major investment decision running into crores of rupees and involving long term interests of the port and which thus cannot be left to vagaries of time. The Committee are of the view that any cost evaluation between two options *viz.* owning and outsourcing should have been based on all relevant factors including futuristic scenario, so that a long term contract could be effected for dredging works in the Port. Accordingly, appropriate parameters could have been incorporated in the cost-evaluation system of the port. The Committee now desire that henceforth, while taking such crucial financial decisions, "due diligence" studies should be carried out, keeping in view all possible factors including anticipated scenarios. Once a decision is taken, it should not be changed to the detriment of the business interests of the Organisation. In the light of this experience, the Committee, would like the Port Trust to review their internal processes for better evaluation of financial decisions. The Committee would await specific action taken by the Ministry/ Port Trust in this regard.

[Sl.No. 6 Appendix.....Para 46 of 49th Report of PAC, 14th (Lok Sabha)]

### **Action Taken**

As far as possible, the Port is taking investment decision after analyzing the pros and cons of the proposal. Only after detailed evaluation, decision is taken about the best option to be adopted. As advised by the Committee, Chennai Port has been advised that the Standing Committee should consider the project viability, financial and technical viability, analysis of alternatives, sources of financing, mode of execution of project, calculation of IRR/ERR, phasing of expenditure and provision in the plan outlay an annual plan while considering the investment proposals of the port trust. The port has also been advised to undertake due diligence studies, keeping in view all possible factors, including anticipated scenarios. The Standing Committee of Chennai Port shall consider the analysis and recommend the investment proposal for approval of the competent authority.

Sd/-

(RAKESH SRIVASTAVA)



### **Recommendation**

The Committee note with concern that there are shortage in various categories of the dredger's crew due to various reasons like Superannuation, VRS, non-availability of certified/trained crew, restrictions imposed by the Government, higher remuneration/salary given to the crew members in the open market etc. for optimal utilization of the new dredger. When the dredger 'Cauvery' was inducted into the Chennai Port Trust, there were shortages of crew for dredge pipe operation, winch operation, steering etc., even for a singled shift operation, despite the crew of the earlier dredger 'Coleroon' being also available for manning it. Presently, the new dredger is dredging about 4 lakhs cu.m. per year only, which is about 1/3rd of its total capacity, on account of shortages of certified/trained manpower in the officer as well as crew categories. The Committee trust that Port authorities would initiate early action for filling up vacant positions so as to carry out dredging operations optimally.

[Sl. No. 7 Appendix..... Para 47 of 49th Report of PAC (14th Lok Sabha)]

### **Action Taken**

Action has already been initiated by the Port for outsourcing the manning of the dredger so that it could operate optimally.

Sd/-

(RAKESH SRIVASTAVA)

### **Recommendation**

The Committee are unable to understand as to why the Ministry/Chennai Port Trust had purchased T.S.H.D. Cauvery costing about Rs. 52.24 crore having total capacity of 12.00 lakhs cu.m. per year when they knew that they were unable to utilise the full capacity. This factor assumes significance particularly in the backdrop of high costs involved in the operation of Port dredger and which prompted the Ministry to suggest to the Port Trust to opt for outsourcing. Purchasing higher capacity dredger and keeping it idle by utilizing its 1/3rd capacity, is evidently against the basic tenets of financial propriety. The Committee thus would once again like to emphasize the need for a thorough cost-benefit analysis while taking major financial decisions for better working of the Port Trust.

[Sl. No. 8 Appendix..... Para 48 of 49th Report of PAC (14th Lok Sabha)]

### **Action Taken**

Chennai Port Trust plans to outsource manning of the Dredger for its optimal utilization.

Ministry has issued instructions to Chennai Port that while considering the investment proposals of the Port Trust, the Standing Committee shall consider the project viability, financial and technical viability, analysis of alternatives, sources of financing, mode of execution of the project, calculation of IRR and EIRR, phasing of



expenditure and provision in the plan outlay and annual plan. Ministry has directed the Standing Committee to take decisions on investment proposals after going through rigorous financial analysis of various options. The port has been advised to carry out due diligence studies keeping in view all possible factors including anticipated scenarios. Such analysis shall show the benefits of the option chosen in clear terms, both financially and operationally. The Standing Committee shall consider the analysis and recommend the investment proposal for approval of the competent authority.

Sd/-

(RAKESH SRIVASTAVA)

#### **Recommendation**

Another issue which has come to fore is the role of Boards of Trusts. The Committee are not sure whether the issue dealt with in this Report relating to acquisition of dredger was placed before the Board of Chennai Port Trust which apart from various experts, has nominees of the Central Government. The Committee would accordingly await necessary clarification from the Government in this regard.

[Sl. No. 10 Appendix..... Para 50 of 49th Report of PAC (14th Lok Sabha)]

#### **Action Taken**

Issue of acquisition was placed before the board at every stage starting from seeking board approval to acquiring the dredger, to sell the dredger and finally to accept the Dredger. Board was kept posted at all times of all developments. A statement giving details of the dates on which the matter was placed before the Board of Chennai Port is enclosed herewith.

Sd/-

(RAKESH SRIVASTAVA)

**(Refer to Para 50 of 49th Report of PAC)**

**DATES ON WHICH THE MATTER WAS PLACED BEFORE THE BOARD OF  
CHENNAI PORT TRUST**

| Sl. No. | Board Resolution No. | Date       | Decision Taken   |
|---------|----------------------|------------|--|
| 1.      | 107                  | 23-08-1996 | Approved the estimate for Rs. 70 crores for the procurement of New Dredger of 1700 cu.m. in replacement of Port's Dredger Coleroon.  |
| 2.      | 124                  | 30-10-2000 | To award the Contract for the procurement of Dredger to M/s Cochin Shipyard Ltd. @ cost of Rs. 52,24, 30, 243/-  |
| 3.      | 67                   | 29-08-2002 | In principle approval for selling the new Dredger under construction to M/s Dredging Corporation of India.   |
| 4.      | 140                  | 24-01-2003 | Board approved disposal of new Dredger Cauvery under construction in Cochin Shipyard Ltd., to M/s Dredging Corporation of India subject to the condition that the proposal for entering into a long term contract with the Dredging Corporation of India for the annual maintenance dredging needs of the Port, is approved by the Government. |
| 5.      | 8                    | 09-05-2003 | (1) To sell the Dredger if required by Dredging Corporation of India without long term maintenance dredging contract.<br><br>(2) If Dredging Corporation of India fails to buy the Dredger to invite Global tenders giving the option of selling the Dredger Cauvery and rechartering it or just selling it.                                   |
| 6.      | 165                  | 27-01-2004 | (1) To dispose the Dredger from M/s. Cochin Shipyard Ltd., or to identify a suitable buyer.<br><br>(2) If there are no possibilities for disposal M/s. Cochin Shipyard Ltd., be informed to deliver the Dredger to Chennai Port.   |
| 7.      | 213                  | 26-03-2004 | To advise Cochin Shipyard Ltd., to deliver the Dredger Cauvery immediately to Chennai Port, release payments to Cochin Shipyard Ltd., and to negotiate charges towards retention.  |

GOVERNMENT OF INDIA  
MINISTRY OF SHIPPING, ROAD TRANSPORT AND HIGHWAYS  
DEPARTMENT OF SHIPPING  
(PORTS WING)

No. PO- 28015/1/2005-DRG (Vol. III)

New Delhi, the 24th January, 2008

To,

Chairman,  
Chennai Port Trust,  
Chennai-600 001.

Chairman,  
Visakhapatnam Port Trust,  
Visakhapatnam.

Chairman,  
Cochin Port Trust,  
Cochin.

Sub: **Para No. 12.1 of C&AG Report No. 3 of 2006 regarding avoidable expenditure due to delay in taking decision—Dredger Coleroon**

Sir,

I am directed to refer to the above mentioned subject and to state that keeping in view the recommendations of the Public Accounts Committee, a Committee is hereby constituted to undertake a detailed study/analysis of the issues involved in the owning vs. outsourcing of the dredger.

2. The composition of the Committee is as under:

- (i) Joint Secretary (Ports) — *Chairman*
- (ii) Chairman, Chennai Port Trust
- (iii) Chairman, Visakhapatnam Port Trust
- (iv) Chairman, Cochin Port Trust

3. The terms of reference for the Committee is as under:

- (i) Detailed study of various aspects which may be taken into account to analyse the pros and cons of the options of owning a dredger by the port vs. outsourcing the same.
- (ii) Apart from the financial and other criteria, the Committee will also keep in view the emerging operational requirements of the Ports.

- (iii) Formulate a policy for decision on owning vs. outsourcing the dredger by the Port.

4. The Committee will submit a report to the Government at the earliest.

Yours faithfully,

Sd/-

(RAJEEV KUMAR)

DEPUTY SECRETARY TO THE GOVERNMENT OF INDIA

GOVERNMENT OF INDIA  
MINISTRY OF SHIPPING, ROAD TRANSPORT & HIGHWAYS  
DEPARTMENT OF SHIPPING

No. PO-28015/1/2005-DRG

New Delhi, the 24th Jan., 2008

To,

The Chairman,  
Chennai Port Trust,  
Chennai.

**Sub: Recommendations of the Public Accounts Committee contained in its 49th Report.**

Sir,

I am directed to refer to paras 45 & 46 of the 49th Report of the Public Accounts Committee and to reproduce the relevant extracts thereof:—

- (i) **Para 45:** "While deploring the all-round delay on the part of Chennai Port in taking crucial decisions concerning their operations, the Committee would like to emphasise that the Ministry should oversee and ensure setting up of an in-built mechanism in the Port Trust to pre-empt such avoidable delays in decision-making."
- (ii) **Para 46:** "The Committee are of the view that any cost evaluation between two options, viz., owning and outsourcing should have been based on all relevant factors, including futuristic scenario so that a long term contract could be effective for dredging works in the Port. Accordingly, appropriate parameters could have been incorporated in the cost evaluation system of the Port. The Committee now desires that henceforth while taking such crucial financial decisions, 'due diligence' studies should be carried out, keeping in view all possible factors, including anticipated scenarios. Once a decision is taken, it should not be changed to the detriment of the business interests of the organization. In the light of this experience, the Committee would like the Port Trust to review their internal processes for better evaluation of financial decisions. The Committee would await specific action taken by the Ministry/Port Trust in this regard."

2. It is noted that a Standing Committee under the Chairman with Dy. Chairman FA & CAO, the concerned Chief Engineer and Head of the Project as Members of the Committee is in existence in the Chennai Port Trust. The Standing Committee considers the investment proposals of the Port Trust before recommending the same for

consideration of the Port Trust Board. The Standing Committee is requested to ensure that all efforts are made to reduce the delay in process of decision-making. It should also monitor the status of various projects/proposals of the Port Trust and report the progress to the Port Trust Board on a quarterly basis.

3. The Ministry has noted that while considering the investment proposals of the Port Trust, the Standing Committee considers the following aspects:—

- (i) Project viability
- (ii) Financial and technical viability
- (iii) Analysis of alternatives
- (iv) Sources of financing
- (v) Mode of execution of the project
- (vi) Calculation of IRR and ERR
- (vii) Phasing of expenditure
- (viii) Provision in the plan outlay and Annual Plan

The Ministry directs that the Standing Committee should take decisions on investment proposals after going through rigorous financial analysis of various options, 'Due diligence' studies should be carried out keeping in view all possible factors, including anticipated scenarios. Such analysis must show benefits of the option chosen in clear terms, both financially and operationally. The Standing Committee shall consider the analysis and recommend the investment proposal for approval of the competent authority.

4. You are requested to note the above instructions for compliance.

Yours faithfully,

Sd/-

(RAJEEV KUMAR)  
DEPUTY SECRETARY TO THE GOVERNMENT OF INDIA

### **CHAPTER-III**

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT  
DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM THE  
GOVERNMENT

—NIL—

## **CHAPTER-IV**

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

#### **Recommendation**

However, the judgment of the Ministry and the Port Trust were belied when the DCI refused to buy the dredger under construction unless the Port Trust entered into a long term dredging contract (10 to 20 years). As the dredging policy was due for review in 2004, the Government did not consider prudent for the Port Trust to enter into a long term agreement with DCI. The Committee find it strange that having decided to go in for outsourcing of dredging operation by Dredging Corporation of India on grounds of cost efficiency, economy and trends in other major ports, the Ministry did not allow Chennai Port Trust to enter into a long term agreement with the Dredging Corporation for their dredging work. If the Ministry, in the first place, had wanted only a short-term outsourcing arrangement, it is a matter of contradiction that they directed the Port Trust to sell the dredger under construction and eventually in-charter it for dredging operation at the port. Although the Ministry have tried to justify their shifting positions as "decisions based in circumstances", it cannot escape logical conclusion that the Ministry made an undesirable interference in the affairs of the Port Trust outside the purview of policy. The Committee would like to be apprised about the precise circumstances and the objective conditions behind the Ministry's directive to Chennai Port Trust in the case in question and also about similar instances in the last three years or so when the Ministry's directive ran contrary to the decisions/recommendations of the Port Trust.

[Sl. No. 3 Appendix.....Para 43 of 49th Report of PAC(14th Lok Sabha)]

#### **Action Taken**

Jawaharlal Nehru Port Trust (JNPT), another major Port under the administrative control of this Department did not own any dredger and was getting the dredging done by in-chartering a dredger, apparently with good results. Therefore, during a meeting held on 29.09.2001 to review the performance of Chennai Port Trust, the then Secretary (Shipping) suggested that Chennai Port may also explore the possibility of selling the new dredger under construction and in-charter the same on the lines of JNPT. Obviously, the main consideration was the need to bring down the cost of dredging in Chennai Port. Accordingly, the Port explored the possibility of selling the Dredger under construction to another Government organization viz., Dredging Corporation of India (DCI), "on cost plus basis".

This Department has always been striving at optimizing the performance of major Ports, so as to contribute to the development of the country's infrastructure. In order to achieve this objective and to remain globally competitive, Ministry after analyzing all the prevailing conditions, issues directives to the organizations under its



administrative control. However, these directives may not be construed as an interference in the internal affairs of the autonomous bodies/PSUs. It was with the noble intention of reducing the costs of Chennai Port that Ministry suggested in-chartering. Further a good example of JNPT had led the Ministry to give such a suggestion.

### **Recommendation**

The Committee's examination of the subject has brought into sharp focus the policy issue relating to the autonomy of the Port Trust and the larger role and responsibility of the administrative Ministry *vis-a-vis* Port Trust Management. Facts discussed in the preceding paragraphs abundantly reveal that there has been uncalled for interference from the Ministry in the internal working of the Chennai Port Trust and that too in matters relating to commercial decisions such as owning *vis-a-vis* outsourcing of dredger for meeting their operational requirements. Since the Port Trust is in a better position to assess its varied requirements relating to dredging and the various operational/functional difficulties relating thereto, the Ministry should have left the matter relating owning and outsourcing of dredger to the wisdom of the Port Trust rather than issue instructions preemptorily, which tantamounted to erosion of the functional and managerial autonomy of the Port Trust. On the other hand the Chennai Port Trust being in a better position to understand their dredging requirements, should have brought to the notice of the Ministry the difficulties faced by them in accepting the decision of the Ministry for outsourcing. What perturbs the Committee is fact that though in December, 2003 the Dredging Corporation of India had offered a very competitive rate of Rs. 96.63 per cu.m., the Ministry did not accept the same for a long term agreement with them in view of the impending change in the dredging policy in 2004. As a consequence thereof, the Port Trust could not take a prudent commercial decision. Such interventions by the administrative Ministry in the internal matters of the Port Trust, particularly those relating to commercial and investment decisions, do not augur well for the healthy functioning of the Port Trust as it has to operate and survive in the market and face fierce competition from other ports, both public and private, in attracting traffic. The Committee hope that the Ministry would desist from such interference in the internal matters of Port Trusts and would allow adequate functional and operational autonomy to the managements of all the Port Trusts in the Country.

[Sl. No. 9 Appendix.....Para 49 of 49th Report of PAC(14th Lok Sabha)]

### **Action Taken**

This Department has always been striving at optimizing the performance of major Ports, so as to contribute to the development of the country's infrastructure. In order to achieve this objective and to remain globally competitive, Ministry after analyzing all the prevailing conditions issues directives to the organizations under its administrative control. However, these directives may not be construed as an interference in the internal affairs of the autonomous bodies/PSUs.

## **CHAPTER-V**

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT  
HAVE FURNISHED INTERIM REPLIES/NO REPLIES

—NIL—

NEW DELHI;  
9th April, 2008  
20 Chaitra, 1930 (Saka)

PROF. VIJAY KUMAR MALHOTRA,  
*Chairman,*  
*Public Accounts Committee.*

## **PART-II**

### **MINUTES OF THE TWENTIETH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2007-2008) HELD ON 7<sup>TH</sup> APRIL, 2008**

The Committee sat from 1100 hrs. to 1130 hrs. on 7th April, 2008 in Room No. "51" (Chairman's Chamber), Parliament House, New Delhi.

#### **PRESENT**

Prof. Vijay Kumar Malhotra — *Chairman*

#### **MEMBERS**

##### *Lok Sabha*

2. Shri Kirip Chaliha
3. Shri Khagen Das
4. Shri Bhartruhari Mahtab
5. Shri K.S. Rao
6. Shri Rajiv Ranjan 'Lalan' Singh
7. Shri Kharabela Swain
8. Shri Tarit Baran Topdar

##### *Rajya Sabha*

9. Shri Janardhana Poojary
10. Shri K. Malaisamy

#### **SECRETARIAT**

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri Brahm Dutt — *Director*
3. Shri M.K. Madhusudhan — *Deputy Secretary-II*
4. Shri Ramkumar Suryanarayanan — *Under Secretary*

#### **Officers of the office of the Comptroller and Auditor General of India**

Shri Jayanta Chatterjee — *Director General (AB)*

2. At the outset, the Chairman, PAC welcomed the Members to the sitting of the Committee. He mentioned that two of the Members of PAC have resigned/retired from Rajya Sabha, namely, Shri Suresh Bhardwaj, resigned from membership of Rajya Sabha

on 9th January, 2008 after he was elected to Himachal Pradesh Legislative Assembly and Shri Prasanta Chatterjee, who has retired from Rajya Sabha on 2nd April, 2008. He also congratulated S/Shri Raghunath Jha and V. Narayanasamy Members of PAC, who have become Ministers in the Union Government *w.e.f.* 6th April, 2008.

3. The Committee placed on record their appreciation for the valuable contribution to the Committee made by these Members.

4. Thereafter the Committee took up for consideration the following draft Reports:—

- (i) Draft Report on Para 6.8 of C&AG's Report No. 3 of 2007, Union Government (Civil—Autonomous Bodies) relating to "**Injudicious release of Grants**" by the University Grants Commission (UGC);
- (ii) Draft Action Taken Report on 49th Report of PAC (14th Lok Sabha) relating to "**Avoidable expenditure due to delay in taking decision—Chennai Port Trust**"; and
- (iii) Draft Action Taken Report on 50th Report of PAC (14th Lok Sabha) relating to "**Delay in finalisation of demands**".

5. The Chairman invited suggestions of the Members on the Draft Reports. After discussing the contents of the draft Reports in detail, the Committee adopted the same with some verbal changes and authorised the Chairman to finalise and present these Reports in the light of factual verification done by the Audit.

6. Further, it was decided that the Committee would hold their next sitting on 21st April, 2008.

*The Committee then adjourned.*

## APPENDIX

### STATEMENT OF RECOMMENDATIONS AND OBSERVATIONS

| Sl. No. | Para No. | Ministry/ Department   | Recommendations/Observations   |
|---------|----------|--|--|
| 1       | 2        | 3  | 4  |
| 1.      | 7        | Shipping, Road Transport and Highways (Department of Shipping) | The Committee recommend that the study entrusted by the Ministry on issues connected with taking decisions for in-house dredging or outsourcing should be completed expeditiously and the Committee be apprised on the study findings and the follow-up action thereon.  |
| 2.      | 9        | -do-   | Considering the fact that the delay in the procurement of a replacement dredger by Chennai Port Trust was enormous, exceptionally long and beyond reasonable time frame, the Committee would like to emphasize that the Ministry's request to the Standing Committee of Chennai Port Trust to reduce the delays in the process of decision-making should not be treated as a routine advice. The Committee would like the Standing Committee of the Port Trust to function in a professional manner while ensuring that important decisions are taken with alacrity. The Department of Shipping should also remain pro-active and facilitate professional functioning of the Standing Committee and the Port Trust through their nominees. |
| 3.      | 11       | -do-   | The Committee trust that the Ministry's advice to the Chennai Port Trust and its Standing Committee for better and more comprehensive evaluation of financial decisions including investment proposals will be adhered to in letter and spirit for efficient functioning of the Port Trust.  |
| 4.      | 15       | -do-   | The Committee regret to note that the Ministry's reply is silent about Committee's observation regarding the possibility of a long term India at the first instance itself instead of initially deciding to construct own dredger and then   |

| 1 | 2 | 3 | 4   |
|---|---|---|---|
|   |   |   | <p>changing the position in favour of out-sourcing by way of in-chartering the same for the dredging operations at the Port. The Committee expect that replies of the Government are point-wise and specific. The Committee would accordingly, await specific reply from the Ministry on this issue. They would also reiterate their viewpoint that the Ministry should desist from intervening in the commercial/operational matters concerning the Port Trust, decisions on which should be best left to the professional experts serving the Port.</p> |