

EXECUTIVE SUMMARY

1. Review of Status of Ongoing Projects - New Lines, Doublings and Gauge Conversions

Indian Railways (IR) runs about 21598 trains (passenger and goods) daily throughout its network of 65808 track kilometer. In order to increase the line capacity and to bring the unconnected backward areas within the railways network, it undertakes projects of expansion by constructing New Lines, Doublings and Gauge Conversions. Over the years, total planned expenditure of the IR has increased disproportionately to its internal resources resulting in increased dependence on Gross Budgetary Support. During 2009-14, though IR added 10240 Km. to its network, 442 projects were ongoing as of March 2014 which would require ₹185569 crore for completion.

This report focuses on the performance of IRs in planning and in addition, attempts to assess the efficiency in financial management and execution of projects. The major Audit findings are mentioned below:

I. *Out of 442 ongoing projects, target for completion of projects was fixed for only 156 (35 per cent) projects. Even after fixation of targets, there was time overrun up to 16 years. Delay in completion of projects resulted in cost overrun of ₹ 1.07 lakh crore and throw-forward¹ of ₹ 1.86 lakh crore in respect of 442 ongoing projects. Audit observed that 75 projects were ongoing for more than 15 years and of them, three projects were 30 years old.*

Para 1.6.2 and 1.6.4

II. *Out of 442 ongoing projects, rate of return in respect of 236 projects was less than the prescribed benchmark of 14 per cent and 126 of them had negative rate of return. Out of 28 High Priority projects test checked, the physical progress of 7 projects was less than or up to 10 per cent and in respect of three High Priority projects, there was no physical progress.*

Para 1.6.6 and 1.6.7.1

III. *While the allotment of funds was not proportionate to the requirement, there were several instances of under-utilisation of funds which had adverse impact on the physical progress of projects.*

Para 1.6.9.1 and 1.6.9.2

¹ Funds required for completion of balance works of the project

- IV. *Deficient planning resulted in change in design and diversion of alignment causing avoidable extra expenditure of ₹ 369 crore.*

Para 1.6.10

- V. *Out of 11 National Projects, three projects were ongoing for more than 17 years and the remaining eight projects were ongoing for periods ranging from 4 to 11 years. Physical progress of seven national projects ranged between 0 and 34 per cent and the original cost of these seven projects increased substantially from ₹7651.23 crore to ₹20313.75 crore (265 per cent).*

Para 1.6.11.1

- VI. *Due to deficient planning in execution of Lumding- Silchar Gauge Conversion Projects, there were several instances of collapse of tunnels, bridges, diversion of alignment etc. resulting in extra/wasteful expenditure of ₹131.05 crore.*

Para 1.6.11.2

1.1. Gist of Recommendations

- I. *Indian Railways need to revisit all projects which are ongoing for more than 15 years and do not fulfil the prescribed Rate of Return for assessing the viability of the projects.*
- II. *Indian Railways need to prioritise projects on short term basis and ensure adequate funding so that the projects are completed in a time bound manner.*
- III. *Monitoring of execution of projects both at the Railway Board and at the Zonal Level needs to be strengthened to avoid wasteful expenditure and blocking of funds.*
- IV. *Timely completion of strategically important 'National Projects' needs to be ensured in a uniform and coordinated manner.*

2. Management of Works Contract in Indian Railways

Indian Railways executes a wide range of works for creation of assets such as construction of new lines, doubling and gauge conversion and maintenance works such as maintenance of track, renewal of track, maintenance of office buildings/quarters etc. These are executed through the agency of contractors under the supervision of the executives of the Engineering Department of Indian Railways. During 2011-14, IR spent ₹39,028 crore towards payments to contractors executing these works across the zones.

Detailed guidelines are prescribed in the Railway codes to ensure effective contract management and instructions in this regard are reiterated from time to time for better management of contracts.

Audit reviewed the tenders/contracts covering the period 2011-12 to 2013-14 across all the Zonal Railways mainly to assess the efficiency in management of contracts and execution of works.

Audit scrutiny revealed:

Tender processing:

- *Absence of complete e-tendering process despite instructions issued in 2003* **Para 2.2.1.1**
- *Low level of participation in more than 50 per cent of tenders.* **Para 2.2.1.2**

Planning and award of tenders:

- *There was high incidence of discharge of tenders and delay in retendering. 53 per cent of discharged tenders are yet to be re-tendered.* **Para 2.2.1.3**
- *Delays were noticed at every stage of the contract process i.e. opening of tenders, issue of letter of acceptance, signing of agreements and finally timely execution of works indicating lack of detailed planning and preliminary preparation.* **Para 2.2.1.5 and 2.3.5**

Deficiencies in Implementation of Contracts:

- *Delays in contract execution starting right from signing of contract document to execution of contracts within time frame fixed.* **Para 2.2.1.6**
- *Extensions granted in a routine manner leading to delay in execution of 85 per cent of the contracts in progress/completed.* **Para 2.3.5**
- *Premature terminations due to improper contract management leading to blockade of funds and payments towards price variation.* **Para 2.3.2 and 2.3.3**
- *Considerable delay in execution of contracts relating to maintenance of assets and creation of assets led to cost overruns and delay in achieving projected improvements in functional efficiency of railway operations. 60 per cent of works executed and 83 per cent of the contracts in*

progress/completed were delayed due to failure to ensure completion of preliminary works by Railways before award of tenders.

Para 2.2.1.4, 2.3.4 and 2.3.5

- *73 per cent of the arbitration cases decided against Railways strengthening the perception of improper contract management.*

Para 2.3.7

2.1. Recommendations

- I.** *To ensure timely completion of contract works and for efficient utilization of resources, RB needs to ensure that the provisions laid down in the Indian Railway Code for the Engineering Department and RB's instructions issued from time to time are strictly followed by the Zonal Railways right from tender planning stage to awarding and execution of contracts.*
- II.** *To avoid time and cost overrun, time-lines for various processes involved in tendering and awarding of contracts need to be clearly defined and monitored at appropriate stages.*
- III.** *For maintaining transparency and achieving competitive rates, RB needs to take measures to introduce complete E-Tendering.*

3. Dedicated Freight Corridor Project

In April 2005, Hon'ble Minister for Railways announced construction of high capacity, high speed Dedicated Freight Corridors along the golden quadrilateral, separating freight traffic from passenger traffic on trunk routes. Based on Preliminary Engineering cum Traffic Survey (PETS) Reports, MoR approached (Feb 2007) the Cabinet seeking approval for taking up the project at an estimated cost of ₹ 28,181 crore. It was proposed that the MoR would fund equity component largely by internal generation and about 10 per cent from Gross Budgetary Support. Government of Japan, after conducting feasibility study, agreed to provide fund for Western Corridor only. Based on the Report submitted by Japan International Cooperation Agency (JICA), MOR approached the Cabinet for approval of the Project Cost at ₹ 43,293 Crore (with loan from JICA). As the financing plan for funding the Eastern Corridor was not submitted, the Cabinet approved (February 2008) to undertake the project at an original estimated total cost of ₹ 28,181 crore. The major audit findings noticed during review of planning for execution of the project were as follows:

- I. *Approaching the Cabinet for 'In Principle Approval', was without credible estimates, concrete financing plan and sources of finance, was premature. In all the Cabinet Notes, MoR had submitted the completion period of the Project as five years, without indicating 'Zero' date for commencement.* **Para 3.2**
- II. *The Share of MoR which was initially estimated at ₹ 9393 crore, had gone up to ₹ 27,153 crore.* **Para 3.2**
- III. *Ministry of Railways took unduly long period of eight years in drawing up and approval of Concession Agreement and six years to finalize detailed project cost in spite of availability of basic data. There was delay of more than three years in deciding the composition of Board of Directors.* **Para 3.2**
- IV. *The recommendations of Task Force to form an SPV owned jointly by the Indian Railways and the users of bulk freight services was not adhered to. An SPV with 100 per cent equity was formed by MOR primarily to avoid any time or cost overrun and to get the project positioned by 2010-11. Since the project has not been completed so far, the purpose of formation of SPV with 100 per cent equity was defeated.* **Para 3.2.1**
- V. *There was time overrun of three years which had led to escalation in the construction cost by ₹ 7992 crore and land cost by ₹ 4442 crore till March 2014.* **Para 3.2**

3.1 Recommendations

Ministry of Railways / DFCCIL needs to -

- I. *Prepare realistic and objective cost assessment duly incorporating all the provisions for contingencies, insurance, taxes, interest during construction and other related components.*
 - II. *Obtain the approval of Cabinet for revised cost and take effective steps to execute the balance works of the project in a time bound manner within the revised approved cost.*
- 4. Modernisation of Signaling and Telecommunication System by Indian Railway Project Management Unit**

On 20 August 1995, a major rail accident due to rear collision of two Express trains occurred at Firozabad on Tundla - Shikohabad section of Ghaziabad (GZB) – Kanpur (CNB) rail route due to wrong manual

operation of Signaling and Telecommunication (S&T) system. Consequently, Railway Board decided (1995) to modernise S&T system on this route to achieve efficiency & safety in train operations through centralised traffic control.

In view of inadequate General Budgetary Support (GBS) with Ministry of Railway (MoR), a 'Loan Agreement' was entered into (August 1997) with a German Government owned Development Bank (KfW) for DM 185,000,000. MoR entered into a 'Separate Agreement' with KfW in February 2002 defining the terms and conditions of execution of eleven works for modernisation of S&T system that included seven works that were ongoing utilising GBS. On the advice of KfW, MoR engaged (December 2002) a Consultancy Company (contract value- 3.91 million Euro) for technical advice to Project Authorities and supervision of project work. An SPV called 'Indian Railway Project Management Unit (IRPMU)' was set up in May 2003. Audit reviewed the project to assess the performance of IR and IRPMU in efficient planning and execution of project. The major Audit findings are mentioned below:

- I. *The scheduled date of completion of major contract was fixed as July 2009. However, the progress of the project was 35 per cent only till July 2009. Despite several extensions, the current progress of projects was 69 per cent (December 2014).*

Para 4.4.1 and 4.4.2.2

- II. *Due to slow progress of works, KfW terminated the 'Loan Agreement' with the MoR in February 2015. MoR, therefore, decided to get the balance work completed utilising GBS. MoR had assessed (March 2015) the latest anticipated cost of the project at ₹ 736.81 crore registering an increase of ₹ 291.24 crore (65.36 per cent) in the original cost. Against it, the expenditure incurred till March 2015 was ₹ 510.09 crore indicating that ₹ 226.72 crore would be required to complete the balance work.*

Para 4.4.2.2 and 4.5

- III. *Ministry of Railways took up this sensitive and important safety project on urgent basis. However, delays on various accounts at initial planning stage delayed the formation of IRPMU. This had led to the delay in award of contract. KfW loan remained undisbursed till the formation of IRPMU resulting in avoidable payment of commitment charges amounting to ₹ 8.26 crore.*

Para 4.4.1

- IV. *The contractor engaged for the project was found to be technically unsuitable by the Consultant during the evaluation of technical bids of tenderers. The progress of project was slow due to inefficient performance of the contractor. Besides contractor's performance, increase and decrease in the scope of work, post agreement technical issues related to designs, specifications and technologies contributed to slow progress of works. This important safety project is still incomplete even after six years from the initial date of completion. The objectives expected from the project have not yet been achieved.*

Para 4.4 and 4.5

4.1. Recommendations

- I. *In absence of foreign financial support, MoR needs to frame realistic timelines and ensure their adherence for timely completion of the balance works of the project and also ensure optimal utilisation of Gross Budgetary Support.*
- II. *For all future modernisation projects, MoR needs to ensure compliance of requisite preliminary formalities such as finalisation of designs, specifications, technologies and other related issues prior to award of contract for smooth progress of the project.*
- III. *To avoid consequences of arbitration/court cases, MoR needs to ensure timely decisions on all technical matters during execution stage.*