CHAPTER VIII: MINISTRY OF MINES

Hindustan Copper Limited

8.1 Avoidable expenditure due to deficient contract clause

The Company did not incorporate suitable clauses in the contracts for deployment of required equipment by the contractor for which the rates were finalised resulting in avoidable expenditure of ₹11.87 crore.

Hindustan Copper Limited (Company) is a vertically integrated copper producing company. Audit reviewed the contracts awarded by the Company during 2014-17 for mining related activities and noticed two instances where the Company failed to ensure deployment of new equipment by a contractor, though it was mutually agreed. In the process, the Company paid higher charges for the work.

A. Hiring of equipment for loading and hauling 45 LBCM

The Company floated (January 2014) a notice inviting tender (NIT) for hiring equipment for loading and hauling of 45 Lakh Bank Cubic Meters (LBCM) rock at Malanjkhand Copper Project (MCP). The lowest rate was offered (₹400 per BCM) by M/s R.K Transport Company (RKT).

As the rate was higher than the departmental estimate (₹321.35 per BCM), the Company started negotiating with the party. RKT clarified during the negotiation that their offered rate was higher as they considered deployment of new loading & hauling equipment of 2014 make and its associated insurance costs instead of 2010 make equipment considered in departmental estimate. It was pointed out that deployment of 2014 make equipment would ensure steady accessibility while working in the lower benches of mines. Besides, RKT informed that highly skilled workers would be employed on the job, accounting for higher quoted rates.

The Tender Evaluation Committee (TEC) also justified the higher rates offered by RKT on grounds of newer make (2014 make in place of 2010 make) equipment and deployment of highly skilled workers. The TEC assessed that the estimate would be higher by ₹49.91 per BCM on account of deployment of 2014 make equipment and by ₹2.45 per BCM for engagement of highly skilled workers.

Subsequently, RKT agreed (March 2014) to reduce its quoted rate to ₹397 per BCM and the Company finally issued letter of intent (May 2014) for the above work to RKT at ₹397 per BCM for a total value of ₹178.65 crore with schedule completion period of 37 months.

Audit observed that the Company did not incorporate suitable clauses in the agreement (June 2014) entered into with RKT to ensure deployment of 2014 make equipment and engagement of highly skilled workers for the above work. It was also observed that out of the 12 dumpers and three excavators deployed by RKT for the above work, six dumpers and one excavator were of 2010 make, the balance being of 2014 make. The Company, however, did not take into account deployment of older make equipment by the contractor and paid RKT at the agreed contract rate.

Thus, the Company incurred an excess payment of ₹23.29 per BCM[1] to RKT, considering differential rates for deployment of 2010 make equipment against agreed equipment of 2014 make which works out to an excess payment of ₹8.87 crore[2] for execution of 38.07 LBCM upto June 2017. Audit further observed that in the absence of suitable clause in the agreement with RKT for engagement of highly skilled workers, the Company could not ensure their deployment although higher rates were agreed to on such consideration.

B. Hiring of equipment for loading and hauling 30 LBCM

In response to a NIT (July 2015) issued by the Company for hiring equipment for loading & hauling of 30 LBCM, RKT emerged as the lowest bidder with a quote of ₹460 per BCM. During negotiation (October 2015), RKT assured to deploy new equipment and reduced its offered rate to ₹414 per BCM. The Company entered into an agreement for the work in January 2016.

Audit observed that the terms of the agreement specifically provided that all equipment deployed by RKT should not be older than 2012 make. It was noticed that out of 15 loading & hauling equipment deployed by RKT for the above work, 40 *per cent* equipment (six in number) were of 2009 make. The Company, however, made full payment to RKT at the agreed rate of ₹414 per BCM without taking into account deployment of older than agreed make of equipment. Thus, the Company made an excess payment of ₹19.96 per BCM[3] to RKT, which had, resulted in excess expenditure of ₹3 crore[4] till April 2017.

In reply, the Management stated (January 2018) that RKT initially deployed some dumpers of 2010 make for the 45 LBCM work and 2009 make for the 30 LBCM work as there was urgency to start the production in the shortest possible time and because procurement of heavy machineries like dumpers and excavators have their own lead time, not being readily available in the market. The Management also stated that the performance of RKT was satisfactory and above the set target in both the works.

The reply of the Management is not acceptable. The Company had accepted higher quotes for the 45 LBCM work on the assurance of deployment of newer make (2014 make) equipment though it had failed to incorporate it in the contract. The agreement for the 30 LBCM work incorporated a specific clause for deployment of new make of equipment (2012 or later make). Yet, in both cases, the contractor deployed older make equipment and the Company paid higher rates to the contractor despite being aware that the equipment deployed were not as per agreed specifications. Further, the contention of the management that RKT initially deployed some dumpers of 2010 is not borne out by the facts as these machines were used throughout the contract period.

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[1] ***₹23.29 = ₹(49.91*7/15)***

[2] ***₹23.29 * 3807453 = ₹88675580***

[3] ***₹19.96= ₹(49.91*6/15)-considering the differential cost of deploying equipment of 2014 make vis-à-vis 2010 make***

[4] ***₹19.96 * 1504530.219 = ₹30030418***

Thus, the Company did not incorporate suitable clauses in the contracts for deployment of required equipment by the contractor for which the rates were finalised resulting in avoidable expenditure of ₹11.87 crore.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).