

CHAPTER XI : MINISTRY OF SURFACE TRANSPORT PORTS WING

SECTION A (REVIEWS)

11.1 Land Management by Port Trusts- A Review

11.1.1 Introduction

Prime lands are owned by the Port Trusts of major ports in India. The Major Port Trusts Act, 1963 (MPT), governs the rights of Port Trusts to impose and recover rates related to their property. The Ministry of Surface Transport (MoST) issued guidelines from time to time for management of port lands, which cover the entire gamut of issues for safeguarding its revenue interests and better utilisation of land for ports' own operations.

11.1.2 Scope of Audit

The review covers management and development of port lands by four out of a total number of eleven port trusts. The records relating to the period 1994-99 of Estate Offices of Mumbai Port Trust (MBPT), Jawaharlal Nehru Port Trust (JNPT), Calcutta Dock System (CDS) and Cochin Port Trust (CoPT) were test checked during May -October 1999.

11.1.3 Organisational set-up

Port Trusts function under the administrative control of the Ministry of SurfaceTransport. Each Port has a Board of Trustees (BOT) with members representing government and various other interests like shipping companies and labour. There is a Chairman at the apex. Each Port has an Estate Officer, who in addition to his duties with regard to land management, also exercises power in accordance with the Public Premises (Eviction of Unauthorised Occupations) Act, 1971 (PP Act).

11.1.4 Highlights

- **Outstanding lease rental as on 31 March 1999 in respect of four port trusts stood at Rs 573.49 crore**
- **None of the four Port Trusts were able to furnish data with regard to land use in categories as required by the MoST guidelines of 1995**
- **Failure to comply with provisions relating to lease deeds resulted in revenue loss of Rs 6.39 crore in three port trusts**
- **Failure to adhere to tendering/bidding process in allotment of land led to forfeiture of revenue of Rs 11.38 crore in two port trusts in 18 cases**
- **Failure to comply with MoST stipulation on utilisation of land by lessee led to loss of revenue of Rs 41.29 crore**
- **Failure to take prompt action against subletting / assignment contrary to provisions of the lease agreement resulted in loss of lease rental of Rs 3.56 crore in 305 cases in two port trusts**
- **Failure to revise lease rental based on prevalent market rate in 65 cases in three port trusts led to loss of Rs 28.39 crore**

11.1.5 Financial indicators of land management

11.1.5.1 Financial Position

The position of income and expenditure during 1994-99 of the Estate Department of the four port trusts reviewed is depicted below:

Expenditure varied between 14.87 to 175.97 per cent in four Port Trusts

Low revenue of MBPT due to non-realisation of lease rental

Though rental bills of four Port Trusts increased by 52.59 per cent, realisation was poor as outstanding also increased by 81.15 per cent during 1994-99

Out standing dues of MBPT stood at 96 per cent of total dues

It was observed that the proportion of expenditure as a *per cent* of income varied significantly (from 14.87 to 175.97 *per cent*) in the four port trusts. While the expenditure in Calcutta varied between 14.87 to 21.72 *per cent*, Mumbai Port Trust was not able to meet its expenditure from revenue receipts as it spent 175.97 to 92.57 *per cent* of its income. The low revenue of Mumbai Port Trust was due to its inability to realise the entire lease rental. Only 21.34 to 46.85 *per cent* of its revenue were realised, as detailed in the table under para 11.1.5.2. The position of expenditure and income in respect of Cochin and JNPT was similar. Cochin Port Trust spent 37.15 to 57.41 *per cent* of its income and JNPT's expenditure varied from 35.88 to 52 *per cent* of income between 1996-99.

11.1.5.2 Rental billing pattern and outstanding status

Income from lease rental constituted one of the major sources of revenue for the port trusts. Rental bills increased by 52.59 *per cent* from Rs 7992.33 lakh during 1994-95 to Rs 12195.60 lakh during 1998-99. However, outstanding lease rental also increased by 81.15 *per cent* from Rs 31656.74 lakh to Rs 57348.62 lakh during the period 1994-99. Outstanding lease rental of Mumbai Port Trust constituted 96 *per cent* at Rs 55095 lakh. It was observed that despite increase in rental bill amounts, realisation was not substantial as the outstanding dues increased year after year in each of the four ports for which review was conducted. The problem was most acute in MBPT as shown below:

Table 11.1.5.2 (i) Rental bills raised and outstanding

(Rs. in lakh)

| Year | CDS | | MBPT | | JNPT | | CoPT | |
|---------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
| | #Outstanding | Bills raised | Outstanding | Bills raised | #Outstanding | Bills raised | #Outstanding | Bills raised |
| 1994-95 | 842 | 1640 | 30737 | 5969 | 67.14 | 205.50 | 10.60 | 177.83 |
| 1995-96 | 942 | 1796 | 37448 | 5805 | 34.94 | 665.30 | 0.90 | 216.37 |
| 1996-97 | 1139 | 2180 | 43007 | 7093 | 411.13 | 946.98 | 13.86 | 428.02 |
| 1997-98 | 1293 | 2498 | 50997 | 7223 | 590.17 | 1482.44 | 35.59 | 536.15 |
| 1998-99 | 1572 | 2742 | 55095 | 7529 | 636.92 | 1342.92 | 44.70 | 581.68 |

As at 31st March every year

A scrutiny of records for billing and realisation of lease rent maintained by four major port trusts revealed the following trend with regard to realisation of dues.

Table 11.1.5.2 (ii) : Bills raised and realised annually

(Rs in lakh)

| Year | CDS | | | MBPT | | | JNPT | | | CoPT | | |
|---------|--------------|---------------|----------|--------------|---------------|----------|--------------|---------------|----------|--------------|---------------|----------|
| | Bills raised | Amt. realised | Per cent | Bills raised | Amt. realised | Per cent | Bills raised | Amt. realised | Per cent | Bills raised | Amt. Realised | Per cent |
| 1994-95 | 1640 | 798 | 49 | 5969 | 1420 | 24 | 205.50 | 138.36 | 67 | 177.83 | 167.23 | 94 |
| 1995-96 | 1796 | 854 | 48 | 5805 | 1413 | 24 | 665.30 | 630.36 | 95 | 216.37 | 215.47 | 99 |
| 1996-97 | 2180 | 1041 | 48 | 7093 | 1534 | 22 | 946.98 | 535.85 | 57 | 428.02 | 414.15 | 97 |
| 1997-98 | 2498 | 1205 | 48 | 7223 | 3116 | 43 | 1482.44 | 892.27 | 60 | 536.15 | 500.56 | 93 |
| 1998-99 | 2742 | 1170 | 43 | 7529 | 3527 | 47 | 1342.92 | 706.00 | 53 | 581.68 | 536.98 | 92 |

Port wise analysis of the data indicated that the realisation of dues from Calcutta and Mumbai Port Trusts was very poor and requires prompt attention. The position of realisations is given below:

- a) Mumbai Port Trust was able to realise between 21.34 to 46.85 *per cent* of the bills raised during the same year.
- b) Calcutta Port Trust realised between 42.67 to 48.66 *per cent* of the bills raised during the same year.
- c) JNPT Port Trust realised between 52.57 to 94.75 *per cent* of the amounts billed during the same year.
- d) Only Cochin Port Trust realised between 92.31 to 99.58 *per cent* of the bills raised.

The management of port trusts should take effective steps to ensure that revenue due from the Estate is recovered without delay.

11.1.6 Issues pertaining to land use

11.1.6.1 Land use pattern

Land to be utilised only according to land use plan

Land available with port trusts are valuable assets and should be put to the most economic use. The guidelines of 1995 of Government clearly stipulate that a land use plan detailing areas to be reserved for various activities like operational purposes, port related industries, captive power plants, environmental upgradation, commercial exploitation etc., should be outlined. MoST guidelines require that vacant land should be utilised for setting up of port related industries or put to commercially remunerative use in accordance with land use plan.

Ports did not comply with guidelines an land use plan of MoST

Audit specifically called for data of land use plan in accordance with the guidelines of 1995. Mumbai Port Trust was unable to give data of land use in the categories as was required by the guidelines. Calcutta Port Trust was only able to give approximate figures in this regard. The data provided by Cochin Port Trust was not in accordance with the guidelines of 1995. Though there was a discrepancy of 65 acres between figures furnished by CDS and the figure as available from the rent register in Calcutta Port Trust, the same was explained by the concerned authorities.

The above testifies to the fact that the ports had not complied with the guidelines of 1995 and have been unable to plan land utilisation in an optimal manner.

11.1.6.2 Perspective plan

In view of the serious infrastructure bottlenecks in developing port lands, government issued guidelines in October 1996 and June 1998 to permit private sector participation in the expansion of major ports. In this context, it is imperative that to attract new technology and foster strategic alliances, planning the allocation of port resources, of which the land is a fundamental ingredient, is completed early.

In accordance with the policy guidelines laid down in the earlier orders of February 1983, March 1992 and April 1995, each port authority should have drawn up a perspective plan for use of port lands. In addition to the stipulation that it should be a plan with a long term view of manner of land use, it was envisaged that the land use plan should be revised every five years or whenever found necessary, with the prior approval of the Ministry.

Audit scrutiny of records in the four major port trusts revealed that land use plan of Calcutta Dock System was originally approved in June 1984 and last revised in January 1989. In case of the Mumbai Port Trust land use plan was approved in July 1994. In case of Cochin Port Trust the land use plan was sent in July 1996 to

the Ministry but not approved yet. The JNPT's last land use plan was approved in October 1992.

Failure to revise land use plans every five years by four port trusts

None of the four port trusts had got the land use plan revised every five years as required by the Ministry. At a time when the gap between the existing handling capacities of the ports and the traffic is increasing, efficient land use made effective through private participation in various spheres like construction/creation of additional assets, setting up of captive power plant, dry docking etc. is of paramount importance. Absence of updated land use plans would only frustrate any efforts in augmenting the handling capacities and therefore revenue generating ability of the ports.

11.1.7 Issues pertaining to leasing

11.1.7.1 Delay in framing of lease format

Guidelines issued by MoST from time to time stipulate that all port trust authorities devise a suitable lease format for leasing out the port property to ensure that the port optimises rent receipts keeping in view the escalation in land prices. The lease rent should bear provision for escalation at an appropriate rate every year. Further the port trusts should stipulate in lease deed the option to refix the base of lease rent every five years.

Audit scrutiny of lease deeds executed in four major port trusts revealed the following irregularities:

Table 11.1.7.1 : Loss of revenue

(Rs in lakh)

| Sl No | Name of the port trust | Nature of irregularity | Area | No. of cases | Period | Amount involved | Remarks |
|-------|------------------------|---|--------------|--------------|-------------------------------|-----------------|---|
| 1 | CoPT | Rent could not be revised over 100% due to limiting provision in lease deed | 396.05 cents | 5 | 1990 to 2023 | 238.98 | Lease rental at Rs 109800/acre/ annum when fresh lease for comparable was Rs 340000/acre/ annum |
| 2 | CoPT | Non finalisation of lease deed due to delay in GOI's approval | 109.92 cents | 3 (Pvt.) | June 1996 to October 1999 | 25.14 | Though BoT sought GOI's approval in May 1997/January 1999, sanction not received till October 1999 |
| 3 | CDS | --Do-- | 308.75 acres | 1 (PSU) | February 1995 to January 1997 | 64.46 | Had market value been ascertained before referring to MoST, delay of two years could have been avoided. |
| 4 | JNPT | Non adoption of uniform escalation clause | 35.193 acres | 3 (Pvt.) | October 1994 to November 1999 | 219.55 | Escalation of lease rent charged ranged from NIL to 5 per cent instead of a uniform rate 10 per cent. |

Revenue loss of Rs 6.39 crore due to lacunae in lease deeds

| Sl No | Name of the port trust | Nature of irregularity | Area | No. of cases | Period | Amount involved | Remarks |
|--------------|------------------------|--|-------------------|--------------|--|-----------------|--|
| 5 | MBPT | Non initiation of timely action and raising of bills | 1167.22 sq. mtrs. | 2 (Pvt.) | Oct. 82 to Nov. 98 Jan. 94 to Dec. 95 | 90.61 | Had timely action been taken to recover the money as per court order and clause for amount of rent payable in the lease agreement been included and bill raised in time, the loss could have been avoided. |
| Total | | | | | | 638.74 | |

The above cases from a test check of records revealed revenue loss of Rs 638.74 lakh on account of lacunae on part of the port authorities to comply with the provisions with regard to lease deed.

11.1.7.2 Lapses in tendering process

Lands situated outside the dock area and surplus to port's own requirements could be allowed to be leased / licensed in the most commercially remunerative manner in accordance with the land use plan. Till the Ministry approved the land use plan, all proposals, which envisage creation of permanent structures should get the approval of the Ministry.

Leasing of vacant land require competitive bidding

MoST guidelines require that the allotment/leasing of vacant land for commercial purposes should be made only on the basis of competitive tenders, after having given the proposed allotment wide publicity. However, allotment of land for public purposes could be made, by charging 25 per cent of the scheduled rates. In cases where proposals are approved without competitive bids the same were to have the approval of the Ministry.

In the course of audit, it was observed that in violation of the guidelines various port trusts had failed to adhere to the tendering/bidding process in cases detailed below:

Table 11.1.7.2 : Loss due to non adherence of rules

| Sl No | Name of the Port | No. of cases | Area | Period | Amount (Rs in lakh) | Remarks |
|-------|------------------|--------------|------------------|-----------------------------|---------------------|---|
| 1 | CoPT | 9 (Pvt.) | 7.235 acres | June 1996 to September 1999 | 81.98 | Land leased at rent of Rs 200/10-m2/ month. Lease rental for adjacent area fetched Rs 270/10-m2/ month. |
| 2 | CDS | 3 (Pvt.) | 20616.851 sq.mt. | December 1993 to June 1999 | 648.08* | Three leases created in January 1969/1983 expired in December 1993. Board of Trustees decided in November 1995 to allow the lease from January 1994 on monthly licence basis at the prevalent schedule. BoT granted in August 1997 long-term lease for 15 years from April 1997 at scheduled rates and sought approval of MOST in September 1997 as lease period extended |

Port Trust lost Rs. 11.38 crore due to failure to observe codal provisions

| Sl No | Name of the Port | No. of cases | Area | Period | Amount (Rs in lakh) | Remarks |
|-------|------------------|--------------|-----------------|---------------------------------|---------------------|--|
| | | | | | | and sought approval of MOST in September 1997 as lease period extended for more than 30 years, from 1969. MOST questioned the decision of grant of lease at scheduled rates for commercial activity. It did not approve the lease and directed in December 1997/August 1998 to call for fresh tenders. No fresh bids were called till June 1999. |
| 3 | CDS | 5 (Pvt.) | 49776.115 acres | December 1997 September 1998 | 201.42* | Lease renewed at scheduled rates without call of fresh bids despite (a) MOST direction and (b) No provision for renewal available in lease deed. |
| 4 | CDS | 1(PSU) | 8999 sq. mt. | April 1994 to May 1998 | 206.22* | Land handed over in April 1994 whereas BoT/ MOST approval was received in October 1994 /May 1998 respectively. Competitive tender not invited. Though lessee committed breached another contract, renewal made without making good the previous breaches. |
| | | | | | 1137.70 | |

* Market rate for other plots in the same area obtained from Sub-registrar, West Bengal and notional market rates worked out. Loss of revenue calculated represent the difference between scheduled rates and market rates so arrived at.

Apart from being highly irregular, the failure to abide by the codal provisions led to the port trusts forfeiting Rs 11.38 crore as revenue which would otherwise have been realised towards lease rent had the process of tendering been strictly followed.

11.1.7.3 Non-utilisation of land by lessee

MoST guidelines stipulates that whenever a land/water front is given for port related activity/industry, a minimum guaranteed traffic, berth hire quantum should be specified in the lease agreement. There should be stipulation of penalty for non-performance in the form of making the user pay for shortfall in port charges arising from failure or termination of lease.

Audit scrutiny of records of four major port trusts revealed that the guidelines were not observed resulting in loss of revenue to the extent of Rs 41.29 crore as detailed under:

Table 11.1.7.3 : Loss due to non levy of penalty

| SL No | Name of the Port Trust | Nature of irregularity | No. of cases | Area | Period | Amount involved (Rs in lakh) | Remarks |
|--------------|------------------------|--|--------------|----------------|--------------------------------|------------------------------|--|
| 1 | CoPT | Charging land leased for public purposes below concessional rate of 25% of scheduled rates | 2 (Pvt.) | 4.06 acres | January 1996 to September 1999 | 9.51 | BoT not competent to remit lease rental |
| 2 | CDS | Non-renewal of lease and consequent loss of lease rental | 1 (Pvt.) | 13365.4 acres | December 1995 to June 1999 | 2.75 | Land not utilised by the lessee for the entire lease period. It failed to pay lease rental after expiry of lease period. |
| 3 | JNPT | Non-levy of penalty for failure to achieve minimum guaranteed throughput | 9 | 104.545 acres | 1994 to 1999 | 3930.42 | Port Trust did not realise the amount and also did not take action to terminate the lease as per lease agreement. |
| 4 | JNPT | Non utilisation of land | 1 | 20000 sq. mts. | Nov. 96 to Feb. 99 | 186.13 | The lessee did not construct the tank farm within the time limit thereby non achievement of minimum guaranteed throughput. |
| TOTAL | | | | | | 4128.81 | |

Loss of revenue of Rs. 41.29 crore due to non-provision of penalty clause

The concerned port authorities should take action to ensure that penalty as is stipulated in the MoST guidelines is imposed.

11.1.7.4 Subletting / assignment:

Subletting/assignment without permission is illegal

The MoST guidelines stipulate that the port trust authorities incorporate stringent provision in the lease agreement to prevent subletting/assignment/transfer by the lessees, without the prior approval of the port authorities. Any subletting/ assignment without the prior approval of the authority, which sanctioned the lease, shall make the lease liable for cancellation.

Audit scrutiny of records in four major port trusts revealed the following irregularities with regard to sub-letting of port lands.

**Table 11.1.7.4 : Loss due to irregular subletting
(Rs in lakh)**

| SL No | Name of the Port | Nature of irregularity | Area | No. of cases | Period | Amount | Remarks |
|--------------|------------------|---|------------------------|--------------|-----------------------------|---------------|--|
| 1 | MBPT | Unauthorised subletting by lessee | 3492.78 Sq.mt (1 case) | 5 | December 1976 to March 1999 | 39.96 | In one case lessee paid Rs 1153 per month and earned Rs 16053 per month by subletting. Details of sub lease rental earned in four other cases not available. |
| 2 | CPT | Do | 82.88 acres | 295 | April 1995 to June 1999 | 289.00 | No effective step taken under PP Act or in Court of Law. |
| 3 | MBPT | Unauthorised construction/ encroachment | 9629.21 sq.mt | 5 | 1968 to 1996 | 27.25 | |
| Total | | | | | | 356.21 | |

Loss of revenue of Rs 3.56 crore due to irregular subletting or assignment

Thus instead of taking suitable action by way of cancelling the lease, MBPT and Calcutta Port authorities, on the contrary, had allowed the continuance of lease. The lessee derived undue benefit by exploiting the failure of the port authorities to take action and actually realised Rs 356.21 lakh by way of sub lease rental, which should have in the ordinary course been part of the revenue of the concerned port.

11.1.7.5 Undue favour to unauthorised assignee by MBPT

MBPT leased land to Digvijay Cement Co Ltd for a period of 30 years. The land was proposed to be utilised for setting up a cement grinding and packing plant, manufacture of asbestos and other cement products. Subsequently adjoining plot measuring 128.95 sq.metre was also leased to the same lessee. Both the leases expired on 26 July 1990 and there was no provision for renewal of lease. In terms of MoST guidelines of July 1986, any renewal/extension of lease beyond the initial period of 30 years, require prior approval of government. MBPT did not seek the approval of government.

Lessee applied on several occasions between July 1989 and June 1995, for the extension of lease. MBPT issued eviction notice to the lessee in August 1991 since there was no provision for renewal of lease. However, no further action was taken on the eviction notice.

While the request for renewal of lease was pending, the lessee unauthorisedly assigned in June 1995 the land at Rs 1 crore which was far below the prevalent market rate of Rs 34.48 crore. The lessee sent the assignment deed to MBPT for approval in October 1997. MBPT renewed the lease for 30 years, by a trustee resolution in May 1996, with retrospective effect commencing from April 1994, at the rate of Rs 9.59 per sq mt. without enforcing the eviction notice issued in August 1991 and in contravention of MoST guidelines. Further it also permitted alteration of users' clause to suit the unauthorised

Rental arrears of Rs 2.28 crore due to assignment by MBPT, without MoST approval and at lease rental below market rates

assignee.

MBPT levied in July 1995, rental arrears amounting to Rs 48.70 lakh, for the period between July 1990 and April 1994, which was not covered by any lease agreement, by adopting the compromise formula instead of the Kirloskar formula made applicable to all lessees from July 1990. The rental arrears realisable upto January 1999 as per Kirloskar formula worked out to be Rs 228.45 lakh.

Granting approval of lease for another 30 years without approval of MoST was irregular and failure to evict even after issue of eviction notice and subsequently assigning the leased land at rates far below prevalent market rate require that suitable action should be taken by the Ministry in this matter with a view to ensuring accountability of action by port authorities.

11.1.7.6 Failure to revise lease rental

MoST guidelines envisage the preparation of scale of rates after taking into account the cost of development of land, providing various facilities, services, fair rate of return on capital investment, market rate etc. Further the scale of rates should be reviewed every three years, or earlier, if considered necessary.

Audit scrutiny revealed that in 65 cases the lease rental was fixed without taking into account the prevalent market rate. Consequently the port trusts lost Rs 2839.27 lakh towards lease rental as detailed under:

Table 11.1.7.6

(Rs in lakh)

| SL No | Name of the Port Trust | Nature of irregularity | No. of cases | Period | Amount involved | Remarks |
|-------|------------------------|---|----------------|--|-----------------|--|
| 1 | CoPT | Non-levy of advance lease rent | 1(pvt) | 1995-99 | 18.62 | Non-inclusion of clause for advance rental in lease deed |
| 2 | CoPT | Failure to adopt revised rates at the time of renewal | 12 | January 1996 to September 1999 | 250.45 | Revised lease rental effective from 1.1.96 not applied |
| 3 | CoPT | Failure to take prevalent market rate while revising the rental | 18 | -- | 664.50 | Rent for 'C' category land fixed at Rs 3.40 lakh per acre instead of Rs 7.70 lakh per acre, the lease rent which should be fixed based on prevalent market rate. |
| 4 | CDS | Do | 25 | 1998-1999 | 38.94 | Market value not reckoned |
| 5 | JNPT | Fixing lower lease rent than the prescribed rates of MOST | 4 (3Pvt 1 PSU) | February 1994 to March 1999 | 1370.48 | Lease rent fixed at Rs 133.10 per sq.m. /p.a. instead of Rs 250/Rs.165 per sq.m./p.a. |
| 6 | JNPT | Non revision of lease rental | 3 (Pvt.) | May 1997 to April 1999 | 131.22 | Lease rent not revised by uniform escalation. |
| 7 | JNPT | Non adherence of Ministry's guidelines to refix the lease rent | 2 (Pvt.) | January 1997 to June 1999 October 1998 to June 1999 | 137.04 | Had the lease rent been refixed after five years, the loss could have been avoided. |

Loss of lease rental Rs 28.39 crore in 65 cases due to non-reckoning of prevalent market rates

| SL No | Name of the Port Trust | Nature of irregularity | No. of cases | Period | Amount involved | Remarks |
|-------|------------------------|--|--------------|--------------------------|-----------------|---|
| 8 | JNPT | Non inclusion of penal interest in the Port's Scale of Rates | - | April 1995 to March 1999 | 228.02 | JNPT failed to collect the penal interest due to non-inclusion of the clause on an amount of Rs 1054.53 lakh outstanding for a period from 6 months to 2 years. |
| | | | 65 | | 2839.27 | |

Action should be taken against the concerned officials for their lapses in this regard. Further an appropriate management information system on the plots being leased and their periodicity, which is a basic data, should be instituted so that such lapses do not recur.

11.1.8 Delay in eviction of unauthorised occupants

The Public Premises (Eviction of Unauthorised Occupants) Act, 1971 provides for the eviction of unauthorised occupants from public premises by the estate officer. After having given the persons suitable opportunity if the Estate Officer is satisfied that the public premises are in unauthorised occupation then, he may make an order of eviction directing the public premises to be vacated. Failure to do so entitles the Estate Officer to take possession of public premises and for this purpose, use of force, where necessary, can be resorted to. Further the guidelines of April 1995 issued by MoST enjoin that responsibility should be fixed for non-removal of encroachment in time.

Calcutta Port Trust issued eviction notice to unauthorised occupants only after four-five years

Audit scrutiny of records for the Calcutta port trust for 27 cases of unauthorised occupation revealed that in 13 cases it took four five years by the Estate officer to issue eviction order from the date of issue of show cause notice. In two cases, the delay was more than eight years. In case of the other three port trusts the data was not made available to audit.

Calcutta, Cochin and Jawahar Lal Nehru Port trusts did not maintain the encroachment register through which watch on encroachments of land is kept.

From the data provided by Calcutta port trust it was evident that the Estate officer had shown considerable delay in effecting the eviction process and there is need to ensure that the provisions of the Public Premises (Eviction) Act, 1971 are complied with to safeguard the interests of the ports.

11.1.9 Non maintenance of basic records

The overall management of all port trust landed property is the direct responsibly of the Estate department, which should on one hand advise the management on land use policy and on the other ensure the implementation of the policies by the user departments, lessees and licensees. The Estate department should in the interest of efficient management and administration of lands and estates arrange to survey all port trust lands, maintain all survey records, maintenance of all documents, registers and records.

Basic records not properly maintained in four port trusts

Audit examination of the records maintained by four major port trusts revealed that basic records like Demand Register were not maintained by MBPT and CoPT since the matter was under litigation and bills not being issued and payment was received half yearly as per agreement.

Cochin Port Trust did not maintain basic records like Inventory of landed assets, Register of vacant land, Encroachment Register and Rent Roll Register. Actual land available with the port trust authorities is not ascertainable in the absence of essential records like land management manual, detailed inventory of the estate with clear identification of leased land, under port's use and vacant land encroachment.

In view of non/proper maintenance of basic records, management information on this important resource is inadequate/non-existent to make its utilisation effective and in keeping with the guidelines of MoST. This has prevented ports from achieving their optimal revenue earning capacity.

The matter was referred to the Ministry in October 1999 their reply was awaited as of January 2000.

Chennai Port Trust

11.2 Civil Engineering Department -A Review

11.2.1 Introduction

The civil engineering department is headed by a Chief Engineer. The main functions of the department are execution of plan and non-plan schemes, maintenance of port area including wharfs, docks, berths, yards, roads, buildings and dredging operations.

For the efficient running of Civil Engineering department there are two Additional Chief Engineers, ten Superintendent Engineers and one Engineer Superintendent and a Dredging Superintendent headed by Chief Engineer.

All original works involving expenditure of Rs 50 crore and above are sanctioned by MoST after obtaining approval from the Public Sector Investment Board. New capital works which are estimated to cost Rs 5 crore and above are treated as Plan works and they require the approval of the Ministry and the Planning Commission. Works costing less than Rs 5 crore are executed as non plan works with the approval of Port Trust's Board.

11.2.2 Scope of Audit

A review of Civil Works (Plan) from 1996-97 to 1998-99 was conducted by Audit in April /June 1999. The systems and procedures regarding tendering, execution, control and monitoring were taken up for scrutiny. The process of replacement of dredger at an estimated cost of Rs 70 crore was also studied.

11.2.3 Financial Outlay

The provisions made in the Budget Estimate/Revised Estimate and the actual expenditure in respect of Plan schemes (ie. port development works) during the period 1996-97 to 1998-99 were as shown below :

Table 11.2.3 : Budget estimates vis-à-vis actuals

| Year | Budget Estimates | Revised Estimates | Actuals |
|---------|------------------|-------------------|---------|
| 1996-97 | 4000.00 | 2492.00 | 2497.55 |
| 1997-98 | 6838.00 | 4182.30 | 3540.49 |
| 1998-99 | 5000.00 | 3688.00 | 3241.69 |

(Rs in lakh)

It may be seen that there were savings amounting to Rs 642 lakh in 1997-98 and Rs 446 lakh in 1998-99.

11.2.4 Highlights

- Awarding of contract for construction of eastern side wall of Boat Basin without specifying the basic parameter of the design resulted in payment of compensation of Rs 35.43 lakh to a contractor who failed to complete works. While the contractor remained unresponsive for this work to progress, another work valued at Rs 1.71 crore was awarded to the same firm which was completed after a delay of 21 months. Despite immense delays by the contractor, penalty and liquidated damage clauses provided in the agreement were not invoked.
- Contractors selected for the work for modification of iron ore berth to serve as general bulk cargo berth executed only 50 per cent of works and even after three years of delay, no penalty or liquidated damages clauses of the agreement were invoked.
- Loss of Rs 45.12 lakh due to unauthorised excess purchase of PCC blocks for parking area of containers.

- **Inordinate delay in replacement of dredger “Coleroon” resulted in avoidable repair charges of Rs 10 crore.**

11.2.5 Execution of civil works (Plan)

11.2.5.1 Construction of eastern side wall of boat basin

The port trust envisaged construction of eastern side wall of boat basin to create berthing facilities for the Trust’s floating crafts like tugs, dredgers, and launches and to maintain/repair these crafts. An estimate for construction of piles and wharf wall to accommodate vessels of size 20000 DWT amounting to Rs 497 lakh was approved by the Board in September 1993. The work involved construction of 201 piles and other works. The contractors were asked to submit both a technical bid with an alternative design and a price bid. A preliminary pre-bid meeting was held in December 1993 and clarifications were issued by the Chief Engineer on certain design aspects. Relying solely on the modified rates quoted by the contractors and simple eligibility of the respective contractors, the Tender Committee recommended award of the work in February 1994 to Contractor "A" who was the lowest bidder at the quoted rate of Rs 2.57 crore for their alternative design. No evaluation based on technical and financial capabilities of the different bidders was made.

The work order was issued in August 1994 stipulating the period of completion as 18 months.

The design and estimates were submitted by the Contractor in October 1994. The final clearance to design estimates was given by the department only in February 1996 ie. after a delay of 18 months from their submission.

The delay in approval of designs by the Chief Engineer (CE) was due to disagreement over the basic parameters of the designs. While calling for tenders Chennai Port Trust stipulated that the side wall should be 325 metres long designed for 6m draft to accommodate 20000 DWT vessels and that the design should be as per Indian Standards. Whether the specification was for laden or unladen vessels was not mentioned in the notice inviting tenders. The contractor furnished an alternative design of 6m draft for 20000 DWT and quoted accordingly. Only after awarding of the contract, it was clarified by the CE that the design requirement was for 20000 DWT *laden* vessel. Chennai Port Trust finally gave only a conditional clearance for carrying out the work of a stretch of 60 m as against the proposed length of 325 m.

The contractor sought arbitration in May 1998 and the arbitrators upheld the contention of the contractor and passed awards in April 1999 directing the Trust to pay a sum of Rs 35.43 lakh to contractor towards his claim for compensation for delay on the part of the Port Trust.

Subsequent to the approval of design by Chennai Port Trust on 3rd February 1996 the work should have been completed within 18 months. The contractor

Only price bids considered; technical bids ignored

There was ambiguity in notice inviting tender about whether 20000DWT described laden or unladen vessels

Delay in termination and re-tendering resulted in cost escalation

did not commence works till 20th January 1997 and completed construction of a total of 46 piles in Nov 1997 after a delay of 11 months and six piles more on receiving a notice and stopped the work thereafter. The contract was terminated ultimately in September 1998 on grounds of slow progress of the work, after completing only 13 *per cent* of the total works required and after four years of awarding of contract. Re-tendering for the balance work was taken up only in April 1999 and finalised in November 1999. Therefore, the loss attributable to Port Trust due to cost escalation for balance 87 *per cent* of the work amounted to an estimated Rs 47.21 lakh.

Another work for a value of Rs 1.71 crore was awarded to the same defaulting contractor

It was further found that while the contractor did not commence work despite reminders by the CE another work for a value of Rs 171.23 lakh was awarded to the contractor in November 1996. The work started in November 1996 and was completed in February 1999 after a delay of 21 months. The contractor was blacklisted in September 1998 when the second work was still in progress. The reasons for award of second contract were not explained to audit.

No penalty imposed

Thus, failure to clarify the basic specifications for the work both in the notice inviting tenders as well as during pre-bid conference resulted in compensation payment of Rs 35.43 lakh. Cost escalation of balance of works resulted in a further loss of Rs 47.21 lakh to the Port Trust. Besides, despite the fact that the contractor was proving unresponsive to directions for executing construction of eastern side wall of boat basin, another work for Rs 171.23 lakh was awarded. Though this work too was delayed in completion by 21 months, no penalty or liquidated damages were imposed on the contractor. Reasons for such a series of extraordinary favours shown to the contractor were not explained to audit.

11.2.5.2 Modification of berth to handle general bulk cargo

To cater to the growing need for a berth with deeper draft (30 ft) for navigation of bigger vessels carrying bulk cargo, an estimate for Rs 261 lakh was approved by the Board in its meeting held in June 1993 for the work 'Modification of iron ore berth suitable to handle general cargo vessels'. The work involved construction of approach platforms on 78 piles.

Notice inviting tenders was published in September 1994, after a delay of nearly 15 months from the date of sanction of the estimate by the Board. The contract was awarded to Contractor B and work order issued in March 1995 with the time for the completion of the work stipulated as 18 months. As of March 1999, only 50 piles (out of 78 piles) were completed. Even after four years of commencement of work and six years of approval of the scheme not even 50 *per cent* of the work had been completed.

The following audit observations were made in this context:

- The contractor delayed work by six months after the due date despite the payment of Rs 35 lakh as mobilisation advances and grant of site facilities

barges required for piling work were brought to the site only after 10 months of starting of work. Till September 1996 (the expiry of original contract period and one year from commencement of work) the contractor completed only 15 *per cent* of the work.

- A major reason for the delay was that the site engineers employed by the contractor were inexperienced in piling work and were unable to respond to CE's directions to the Contractor.
- In July 1997, after two years of commencement of work by the contractor, the CE issued a letter to the contractor informing him that his performance would be observed for a month and if found unsatisfactory, appropriate action as per the terms and conditions of the contract would be taken.
- Even after watching performance for four months, his work was found unsatisfactory. From September 1996 to December 1997, the contractor could complete only 10 *per cent* of the work. Still, no action was taken against the contractor as per the terms and conditions of the contract. Clauses for penalty or liquidated damages included in the agreement was never invoked. After four years of commencement of work and three years of delay from the stipulated date of completion of work, only 50 *per cent* of the work was completed.
- Pre-qualification screening of contractors was not done with reference to technical bids profiling the contractor's financial capability, past experience and performance and technical capabilities. The contractor experimented with four methods of piling in four years. The CE in his letter in November 1997 questioned the very competence of the contractor to complete the work.

No action taken as per conditions of contract despite poor progress of work

Ineffective pre qualification screening of the contractors

Thus, due to ineffective pre-qualification screening, improper award of contract and lackadaisical post tender award follow up the work remained incomplete till date (November 1999).

11.2.5.3 Creation of additional parking area for containers

An estimate amounting to Rs 410 lakh for the work 'Creation of additional parking area for containers' was approved by the Board in its meeting held in August 1994. The estimate included manufacture and supply of 18 lakh plain cement concrete blocks of 200 mm x 100 mm x 100 mm size at a cost of Rs 1.98 crore. The contract was awarded to a private agency who offered a rate of Rs 5.64 per block. Though according to the estimate, the requirement was only 18 lakh number of blocks, tenders were called for 24 lakh blocks and the contractor actually manufactured and supplied 26 lakh PCC blocks. Thus, there was an excess supply of 8 lakh PCC blocks, for which the Board paid Rs 45.12 lakh extra.

Excess supply of 8 lakh PCC blocks by the contractor led to extra unauthorised expenditure of Rs. 45.12 lakh

It was observed during audit that justification for increasing the quantity procured from 18 lakh to 26 lakh blocks was not available on record.

Moreover, the sanction of the Board was not obtained for the additional 8 lakh blocks procured at an additional cost of Rs. 45.12 lakh.

11.2.6. Construction of speciality section in the hospital complex

The work of construction of speciality sections in the hospital complex was sanctioned by the Board in June 1993 at an estimated cost of Rs 80.36 lakh. For the building portion of the work, open tenders were invited and the work was awarded to the lowest tenderer in January 1994 for a value of Rs 35.41 lakh, to be completed in 12 months. The site was taken over by the contractor in February 1994. At the end of the stipulated time the contractor completed only 40 *per cent* of the works. Extension of time was granted at several junctures and finally, extension was granted up to January 1997. The contract was terminated in April 1997 by the CE citing the slow progress (only 53 *per cent* completed) of work. The balance work was awarded to the second contractor in July 1997 at a cost of Rs 22.01 lakh.

Extensions granted though the contractor did not show any inclination to carry on work

It was found during audit that CE's termination orders mentioned the fact that the contractor executed a mere three *per cent* of the works during the extended period from May 1995 to March 1997. Though the contractor executed almost no work beyond May 1995 and was not inclined to carry on with the work even during the further extended period of two years, termination orders were delayed. The late termination of contract resulted in an avoidable escalation in cost to the tune of Rs 5.16 lakh by the time the balance work was re tendered in June 1997.

11.2.7 High costs of delay in replacing dredger Coleroon

The dredger Coleroon was procured in the year 1972. As it outlived the economical life of 20 years, administrative approval for replacement of the dredger was accorded in February 1993 by MoST at an estimated cost of Rs 25 crore. It was found during audit that in September 1993 MoST had called for a comprehensive feasibility study report within a fortnight. The work of preparation of the above report was entrusted to National Ship Design and Research Centre, Visakhapatnam. Five reports were prepared by the Centre between September 1994 and May 1996 and forwarded by the Port Trust to Ministry of Surface Transport. The Board sanctioned the estimated cost of Rs 70 crore in August 1996 under its enhanced powers.

Global notice inviting tenders was issued in April 1998 after five years of sanction of procurement of dredger, for the design, construction, supply and delivery of a twin screw hopper suction dredger of 1700 cu metre capacity. The original due date for receipt of tenders was in July 1998. In response to the demand of tenderers, the time limit was extended to 14th August 1998 and all the tenders were opened on that date. In the special tender committee meeting held in December 1998 it was found that of the eligible eight offers, seven firms did not have the required experience. Therefore, it was decided to drop all the tender offers (including that of Ms I.H.C Holland which fulfilled

Replacement of dredger could not be done after six years from the date of sanction; expenditure of Rs 10 crore incurred on repair charges

all the conditions of tender) and re-invite fresh tenders with changes in conditions.

Re-tendering was done in June 1999 and the date of opening of tender was 22nd October 1999. Thus, the plan scheme of replacement of dredger Coleroon, the life of which expired in 1992, could not be achieved even after six years of sanction. The dredger Coleroon underwent dry dock repairs costing Rs 10 crore (Rs 3.94 crore in 1994-95 and Rs 6.06 crore in 1996-97) which could have been avoided had it been replaced within the due date i.e. 1993.

Cochin Port Trust

11.3 Human Resources Management- A Review

11.3.1 Introduction

Cochin Port Trust (CoPT) was declared as a major port trust in 1936 and brought under the administration of Government of India. The Major Port Trust Act, 1963 governs the control, administration and management of CoPT with effect from 29 February 1964.

11.3.2 Scope of Audit

A review of the deployment of human resources under CoPT during 1994-95 to 1998-99 was conducted in February-April 1999.

11.3.3 Organisational set up

Administration and management of CoPT was vested in a Board of Trustees, headed by a Chairman and 16 members representing the Ministries of Defence, Railways, Surface Transport, Customs, Labour and trade and industry.

11.3.4 Highlights

- **The establishment expenditure during 1994-99 ranged from 43 to 53 per cent as against Government's directive to limit it to 30 per cent of operating expenditure.**
- **The out-turn of cargo handled per employee in CoPT did not compare favourably with the per head output in the neighbouring ports of New Mangalore and Tuticorin.**
- **Two to seven posts of Executive Engineer were created flouting Government's norms during 1994-99.**

- Crew attached to the dry dock remained practically idle during February 1994 to November 1995 when the dock was out of commission and an unfruitful expenditure of Rs 1.96 crore incurred towards pay and allowances.
- As most of the cargo handling fork lift trucks could not be operated, more than 68 drivers remained practically idle resulting in an avoidable annual recurring expenditure of Rs 22.20 lakh during 1994-98.
- Non-revision of datum-line led to payment of incentive allowances based on higher DWT handled with the aid of machinery introduced later, long after the datum-line was fixed in March 1989.

11.3.5 Establishment expenditure

The operating expenditure incurred and share of expenditure on staff during 1994-99 were as indicated below:

Table 11.3.5 : Operating expenditure

| Year | (Rs in lakh) | | |
|---------|----------------------------|-------------------------------|--------|
| | Operating expenditure (Op) | Establishment expenditure (E) | E/Op % |
| 1994-95 | 6225 | 3281.21 | 53 |
| 1995-96 | 8164 | 3808.86 | 47 |
| 1996-97 | 9459 | 4028.79 | 43 |
| 1997-98 | 11126 | 4810.83 | 43 |
| 1998-99 | 12949 | 5648.90 | 44 |

**Very high
establishment
expenditure**

Expenditure on salaries, over-time and bonus to employees constituted 43 *per cent* to 53 *per cent* of the operating expenditure which was high when compared to the norm of 30 *per cent* normally allowed.

11.3.6 Low utilisation of human resource potential

The volume of cargo traffic handled during 1994-99 per employee varied from 1489 to 2215. If Petroleum Oil Lubricants (POL), which was imported and exported in bulk and which required very low manpower disproportionate to the volume, was excluded the per capita tonnage was very low ranging between 349 and 527 during 1994-99.

A comparative analysis of the relevant figures of New Mangalore (NMPT) and Tuticorin (TPT) Port Trust is given below:

Table 11.3.6 : Comparative positions of cargo handled per employee

| Year | NMPT | | TPT | | CoPT | | |
|---------|-----------------|------------------|-----------------|------------------|-----------------|------------------|--------------------|
| | Staff strength* | Tonnage per head | Staff strength* | Tonnage per head | Staff strength* | Tonnage per head | Tonnage per head # |
| 1994-95 | 1407 | 5689.41 | 2174 | 3698.25 | 5797 | 1488.87 | 348.57 |
| 1995-96 | 1402 | 6336.67 | 2159 | 4301.07 | 5706 | 2016.00 | 382.14 |
| 1996-97 | 1401 | 8886.51 | 2106 | 4356.13 | 5513 | 2129.87 | 462.65 |
| 1997-98 | 1391 | 10984.01 | 2071 | 4816.03 | 6094 | 2022.31 | 428.38 |
| 1998-99 | 1467 | 9683.93 | 2059 | 4929.58 | 5726 | 2214.63 | 526.73 |

(*Excluding shore labour, #, excluding POL cargo)

Persistence of low productivity of labour

Despite low labour productivity in the port, compared to other ports, CoPT had not initiated steps to achieve higher per capita output. CoPT stated in April 1999 that instead of comparing the volume of cargo traffic handled per employee; output per gang shift was to be measured. The reply was not tenable as comparing the per capita tonnage was one of the accepted and dependable statistical parameters to measure the optimum performance and productivity.

11.3.7 Excess posts operated in disregard to norms

As per norms prescribed by GOI, for sanction of one post of Executive Engineer (EE), expenditure incurred on construction should not be less than Rs 1.80 crore *per annum*. The details of annual works expenditure, number of posts of EEs permissible as per the norms and the number of posts actually operated were as under:

Table 11.3.7 : Excess creation of posts

| Year | Annual expenditure on works (Rs in crore) | Number of posts | | |
|---------|---|------------------|----------|--------|
| | | Due as per norms | Operated | Excess |
| 1994-95 | 9.93 | 6 | 8 | 2 |
| 1995-96 | 11.93 | 7 | 8 | 1 |
| 1996-97 | 3.05 | 2 | 8 | 6 |
| 1997-98 | 1.02 | 1 | 8 | 7 |
| 1998-99 | 9.58 | 6 | 8 | 2 |

Excess posts created without justification

On the basis of the average annual expenditure on civil construction, only four posts of EEs were to be sanctioned in addition to the posts of Chief Engineer and Deputy Chief Engineer and corresponding number of subordinate officers and staff.

The Ministry stated in February 2000 that CoPT was unaware of the norms fixed by GOI and that the whole expenditure had not been reckoned by Audit. The reply was not acceptable since the work load norms were prescribed in the Central Public Works Manual and all the expenditure as per the works registers and the accounts had been taken into account while comparing the norms”.

11.3.8 Non-utilisation of man power

The dry dock of the port was out of commission from February 1994 to November 1995 due to excessive siltation in the vicinity of the dry dock when the work on reclamation in the south end was in progress. However, expenditure of Rs 6 crore was incurred towards pay and allowances of 420 employees attached to the dry dock. As the staff was practically idle for want of regular work, retention of the entire complement, without re-deployment at such a heavy cost was irregular. CoPT stated in March 1999 that the staff was not idle as works that did not require dry-docking were carried out. However, the services of 74 direct labour detailed for under water works could not be utilised and expenditure of Rs 1.96 crore incurred towards their pay and allowances was unproductive.

Expenditure of Rs. 1.96 crore on idle workers**11.3.9 Inordinate delay in abolition of posts**

Details of vessels, which went out of commissioning between May 1988 and August 1995 reasons thereof etc, are indicated below:

Table 11.3.9

| Name of vessel | Date | Reason | Number of posts abolished |
|--------------------|-----------|--------------|---------------------------|
| HSD Mattanchery | 26-5-1988 | Capsized | 12 |
| BD Lady Wellington | 19-8-1988 | Disposed off | 8 |
| MV Tapaj | 8-8-1995 | Disposed off | 13 |

**Infructuous
expenditure of Rs
95.22 lakh on
crew**

The crew attached to HSD Mattancherry was redeployed in July 1988. Information about deployment or manner in which the services of the crew of the remaining two vessels were put to productive use has not been furnished. The Dredging Superintendent stated in April 1999 that crew of the two vessels were utilised for routine duties in other vessel as per requirement. In March 1999, CoPT abolished 33 posts attached to these three vessels. These posts should have been abolished and formal orders issued redeploying the crew immediately when the vessels were decommissioned. The delay of nearly four to eleven years in doing this resulted in avoidable infructuous expenditure of Rs 95.22 lakh.

11.3.10 Underutilisation of man power

**Problem of idling
drivers not brought
before the board**

The operating staff for various cargo handling equipment were provided on the assumption of full utilisation of the equipment. But it was seen that utilisation of the equipment such as fork lift truck (FLT) and electric crane/mobile crane was less during 1994-98. The extent of under-utilisation ranged between 60 *per cent* and 96 *per cent*. Consequently, out of an average of 88 FLT drivers available during 1994-98, services of more than 68 drivers could not be utilised fully and effectively. The problem of idling had not been specifically put up to Board at any time. Based on the average basic pay of a driver as Rs 2720 the idle/unproductive expenditure, reckoning the basic pay element alone worked out to Rs 22.20 lakh *per annum*.

11.3.11 Payment of incentive allowance disproportionate to output

**Datum line for
incentive payments
not revised**

Shore labourers were paid incentive for attaining outputs above the datum line. As per revised scheme in vogue from March 1989, datum line for eight hours shift of a gang comprising eight mazdoors and one leader varied from 23 to 60 dead weight tonnes (DWT). Though various labour saving and mechanical devices were introduced, the datum-line was neither revised nor the gang strength re-structured. As such modernisation in cargo handling resulted in greater achievement of output far in excess of the approved datum-line, and also resulted in payment of higher incentive allowance. The details of DWT handled and incentive allowance paid to labour gang during 1994-99 are indicated below:

Table 11.3.11**(Rs in lakh)**

| Year | Output per shift (DWT) | Incentive allowance |
|-------------|-------------------------------|----------------------------|
| 1994-95 | 254 | 14.41 |
| 1995-96 | 250.6 | 14.72 |
| 1996-97 | 344 | 19.51 |
| 1997-98 | 338 | 19.49 |
| 1998-99 | 332 | 19.40 |

As per payment of incentive allowance to labour was determined with reference to DWT handled, failure to effect upward revision of the datum-line resulted in unintended pecuniary advantage to the gang.

11.3.12 Computerisation

EDP was introduced in a phased manner from March 1987. Areas like pay bill, incentive calculation, IT calculation, GPF accounting etc., were brought under EDP. It was noticed that no master pay bill register was available in the computer and that there was no in-built security system in the programme. As a result, the system was vulnerable to unauthorised alterations and tamperings. Further, there was no saving in manpower as pay bills continued to be prepared manually despite computerisation introduced long back.

The matter was referred to the Ministry in August 1999; their reply was awaited as of February 2000.

**No manpower saved
by computerised
billing system**

SECTION B (PARAGRAPHS)

Calcutta Port Trust

11.4 Loss of revenue due to misclassification of vessels

Incorrect practice of treating daughter vessels of mother tankers from foreign countries as coastal vessels resulted in short realisation of Rs 11.40 crore from Shipping Corporation of India and loss of revenue of Rs 1.30 crore.

For levying vessel related charges, the scale of rates of Calcutta Port Trust (CPT) categorises vessels arriving at Calcutta/Haldia port either as vessel engaged in foreign trade (foreign vessel) or vessel engaged in coastal trade (coastal vessel). Coastal vessel is defined in the scale of rates as vessel arriving from/proceeding to another Indian port exclusively and foreign vessel as vessel arriving from/proceeding to a foreign port either in ballast or carrying cargo loaded from/destined to foreign port.

Daughter vessels carrying crude oil brought by mother tankers from foreign countries are to be treated as foreign vessels

Daughter vessels chartered for conveyance of crude oil brought by mother tankers from foreign countries were being treated as coastal vessel, but such vessels were to be treated as foreign vessels in terms of MoST's directive of September 1986.

HDC had not taken action for implementation of MoST's directives

Haldia Dock Complex (HDC) had not taken any action for proper implementation of the MoST's directive and such vessels continued to be treated as coastal vessel. Only in June 1997 HDC rectified the incorrect practice of treating such daughter vessel as coastal vessel and issued supplementary bills from June 1995 onwards. Shipping Corporation of India (SCI) however refused to pay such supplementary bills stating (August/November 1997) that the original bills were being paid as per the provisions in the CPT's scale of rates and till any revision/change was made in the scale of rates it was not bound to pay at any rates other than what had been enumerated in the scale of rates.

Non-rectification of scale of rates resulted in short realisation of Rs 11.40 crore and loss of revenue of Rs 1.30 crore

HDC, however, had not taken any steps to rectify the scale of rates and this resulted in short realisation of revenue of Rs 11.40 crore during June 1995 to March 1999 from SCI. This was over and above the short realisation on vessels visiting HDC during September 1986 to May 1995 which availed rates applicable to coastal vessel instead of foreign vessel. HDC had not taken any action for recovery of the differential amount. Test check revealed that in 39 cases pertaining to the period from January 1992 to October 1995 HDC

suffered loss of revenue of Rs 1.30 crore due to its failure to take appropriate action.

HDC stated in May 1999 that only in 1997 it came to know of the MoST's letter of 23 September 1986 and started raising bills. HDC further stated that necessary action for realisation of revenue from SCI would be taken on getting MoST's clarification on the opinion of the Additional Solicitor General of India taken by a Government of India undertaking regarding classification of the vessel. But the fact remained that HDC failed to take appropriate action in line with the MoST's directive and suffered loss of revenue.

The matter was referred to the Ministry in April 1999; their reply was awaited as of February 2000.

11.5 Loss of revenue

Calcutta Port Trust suffered a revenue loss of Rs 2.87 crore due to non recovery of wharfage charges.

CPT has no machinery at Kantapukur Oil Depot to check details of operations

Non submission of outturn reports by IOCL

Petroleum oil lubricants (POL) products carried through barges from Haldia Dock Complex (HDC) to Calcutta Dock System (CDS) are unloaded at Budge Budge petroleum wharf, Netaji Subhas Dock (NSD) and Kantapukur oil depot. Calcutta Port Trust (CPT) recovers wharfage charges as per scale of rates for unloading operations at the three destinations in CDS. In Budge Budge and NSD, CPT has their own machinery to exercise check over the quantity handled. But in case of Kantapukur, CPT has no such machinery to check details of operation.

Scrutiny of records revealed that CPT was not recovering wharfage charges for unloading operation carried at Kantapukur depot due to non-submission of outturn reports for unloading operations by Indian Oil Corporation Limited (IOCL). On being pointed out by Audit, CPT recovered wharfage charges for unloading operations amounting to Rs 1.01 crore from IOCL payable since April 1994. This was confirmed by the Ministry in October 1999.

Further review in Audit, in the context of CPT's reply disclosed that during 1994-98 a quantity of 28.46 lakh metric tonne (MT) of POL products were transported from HDC to CDS. But unloading charges for 24.71 lakh MT only had been recovered. CPT thus failed to recover wharfage charges on the balance 3.75 lakh MT of POL products.

In the absence of proper monitoring CPT suffered a loss of Rs 2.87 crore

Thus due to absence of proper monitoring CPT suffered loss of revenue of Rs 2.87 crore for non-recovery of wharfage charges on unloading operation.

11.6 Crane purchased remained unutilised for 10 years

Calcutta Port Trust's inaction in repairing a crane which went out of commission after two years of its procurement led to idling of the crane worth Rs 38.83 lakh for over 10 years.

Crane was not repaired due to requirement of longer lead time for repair

To meet its operational requirements CPT procured in October 1986 one 10 tonne capacity diesel operated mobile crane at a cost of Rs 38.83 lakh. The crane was commissioned in November 1986.

In September 1988 it went out of commission. Thereafter, Chief Mechanical Engineer's department, CPT did not initiate any effective action to repair the crane except placing indent for spares in July 1992. The crane was lying unrepaired for 10 years and finally in February 1999 it was declared as condemned. As stated by CPT, the crane was not repaired due requirement of longer lead time for repair.

Ministry stated in December 1999 that the crane met with four accidents between December 1987 and September 1988 of which the last accident caused major damages. Ministry also stated that based on the joint inspection carried out in July 1994 by the manufacturer CPT did not take further efforts to repair the accident prone crane considering heavy expenditure and consequent economic viability of the service of the crane.

Further scrutiny of records in the context of Ministry's reply revealed that the log book of the crane did not indicate occurrence of the last accident. Records made available did not also show that CPT assessed the extent of damages or instituted an enquiry as invariably done in case of accidents. Further, out of 10 items of spares indented in July 1992 seven items were supplied by Stores Department, CPT between May and July 1993. But the spares received were neither fitted nor any further action for repair of the crane was taken. It was only in July 1994 that the Chief Mechanical Engineer carried out joint visual inspection of the crane with the manufacturer of the crane. However, no decision about the economic viability of the repair after receipt of the report from manufacturer in August 1994 was taken by CPT. The crane was lying unrepaired and finally in February 1999 it was declared as condemned. Thus, due to lackadaisical approach of CPT in taking the decision for repairing the crane, it remained unutilised for over 10 years.

Chennai Port Trust

11.7 Imprudent expenditure on leasing charges due to injudicious decision

Chennai Port Trust took four cranes on lease at a rent of Rs 465.60 lakh per annum with two per cent escalation on compounded rate for eight years, though they could have purchased four cranes themselves for Rs 12.56 crore.

The Chennai Port Trust decided in October 1994 to take four electrical level luffing wharf cranes 10 ton on lease for a period of five years on the ground that the existing fleet of 18 wharf cranes was not sufficient to meet the increasing trend of traffic of dry bulk cargo. Tenders were called in October 1994 and tender committee meetings with all the tenderers were held in February March 1995 for finalisation of technical and commercial specifications. The tender committee, while finalising the specifications, extended (May 1995) the lease period from five to eight years in view of the demand made by tenderers and on the ground that procurement of new cranes would be made only during the Ninth Plan period. The tenderers were required (May 1995) to quote their rates with reference to the revised specifications for leasing two and four cranes with and without operators. The lowest offer of Rs 477.60 lakh (inclusive of operators) or Rs 465.60 lakh (without operators) for the first year, with two *per cent* escalation on compounded rate for subsequent years, with one time payment of Rs 40 lakh as mobilisation charges and advance payment of one year lease charges (to be adjusted during the lease period of eight years at 18 *per cent* interest) was accepted, in November 1995 with the condition to supply the cranes within 10 months.

The advance payment of Rs 477.60 lakh and mobilisation charges of Rs 40 lakh were paid in December 1995 and January 1996 respectively. Four cranes were supplied between June 1997 and June 1998 as against the scheduled date of delivery of October 1996 as per agreement.

The volume of dry bulk cargo handled by all the cranes was 22.46 lakh tonne (1994-95), 24.93 lakh tonne (1995-96) , 15.96 lakh tonne (1996-97), 22.55 lakh tonne (1997-98) and 17.98 lakh tonne (1998-99). Though the availability of the existing 18 cranes was in the range of 81.2 to 90.1 *per cent* during the above period, their utilisation was only in the range of 23.8 to 35.5 *per cent*.

**Unnecessary leasing
of 4 cranes**

In this connection , the following observations are made:

- There was no substantial increase in the traffic of dry bulk cargo between 1994 and 1998. Even the marginal increase in traffic during 1995-96 was handled by Port's own cranes. The utilisation of Port's cranes was only around 35 *per cent* and it dwindled further to 28 and 30 *per cent* during 1997-98 and 1998-99 after the installation of leased cranes. The traffic handled in 1998-99 was in fact less than 1997-98 traffic although four leased cranes had been utilised in 1998-99. Hence, the decision to take four additional cranes on lease on the ground that the existing fleet of cranes was not sufficient to meet the dry bulk cargo traffic is not justified.
- Though, there were delays ranging from 9 to 21 months in the delivery of the cranes , the agreement was not cancelled on the plea that the delay in supply did not affect the interest of the Trust adversely. This clearly indicates that it was not imperative for the Chennai Port Trust to take the cranes on lease.
- Even as per the Chennai Port Trust's proposal, additional cranes were to be purchased during Ninth Five Year Plan which started from 1997-98. Hence the decision taken in 1995-96 to take the cranes on lease for eight years is not justified.
- One of the grounds for leasing cranes was that lead time required for replacing the existing cranes was long. This is not justified because the cranes taken on lease were also to be fabricated and supplied, which took 15 to 27 months from the date of agreement.
- The tenderer purchased the four cranes from a Government of India undertaking at a total cost of Rs. 12.56 crore. The Chennai Port Trust had paid Rs 5.18 crore (Rs 477.60 lakh as advance of one year lease charges + Rs 40 lakh mobilisation charges) to the contractor at the beginning of the lease period. The Chennai Port Trust was also to pay Rs 320.03 lakh towards lease charges for the first year after adjusting the repayment of advance with interest. With this total amount of Rs 837.63 lakh committed for first year, the Chennai Port Trust could have purchased two cranes themselves instead of taking them on lease. For the amount of lease charges payable each year, one additional crane could have been purchased; the cost of one crane being less than the annual lease charges for the four cranes.

Cost of one crane was less than annual lease charges for four cranes

Thus, the injudicious decision to take four cranes on lease resulted in an avoidable expenditure of Rs 5.54 crore towards lease charges paid upto July 1999 besides creating a liability of approximately Rs 27.73 crore for the remaining period of lease upto December 2004.

The matter was referred to the Ministry in July 1999; their reply was awaited as of February 2000.

11.8 Avoidable expenditure due to abnormal distribution loss

Avoidable loss of Rs 50.89 lakh due to inefficient management of electricity distribution system in the Chennai Fisheries Harbour and loss of Rs 95.83 lakh due to collection of electricity charges at low tension rates from other users.

The Chennai Port Trust was to provide, distribute and maintain electric power supply to the Fisheries Harbour, Chennai, a separate entity, on no-profit no-loss basis. Accordingly, the Chennai Port Trust obtained in September 1981 high tension power supply from the Tamil Nadu Electricity Board (TNEB) and distributed the power in the Fisheries Harbour. The Chennai Port Trust initially paid the demand of TNEB and collected the charges from the Fisheries Department of Government of Tamil Nadu upto 1985 and, thereafter, from the Fisheries Harbour Management Committee (FHMC), constituted in February 1985 by the Ministry of Agriculture, Government of India for the management of Fisheries Harbour, Chennai, and other users. The difference between the units billed by the TNEB and units consumed by the FHMC and other users was termed as "Transmission loss" and claimed from FHMC. The FHMC withheld the portion of charges relating to transmission loss from June 1991, stating that the transmission loss was on the increasing trend and they were disproportionate to the actual consumption of FHMC. It was also stated that electricity was being pilfered and all the unaccounted consumption was charged to the fisheries harbour as transmission loss. However, the FHMC paid in September 1994 the charges on transmission loss for the period from June 1991 to March 1993 and sought financial assistance from the Ministry of Agriculture, Government of India to meet the charges on account of transmission loss. As the Ministry of Agriculture did not agree to provide the financial assistance (July 1998), FHMC had not paid the transmission loss claimed by the Port Trust for the period from April 1993 to June 1999 which amounted to Rs 1.18 crore.

11.8.1 Transmission loss

A scrutiny of connected records disclosed :

The distance between the existing sub-station and the fisheries harbour was only about 500 metres, and as such the loss was due to unaccounted consumption rather than transmission loss. It was in the range of 10.6 to 17.8 *per cent* during June 1991 to August 1992. From September 1992 to July 1994, the loss was in the range of 3.3 to 11.7 *per cent*. The Chief Mechanical Engineer, Chennai Port Trust had informed the FHMC in August 1994 that transmission loss had been reduced from 12 *per cent* to 5 *per cent*. However, audit scrutiny revealed that from September 1994 to March 1999 (55 months) the transmission loss was in the range of five *per cent* or less in two months, 5.2 to 6 *per cent* in two months, 6.1 to 7 *per cent* in seven months, 7.1 to 8 *per cent* in 13 months, 8.1 to 11 *per cent* in

Avoidable expenditure of Rs 50.89 lakh due to lack of leak proof distribution system

24 months, 11.1 to 17.3 *per cent* in four months, 30 to 32 *per cent* in three months indicating that measures taken by Chennai Port Trust to reduce the transmission loss was not effective. Thus, the actual unaccounted consumption exceeded five *per cent* and the excess of 14.17 lakh units during September 1994 to March 1999 was valued at Rs 50.89 lakh. This could have been avoided by Chennai Port Trust through effective measures to meter all consumption. It is also observed that the disproportionately high unaccounted consumption was only due to lack of a leak-proof distribution system, which was the responsibility of the Chennai Port Trust.

**Loss of Rs 95.83 lakh
due to collection of
electricity charges at
LT rates**

For high tension power supply, TNEB collected, besides consumption charges, demand charges at a fixed rate. The Chennai Port Trust raised demand from other users at the slab rates fixed by TNEB for low tension power consumption. The difference between the demand raised by port trust from FHMC and other users and the amount paid to the TNEB worked out to Rs 95.83 lakh for the period from January 1995 to March 1999. The loss on this account was borne by the port trust, although the supply was to be made by the port trust on a no profit no loss basis. No effort was made to recover the same from the consumers.

Thus, the total loss of Rs 1.47 crore incurred by the Chennai Port Trust was due to inefficient management of the electricity distribution to the Fisheries Harbour.

The matter was referred to the Ministry in September 1999; their reply was awaited as of February 2000.

11.9 Loss of revenue due to non-revision of hire charges

Failure to revise the rates of hire charges in accordance with the capacity of the machinery hired out resulted in loss of revenue of

Manual of Electrical and Mechanical Engineering department of Chennai Port Trust prescribes that whenever a new machinery was purchased the details like cost of the machinery, its life etc. are to be intimated to the Financial Advisor and Chief Accounts Officer of the Port for fixation of hire charges. Section 52 of the Major Port Trusts Act, 1963, stipulated that the rate so fixed shall take effect only after it is sanctioned by the Central Government and notification issued in the gazette.

Chennai Port Trust had notified the rates of hire charges for the grabs with capacity of 1.5 cu yard and 2.5 cu yard only at Rs 296 and Rs 487 respectively for every eight hours or part thereof. As per the procedure prescribed in the Traffic Manual and Accounts Manual of the Chennai Port Trust, the pre-payment application, indicating all details like nature of work, number of machinery required and their capacity etc., are to be produced to Accounts department. After recovery of charges in advance in accordance with the Scale

of Rates, the original voucher duly endorsed by the Accounts department would be sent to the section concerned for supply of the machinery to the hirer. After supply of the machinery, the original voucher is posted with complete data about supply of the machinery and forwarded to the Accounts department for adjustment and to make refund of balance advance if any.

The Chennai Port Trust replaced all their grabs with grabs of capacity 3.5 cu metre (4.58 cu yard) during 1989-90 and grabs of 4 cu metre (5.23 cu yard) in February 1997. Even after the replacement with higher capacity grabs, the hire charges were continued to be levied and collected at the rates notified for lower capacity grabs at Rs 296 or Rs 487. This was mainly due to non-indication of capacity of the grabs requisitioned and supplied in the pre-payment application and voucher. To an audit enquiry in May 1996, the Traffic Department replied in October 1998 that the withdrawal of old grabs and commissioning of higher capacity grabs were not communicated to them. It was not clear how the Accounts Department determined and collected the advance payment when the application did not indicate the capacity in cubic metres. At the instance of audit, hire charges at a tentative rate of Rs 1000 for 3.5 cu metre grabs and Rs 1100 for 4 cu metre grabs were fixed by proportionately increasing the existing rate with reference to the increased capacity and collected by the Port from August 1997. However, the final rate of hire charges for the above grabs were not fixed, sanctioned and notified. Had the procedure laid down in the Manuals for communication of details about the purchase of machinery and determination of hire charges by the Accounts department been followed collection of hire charges at the rates applicable to the old grabs of lower capacity would not have been continued.

Final rates of hire charges not fixed or notified

Thus, failure of the Electrical and Mechanical Engineering department and the Accounts department to follow the manual provisions resulted in a loss of revenue of Rs 19.58 lakh during the period from May 1995 to July 1997.

The matter was referred to the Ministry in June 1999; their reply was awaited as of February 2000.

11.10 Loss due to irregular waiver of demurrage charges

Waiver of demurrage charges on an ineligible ground resulted in loss of Rs.13.08 lakh to Chennai Port Trust.

According to Paragraph 1 of the guidelines issued by Government of India , demurrage charges on the goods left in the transit sheds beyond the free period could be waived only when the port was not able to deliver the goods in time. The request for such waiver should be made within one month from the delivery of cargo and remissions exceeding Rs 5 lakh are to be pre-audited by the Financial Adviser and Chief Accounts Officer of the Port.

The vessel M.V Anna-A discharged its cargo in Chennai Port in three phases of berthings from 22 September 1995 to 21 December 1995. Demurrage charges of Rs 33.65 lakh was collected during November -December 1995 on

the cargo stored in the sheds beyond the free periods during first and second berthings. The Traffic department of the Port gave a “free days advice” of three days on 27 October 1995 for the goods discharged during first berthing. The agent of the importer represented to the Port Trust in his letter dated 7 September 1995, which was received by the Port in June 1996, to refund the demurrage charges already paid by them on the ground that the cargo could not be cleared by them as they were handling about four vessels and due to non-availability of space in their godown outside the port and non-availability of their transporting vehicles etc. The Traffic Manager expressed his opinion on 4 July 1996 that the request for the waiver did not merit consideration as the Trust was in no way responsible for the delay in clearance of the cargo.

**Waiver despite
advice of Financial
Adviser**

The Financial Adviser and Chief Accounts Officer had also observed that the request for waiver did not merit consideration as there was no provision for waiver either in the Scale of Rates or in the guidelines of Government on the reasons adduced by the agent. In July 1996 the Chairman of Port Trust in his Agenda note to the Board stated that the Trust’s Scale of Rates had no provision to allow concession or waiver of demurrage charges for the reasons stated by the agent. The Board, in its meeting held on 23 August 1996 resolved to allow waiver of 80 *per cent* of the demurrage charges on the cargo landed on the first occasion on the ground that the starting of the free period was not notified for the first berthing.

In this connection the following observations are made:

- i) The cargo imported (Muriate of Potash) was the one classified as ‘Overside Delivery Order’ which was to be taken delivery by the importer on unloading and the port was not to handle or take charge of the cargo. Even then free period, which is admissible only for the goods to be handled by the port, was allowed.
- ii) The agent’s letter dated 7 September 1995 was received in the port only in June 1996. The date of representation preceded even the date of first discharge. The enclosure request of the importer, bore the date as 31 January 1996. The above fact indicates that the request was not made within the time limit i.e. before 22 January 1996.
- iii) The Scale of Rates of the port, which clearly indicates the commencement and duration of free period etc. were already notified in Government gazette. The system of issue of individual notification was not in vogue. The demurrage charges were collected in this case also based on ‘free days advice’ issued by the Traffic Department of the Port as had been followed in other cases.
- iv) The agent had also not made any plea on non-notification of free days.

Hence, the waiver of 80 *per cent* of the demurrage charges on the cargo landed on the first occasion, which worked out to Rs 13.08 lakh, on the ground of non-notification of free days is not valid.

No special reasons recorded for waiver

The Port Trust replied in March 1999 that the Board's decision was in accordance with Paragraph 10 of Government guidelines. According to Paragraph 10 special reasons were to be recorded in writing for such remission. However, no special reasons were recorded in this case except 'non-notification of free days for the first berthing'. As the free period was not required to be notified, the reply is not tenable. The decision of Board is against the ruling of Financial Adviser and Chief Accounts Officer as well as the advise of the Chairman who held that request of waiver was not covered under the provisions in the scale of rates or guidelines of Government.

Thus, irregular waiver of demurrage charges by the Board resulted in a loss of Rs 13.08 lakh to Chennai Port Trust.

The matter was referred to the Ministry in May 1999; their reply was awaited as of February 2000.

Cochin Port Trust

11.11 Loss of revenue

Cochin Port Trust suffered a loss of Rs 6.57 crore due to delay in framing cost based rates for upward revision of vessel related charges.

Mention was made in paragraph 26 of Report No.4 of 1997 about loss of revenue due to delayed implementation of revised vessel related charges (berth hire charges, pilotage fees and port dues) by Cochin Port Trust (CoPT).

Despite GOIs repeated instructions CoPT did not forward the cost based tariff proposal for upward revision of vessel related charges

While approving the revision in June 1993, Government of India had observed that the revised rates would be valid for one year only. However, the rates were made operative up to March 1997 due to failure of CoPT to submit fresh cost based tariff proposals as directed by GOI in August 1995 and January 1996. In April 1997, GOI again directed CoPT to furnish the long overdue proposals for revision of tariff based on costs revenue projections within a month. Tariff Authority for Major Ports (TAMP) constituted in April 1997 observed in September 1997 that CoPT did not care to comply with GOI's repeated instructions to furnish a properly worked out cost based tariff proposals and that CoPT would be responsible for the consequences due to delays in revision of rates and implications regarding validity of rates applied during the 'unauthorised period'. It was observed that CoPT forwarded fresh proposals to TAMP only in November 1997 proposing 45 *per cent* hike on vessel related charges. Subsequently, the proposals were revised in February 1998 and August 1998 restricting the hike to 25 *per cent* for container vessels

and 33 *per cent* for other vessels. Revised rates of berth hire charges were implemented from January 1999 and those of pilotage fees and port dues from February 1999.

**Loss of Rs 6.57 crore
due to non revision**

Inordinate delay in framing cost based rates for upward revision of vessel related charges and failure to effectively follow up these proposals with TAMP, led to loss of substantial revenue to CoPT. The loss in respect of 1006 vessels which called on the port during 1997-98 worked out to Rs 6.57 crore.

CoPT stated in June 1998 that revision of vessel related charges was deferred considering the operating surplus and increase in port revenue due to devaluation. CoPT further stated that prevailing rates were higher compared to other ports and a hike in rates would have led to diversion of traffic. Ministry stated in January 2000 further that a decision on revision of tariff was interlinked with variety of factors like impact of the proposed hike on the traffic, overall economics of port operations, financial health of CoPT etc., and it was not guided by a single criterion of fixed periodicity alone. The reply was not tenable as Ministry had directed CoPT in August 1990 to revise tariff periodically, at least once in three years to meet increase in operating cost. In a cost based revision of vessel related tariff, the objective should be to recover the cost of services/facilities provided so as to economically sustain the port operations without depleting the operating surplus achieved in the past or taking resources to cross subsidisation. The argument that the revision was deferred deliberately in view of the operating surplus generated by CoPT was not borne out by facts as the Ministry as well as TAMP were repeatedly pressing CoPT to come up with cost based revision of vessel related charges.

11.12 Undue benefit to a firm

Cochin Port Trust bestowed unintended benefit to a firm aggregating to Rs 2.49 crore.

Mention was made in paragraph 38 of Report No. 4 of 1998 about unintended monetary benefit of Rs 95.25 lakh gained by a firm in the supply of the first tug to Cochin Port Trust (CoPT) due to non adoption of standard provisions on liquidated damages (LD) prescribed by Government of India and waiver of interest due on advances paid. In the Action Taken Note, Ministry of Surface Transport stated in October 1998 that waiver of interest was to tide over the financial difficulties of the supplier and the LD clause would be made more stringent in future. Further audit scrutiny disclosed the following points:

**Delay of 56 months in
supply of second tug**

The second tug, due for supply in July 1993 was delivered afloat at Kochi in March 1998 only involving a delay of 56 months. To facilitate completion of the tug and its early supply, CoPT had paid to the firm interest bearing advances aggregating to Rs 3.33 crore during June 1993 February 1996. An interest free advance of Rs 60 lakh was paid in December 1996. Though, the

Interest amounting to Rs 1.97 crore waived in June 1998

irregularity of waiver of 50 *per cent* interest (Rs 42.86 lakh) in respect of the first tug was brought to the notice of CoPT, Board of Trustees decided in June 1998 to waive interest amounting to Rs 1.97 crore accrued on the advances paid for the second tug and to refund interest of Rs 42.86 lakh (50 *per cent*) recovered from the firm in respect of the first tug (in addition to the interest already waived which was commented in paragraph 38 of Report No. 4 of 1998). In effect, the firm was given interest free advances aggregating to Rs 3.93 crore not contemplated in the contract. Amendments in June 1998 of the contract terms regarding payment of foreign exchange rate variation and price escalation for propulsion units, long after supply of tugs, viewed in the context of the persistent delays ranging from 28 to 56 months in the supply, did not serve the financial interest of CoPT. Adoption of LD clause providing for levy of LD on the unfulfilled portion of the contract only, instead of levying compensation for belated supply on the full contract value, as directed by Government of India, resulted in short realisation of LD amounting to Rs 52.39 lakh in respect of second tug also. When the agreement was reviewed in June 1998, CoPT could have modified the insufficient LD clause and the loss of Rs 52.39 lakh could have been avoided.

Failure to modify insufficient LD clause resulted in avoidable loss of Rs 52.39 lakh

Thus CoPT bestowed on the firm unintended benefit aggregating to Rs 2.49 crore towards the second tug after modifying the terms of contract for completion of supply of the tugs. CoPT stated in May 1999 that the settlement was basically a policy matter in the line with the Government directive for settlement of disputes among Public Sector Undertakings over and above the pure legal position of the contract. The reply was not tenable as the decision of CoPT was not in their financial interest.

The matter was referred to the Ministry in June 1999; their reply was awaited as of February 2000.

11.13 Loss of revenue due to delay in revision of wharfage rate

Failure to effect timely revision of rates resulted in loss of revenue of Rs 2.48 crore

Cochin Oil Terminal (COT) is a captive berth used by Cochin Refineries Limited (CRL). Consequent on the capacity expansion scheme implemented by CRL, Cochin Port Trust (CoPT) deepened the approach channel leading to COT by one metre, as required by CRL, at a cost of Rs 20.10 crore. As per the feasibility report of the work expenditure on deepening the channel and maintaining it at 38 feet was to be financed through an increase of Rs 18.35 per tonne in wharfage rate for Petroleum Oil Lubricants products. Though the increased draft was made available to CRL from March 1996 onwards enabling navigation of oil tankers of higher dead weight tonnage in the channels adjoining COT, the wharfage rate was increased from Rs 47 per tonne to Rs 65 per tonne with effect only from 1 July 1996. The delay in revision of wharfage rate, from 1 April 1996 to 30 June 1996 resulted in loss of revenue amounting to Rs 2.48 crore.

CoPT stated in April 1998 that the loss of revenue projected by Audit had not really affected its profitability. The reply is unacceptable in view of the fact that the capital dredging was completed by May 1995 and subsequent

maintenance dredging was completed in March 1996. Both were financed through loan raised from another port trust and also by drawing from the Reserve Fund of CoPT and that late enhancement in wharfage rates delayed to that extent earning of the incremental income anticipated to meet the loan repayment liability.

Ministry stated in October 1999 that CoPT did not suffer any loss as there was adequate recovery of cost, interest and return on investment during 1996-97 and that CoPT could successfully prevent CRL from raising claims for rebate on account of lesser draft in the channel during the monsoons. The contention is not tenable because of the following reasons:

- i) The revision of wharfage rates was long over due as the last revision was made in March 1989.
- ii) The revision of wharfage charges was not intended to recover the capital expenditure alone but also expected to generate enough revenues to meet the cost of services in the immediate future especially in the context of very heavy cost of maintenance dredging of the deepened channel.
- iii) The fact of earning considerable revenues in 1996-97 did not justify the delay in implementing the revised rate till July 1996. On the contrary, it emphasised the fiscal advantage that could have accrued to CoPT had the revision been done with effect from 1 April 1996.

Jawaharlal Nehru Port Trust

11.14 Infructuous expenditure on bulk wagon loading system

Bulk and bagged cargo wagon loading system procured during the project stage in 1989 at a cost of Rs 11.61 crore could not be put to use due to design deficiency in the system.

Jawaharlal Nehru Port Trust (JNPT) commenced its operations in the year 1989. Based on the recommendation of Project Consultants, Howe (India) Private Limited (HIPL) the bulk and bagged cargo wagon loading systems were procured under contract-II during the project stage in 1989 at a total cost of Rs 11.61 crore. The bulk wagon loading system consisted of two units each for loading bulk cargo into top open and closed wagons respectively whereas the bagged cargo loading system comprised 16 units of side loaders and six units of top loaders. These equipments were intended to handle fertilisers, fertiliser raw materials and food grains through grab unloaders, continuous unloader and associated conveyor system.

Audit scrutiny in February 1998 revealed that this system even at the initial trial stage could not be operated due to design deficiency and operational

Size, shape of the wagon and technology of system was not compatible with the nature of cargo handled by the port

Though in June 1997 JNPT decided to discard it as scarp, equipments were yet to be disposed off causing further deterioration

constraints. For example, the bagged handling equipment (loaders) actually consumed more time as compared to manual loading of bags into the wagons. Also, the technology of the bulk wagon loading system was not compatible with the highly corrosive nature of cargo such as urea, sulphur, diammonium phosphate etc. The dust thrown up during the cargo operations was blocking the sensors of the systems. The size and shape of the wagons were also not compatible with the handling system. These defects could have been rectified by requiring the consultants and the contractor to change the entire system during the project stage itself. Because of these design and operational constraints the equipments were never commissioned for use and the Port in June 1997 decided to dispose of them as scrap. The equipments were still to be disposed even after two years causing further deterioration.

Both the Port and the Ministry in their replies of July 1999 reiterated that there was no avenue for utilisation of the system as the consignees were located near the port and not interested in taking delivery of cargo by rail but preferred transportation by road. This reply is not tenable as based on their known location the preferences of consignees should have been taken into account while proposing such a system and due to serious design deficiencies in the equipment, the system failed to operate. The Port did little to rectify the defects. This resulted in infructuous expenditure to the tune of Rs 11.61 crore.

Kandla Port Trust

11.15 Infructuous expenditure on procurement of wharf cranes

Kandla Port Trust (KPT) procured three wharf cranes (No. 27, 28 of three tonne and no. 29 of six tonne) with estimated life of 25 years each from WMI Ltd., Bombay at a cost of Rs 1.44 crore for the 6th cargo berth. In addition, Rs 5.74 lakh was paid to Indian Registrar of Shipping (IRS) Bombay for third party inspection and certification of wharf cranes at various stages. The cranes (no. 27,28 & 29) were commissioned by the firm and taken over by KPT in April 1990, January 1988 and June 1988 respectively.

As per norms fixed by the Ministry of Surface Transport each crane was required to work at least 3000 hours a year.

The details of the working of the cranes from the date of commissioning by KPT were as under:-

Table 11.15

| Crane Number | Period in days | Total hours available | Minimum hours to be worked as per norms at 3000 hrs. per annum | Total hours worked | Hours worked during guarantee period | Hours under repairs |
|---------------------|--|------------------------------|---|---------------------------|---|----------------------------|
| 27 | 25 April 1990 to 20 October 1991 544 days | 13,056 | 4,471 | 3874 | 1515 | 248 |
| 28 | 06 January- 1988 to 19 October 1991 1383 days | 33,192 | 11,367 | 4054 | 140 | 1424 |
| 29 | 06 June 1988 to 06 October 1991 1218 days | 29,232 | 10,010 | 3896 | 34 | 2976 |

The cranes worked 30, 12 and 13 *per cent* of available working hours, went out of order from October 1991 and were lying idle since then.

After the cranes were taken over and put to regular operation, they worked sparingly due to certain defects/deficiencies which were intimated to WMI in October 1991 and the firm disowned their responsibility to rectify the defects/deficiencies as the guarantee period as well as performance guarantee had expired. KPT could not get the cranes repaired either by the manufacturers or by any other agency (March 1998).

Thus, expenditure of Rs 1.50 crore on procurement and certification of the crane was infructuous.

Expenditure of Rs 1.5 crore incurred on procurement of 3 cranes rendered infructuous as the cranes were lying idle

KPT stated in March 1998 that although the performance of the cranes was not upto the mark, the expenditure should not be considered as infructuous as creating of infrastructure facilities were requirement irrespective of its use by the port users. Reply was not tenable as infrastructure facilities are to be created for further use in the instant case facilities were created with defective equipments which worked only for two to three years as against estimated life of 25 years.

The matter was referred to the Ministry in October 1999; their reply was awaited as of February 2000.

Mumbai Port Trust

11.16 Blocking of funds

Wrong decision of Mumbai Port Trust to use organic coating on newly laid pipelines resulted not only blocking of funds of Rs 350.93 lakh but also wastage of pipe worth value of Rs 5.95 lakh. While pipe valuing at Rs 29.57 lakh lying unused with the MBPT since 1994.

The scheme of replacement of ageing and deteriorated oil pipelines for bunkering of crude oil was included in the Eighth Five Year Plan (1990-95). The work envisaged fabrication and lying of 12" dia pipeline in the first phase and 8" dia pipeline in the second phase.

The Port indented in March 1991 and procured 8000.35 meters of 12" dia steel pipes worth Rs 124.54 lakh in February 1994 and spent Rs 38.10 lakh in June 1994 towards coating and wrapping of 7519.12 metres of pipes. Following due process of tendering in July 1994, the work of laying down of 12" dia pipeline of the first phase, to be completed in three segments, was entrusted to a company at a cost of Rs 65.94 lakh in December 1994. The work, scheduled to be completed in June 1995 was completed in May 1997, after a delay of about two years, by using 6257 metres of coated and wrapped pipes leaving a balance of 1743 meters of surplus pipes worth Rs 33.52 lakh (including Rs 6.39 lakh towards cost of coating and wrapping of 1261.77 metres of pipes). For the second phase of laying 8" pipelines of 4600 metres length, the Port procured 4704.44 metres of steel pipes worth Rs 48.33 lakh in February 1994, awarded the work in March 1997 to the same firm and got it completed in January 1998 at a cost of Rs 112.12 lakh.

Inordinate delay in completion of work

872 meters of pipeline laid at the cost of Rs 26.20 lakh was leaking and not fit for use

In August 1997, while testing the third segment of the pipelines of the first phase, the Port noticed that about 872 metres of pipelines in this segment laid at the cost of Rs 26.20 lakh was leaking at certain portion and not fit for use. Hence, the whole pipelines laid in two phases at a cost of Rs 178.06 lakh could not be put to operation immediately on its completion in January 1998. Since the Port could not locate exact points of leakage in coated and wrapped pipes used for the pipelines, it decided to utilise the available unaffected pipes by relaying them about the ground and could make the pipelines operational only in July 1999.

Pipeline could not be made operational due to formation of micro cracks and corrosion pinholes in the newly laid pipes

It was observed that the pipes procured in 1994 could be laid only in 1997 for the first phase and in 1998 for the second phase, after a delay of three/four years. And yet it could not be made operational even after completion of the pipelines for about one and half years because of leakage due to formation of micro-cracks and corrosion pinholes in the newly laid pipes. The delay in

laying the pipelines by the Port contributed to the blocking of funds to the tune of Rs 350.93 lakh (cost of pipes Rs 172.87 plus cost of laying down Rs 178.06) for inordinately long period. It resulted in depriving the Port of the revenues from the users. Further, while surplus pipes worth Rs 29.57 lakh procured in 1994 hitherto remained unused (November 1999), pipes worth Rs 5.95 lakh had gone waste.

Ministry admitted in November 1999 that there was a delay in laying the pipes and the wastage thereof and the unutilised pipes would be put to use for repair and replacement of old pipelines. The fact however remained that the port failed to take into account environmental factors which caused failure of newly laid pipes calling for replacement and relaying.

11.17 Infertuous expenditure on procurement of heavy duty forklifts

Purchase of heavy duty forklifts not warranted by trends in imports led to infertuous expenditure of Rs 2.20 crore.

The scheme for procurement of heavy duty forklifts for handling heavier cargos such as steel coils was included in the 8th Five Year Plan. Accordingly a proposal was made for procurement of three diesel forklifts (2 of 12 T and one of 16T capacity) at 900 mm load centre each along with ram attachments. A detailed estimate amounting to Rs 148.34 lakh for this was submitted to the Board in January 1993 and February 1993. The Board deferred the above proposal stating that department should firm up their proposals after proper study and bring the item for consideration in a fortnight's time.

Without any further study in May 1993 the Port submitted a proposal for procurement of four heavy duty 16 tonne forklifts with ram attachment at a cost of Rs 270 lakh. This was approved by the Board and the forklifts were procured at cost of Rs 2.20 crore in April 1995 and commissioned in the year 1995-96.

Audit scrutiny revealed that between May 1995 and August 1999 the utilisation of forklifts never crossed 33 *per cent* in terms of the number of shifts for which these forklifts were supplied.

MBPT in March 1997 admitted that the utilisation of the forklifts was low due to lower demand by Traffic Department and steps were being taken to improve the situation.

The purchase of forklifts of 16 tonne capacity was made without any analysis of the estimated cargo which these forklifts would handle and the demand for these equipments by the Traffic Department. There was no feasibility study made of the trends of import which would have indicated the actual requirements vis-à-vis the projected requirement.

**Utilisation was low
due to lower demand**

Thus four forklifts worth Rs 2.20 crore were procured by the port without proper planning and without any consideration of the future utilisation of such expensive equipment thereby leading to infructuous expenditure to the extent.

The matter was referred to the Ministry in July 1999; their reply was awaited as of February 2000.

11.18 Blocking of funds

Despite Board's decision of January 1993 to discontinue the practice of purchase and supply of steel to contractors Mumbai Port Trust procured steel worth Rs 64.94 lakh between December 1993 and October 1995 which was lying unutilised resulting in the blocking of funds.

In January 1993 Board of Mumbai Port Trust (MBPT) decided to discontinue the practice of purchase and stocking of cement and steel for issue to the contractors in all future contracts.

It was noticed in audit that inspite of the Board's decision of 1993 to discontinue the purchase of steel, 276.780 ton was purchased between December 1993 and October 1995 and a total quantity of 504.330 ton worth Rs 71.10 lakh (inclusive of previous balance of 227.550 ton) was lying unutilised as of October 1997. In the meeting of the Board of Trustees held on 30 October 1995 it was proposed to issue the surplus steel to the contractors for use in ongoing project at the prevailing market rate till December 1996 and to auction the balance quantity if any. As on January 1999, 47.767 ton steel was issued to the contractors and the balance quantity of 456.563 ton worth Rs 64.94 lakh was lying unutilised as there was hardly any project in which the surplus steel could be utilised. Though it was decided to start disposal action by January 1997 no action had been initiated so far.

Ministry stated in November 1999 that out of 276.780 ton procured between December 1993 and September 1995, 201.33 ton was for the ongoing Pir Pau Pier project which was under execution and the balance comprised procurement for recouping stock and building minimum stock. The reply is not acceptable as the MBPT could not utilise the above quantity of steel also for ongoing projects. Out of 201.33 ton, a quantity of 31.253 ton could only be utilised as on 15.1.99. Moreover, there was a balance of 227.550 ton available with MBPT for supply to ongoing projects. As admitted by the Ministry, MBPT had been left with huge balance. This resulted in blocking of funds of Rs 64.94 lakh.

Steel worth Rs 64.94 lakh was lying unutilised as there was no project in which the surplus steel could be utilised

11.19 Avoidable expenditure on procurement of spare parts

MBPT procured Spare parts worth Rs. 32.55 lakh during 1991 to 1995 for the top lift truck which were decommissioned and were beyond economical repairs. These spare parts were lying unused resulting in blocking of fund of Rs 32.55 lakh.

Mumbai Port Trust (MBPT) acquired five top lift trucks (TLTs) for handling containers in the Railway container yard in 1983 at a cost of Rs 212.30 lakh. The expected life of the TLTs was eight years, which expired in 1991.

Out of five TLTs, four were decommissioned in the months February 1993, June 1994, October 1994 and June 1995 as they were beyond economical repairs. One TLT continued to be stationed at the domestic container yard in Wadala. The performance of the TLTs during 1991-1995 was below average ranging from 18 to 20 *per cent* as against the utilisation norms of 35 *per cent* given the fact that there were serious structural problems leading to major breakdowns.

Due to non functioning of the TLTs, MBPT entered into a contract for hiring TLTs and started hiring from October 1993 onwards. In the meantime, it also procured spare parts worth Rs 32.55 lakh during 1991 to 1995 for the existing TLTs. In May 1998 it was however seen in audit that the spare parts worth Rs 32.55 lakh were lying unused. No action was initiated to dispose off these spare parts.

Thus imprudent purchase of spares resulted in surplus stock and there by led to blocking of Rs 32.55 lakh.

In reply the Ministry stated that though the life span of the TLTs expired in 1991, with proper maintenance, the equipment may work well beyond its economic life and hence the spares were purchased during 1991 to 1995.

The above reply is not tenable due to the fact that all the TLTs were undergoing major repairs during 1991 to 1995 and the department was well aware that even with the procurement of spares, the equipments had outlived their expected life and were therefore requiring decommissioning. Hence there was no need to buy the spares which finally remained unutilised.

No action was initiated to dispose off spare parts

New Mangalore Port Trust

11.20 Avoidable payment of escalation charges

New Mangalore Port Trust paid Rs 38.90 lakh towards escalation charges due to its failure to incorporate specific exclusion of item of work for which lump sum rate was agreed to from the cost of work.

In order to provide facilities for handling crude Petrol Oil and Lubricant products for a new refinery being set up at Mangalore, the New Mangalore Port Trust (NMPT) awarded the work relating to “Construction of New Crude Oil Berth” (Rs 13.31 crore), “Strengthening of existing oil jetty” (Rs 5.96 crore) and “Extension of Northern and Southern break water” (Rs 11.99 crore) to AFCONS, Mumbai in July 1994. Actual cost on completion of these works (between December 1995 to March 1996) was Rs 16.97 , Rs 6.24 and Rs 12.68 crore respectively.

Failure of stipulate in the contract exclusion of items paid for on actual basis from gross value of works for calculation of escalation resulted in loss of Rs 38.90 lakh

As per the specifications of the tender documents the preliminary items viz. mobilisation, demobilisation, performance security insurance etc., were to be executed at a lumpsum rate. These items of work however, were not specifically excluded for the purpose of escalation, and an amount of Rs 38.90 lakh was paid towards price escalation for all the three works. The omission to incorporate specific exclusion from the cost of work of the items of work for which lump sum rates were agreed to for operation of escalation clause resulted in an avoidable payment of Rs 38.90 lakh.

NMPT stated in July 1998 that the approved conditions of escalation were incorporated as per CPWD form, which did not specify exclusion of escalation for mobilisation and demobilisation, and different escalation formulae were adopted for similar works executed prior to 1987, as specific clause of ‘no escalation was payable for mobilisation and demobilisation’ were incorporated. The Ministry of Surface Transport further clarified in August 1999 that in large contracts considerable time was spent in evaluating the technical bid and opening of the price bid, and the contractors were not compensated during these intervening period and there was possibility of the contractors spreading the risk of inflation under other variable items if escalation was not allowed on fixed items , which would result in unintended benefit to the contractor in case of additional work entrusted to them.

The replies are not tenable. Even after the revision of the CPWD form for such contracts in 1987 the portion dealing with escalation at Clause 10 (cc) remained unchanged. No escalation charges were payable on any advance, including mobilisation advance. As the contractor had agreed to execute the work on lump

sum contract for execution of the complete work with all its contingencies for a fixed sum and it was not a rate contract, no escalation payments should have been made. The incorporation of the stipulation as in the previous contracts would have benefited NMPT with a saving of Rs 38.90 lakh.

Paradip Port Trust

11.21 Loss of revenue

Paradip Port Trust suffered a loss of Rs 2.43 crore due to misclassification of chrome concentrate under the category of chrome ore thereby charging wharfage at a lower rate.

According to the scale of rates of Paradip Port Trust (PPT), wharfage charges leviable on 'Chrome Ore' and 'Ferro Alloys and other processed ores' were Rs 76 per ton and Rs 100 per ton respectively upto 4 October 1993 and the same were Rs 85 per ton and Rs 115 per ton thereafter. The scale of rates of PPT did not specify any separate rate for 'Chrome Concentrate' i.e. processed chrome ore.

It was noticed in audit that a quantity of 8.22 lakh ton of 'Chrome Concentrate' was exported during 1993-98 by charging the wharfage at the rate applicable to 'Chrome ore' instead of the higher rate applicable to the processed ores under 'Ferro Alloys and other processed ores'. Since Chrome Concentrate was a processed ore unlike the chrome ore, in the absence of any specific rate for the same in the scale of rates, it should have been categorised under the 'Other processed ores to attract wharfage charges at the rate of Rs 100/115 per ton. Failure to do so by PPT resulted in loss of revenue of Rs 243.44 lakh.

PPT stated in November 1997 that Chrome Concentrate was nothing but a washed chrome ore like washed coking coal and hence was categorised as Chrome ore. The contention of the PPT was not tenable as Chrome ore and Chrome Concentrate were different materials, the former being raw ore, while the latter was a processed ore.

The matter was referred to the Ministry in June 1999; their reply was awaited as of February 2000.

11.22 Loss of revenue due to misclassification

Paradip Port Trust suffered a loss of Rs 18.64 lakh due to misclassification of high carbon ferro chrome under the category of ferro alloys and other processed ores.

According to para 3.1 of scale of rates-1993 for Paradip Port Trust (PPT), charge chrome attracts wharfage charge of Rs 150 per ton or part thereof whereas ferro alloys and other processed ores on the other hand attract Rs 115 per ton.

Chemical composition mentioned in the shipping bill showed that HCFC had more chromium than contained in charge chrome

It was noticed in audit that a consignment of 53253 ton of high carbon ferro chrome (HCFC) was exported during 1996-97, charging wharfage at the rate of Rs 115 per ton, a rate applicable to Ferro Alloys and other processed ores from the agency. Chemical composition of HCFC and charge chrome mentioned in the shipping bills indicated HCFC had more percentage of chromium than that of charge chrome. As such the wharfage applicable to charge chrome i.e. Rs 150 per ton as stipulated in the scale of rates, would have been charged to HCFC instead of Rs 115 per ton meant for ferro alloys and other processed ores. Thus, misclassification of HCFC under ferro alloys and other processed ores led to loss of revenue of Rs 18.64 lakh.

On being pointed out by Audit, the PPT stated that in the export application the name of cargo was declared as HCFC and was accepted by the customs authorities. There was no provision in the scale of rates to take the chemical composition of a cargo for charging wharfage. The rate of wharfage for different types of cargo had been fixed by a committee and therefore charging wharfage at the rate of Rs 115 per ton in respect of HCFC was in order. The reply was not tenable since it could not explain as to how the HCFC was classified under ferro alloys and other processed ores for purpose of charging wharfage at the rate of Rs 115 per ton. In the absence of any specific rate for a particular product in the scale of rates, the authority while charging the wharfage of HCFC should have considered the chemical composition of both the products i.e. HCFC and charge chrome that was available in the shipping bills for correct classification and realisation of applicable revenue.

The matter was referred to the Ministry in June 1999; their reply was awaited as of February 2000.

Tuticorin Port Trust

11.23 Loss of revenue due to irregular fixation of siding charges

Fixation of siding charges for the private use of Port's siding at an adhoc lower rate for a particular company alone resulted in loss of revenue of Rs 1.84 crore.

As per the Tuticorin Port Trust's (TPT) Scale of Rates, revised in 1990, the siding charges for the use of Port's Railway siding from Milavittan to Harbour or for any shorter distance between those two points were to be collected at the rate of Rs 8.50 per tonne for shipping operation and Rs 10 per tonne for private use.

Southern Petrochemical Industries Corporation Limited, a private sector company, was maintaining its own metre gauge railway siding linking TPT's Marshalling yard and its factory from 1976 in the land leased by the Port. For the private use of the Port's siding from marshalling yard to the Railway's yard at Milavittan, siding charges were collected from the company at the rate prescribed in the scale of rates. Consequent on the conversion of Port's metre gauge siding into broad gauge siding the company surrendered the land to the TPT after removing its siding in November 1993 and moved its goods from its factory to Milavittan through lorries. Based on a request, the TPT again allotted the land in 1996, for re-laying company's private siding on broad gauge from its factory to the Port's marshalling yard. The private siding of the company was opened in July 1996.

During the general revision of Scale of Rates in March 1995, while proposing an increase in the rate of siding charges for private use from Rs 10 to Rs 14 per ton, TPT proposed an adhoc rate of Rs 5 per ton for the cargo loaded in the company's siding and passing through Port's marshalling yard, on the plea of trade promotion. The rate of Rs 14 for private use and an ad-hoc rate of Rs 5 for the company's goods were approved by Ministry of Railways in January 1996 and August 1996 respectively. Besides, TPT started incurring loss of Rs 1.41 lakh during 1996-97; Rs 36.37 lakh during 1997-98 and Rs 86.93 lakh during 1998-99 being the excess of operation expenses over the income earned by the Port's siding.

Even while the company was maintaining its own metre gauge railway siding upto the marshalling yard till November 1993, the company was treated on par with other private users. The company had relaid its private siding in broad gauge only for its own benefit. Hence, while enhancing the rate for private use from Rs 10 to Rs 14 per ton, the fixation of lower adhoc rate of Rs 5 per ton for this particular company alone on the plea of trade promotion is

Adhoc lower rate of Rs 5 per ton was fixed for this particular private company

not justified. This adhoc rate was lower than the rate of Rs 10 per ton charged from the same company prior to 1993.

At the instance of Ministry (December 1997), following the audit observation (June 1997) pointing out the loss of revenue due to unrealistic fixation of adhoc rate, the TPT in November 1998 proposed slab rates-Rs 15 per ton upto 3 lakh ton, Rs 12 per ton above 3 lakh and upto 6 lakh ton, Rs 10 per ton above 6 lakh ton. The Ministry of Railways approved (June 1999) only Rs 7 per ton for the cargo handled by the company.

When the loss of revenue on account of the injudicious fixation of low rate to the company was referred to the Ministry of Surface Transport in May 1999, the Ministry in October 1999 replied that the company was using the track only between the TPT's Marshalling Yard and Milavittan (length-12.80 km), the TPT had the advantage of getting more contribution from the company to meet the cost of maintenance of entire track (length -17.60 km) and the Ministry of Railways approved (June 1999) only Rs 7 per ton even though TPT had proposed a higher rate. The reply is not tenable since the rates of siding charges fixed in the scale of rates would apply even for shorter distance and the TPT was collecting siding charges at the rate of Rs 14 per ton from others for their private cargo for the same distance i.e., between Marshalling Yard and Milavittan, besides, the TPT was incurring only loss in operation of Railway siding. Further the TPT requested (June 1999) the Ministry of Railways to approve the rates proposed in November 1998 by it, observing that the Ministry of Railways had not called for the remarks of the Port before approving the rate of Rs 7 per ton, which affected the revenue of the Port.

The unjustified fixation of an ad-hoc rate of Rs 5 per ton for a particular port user as against the normal rate of Rs 14 per ton fixed for other private users resulted in a loss of revenue of Rs 1.84 crore for the period September 1996 to February 1999.

Irregular fixation of an exceptionally low rate resulted in a loss of revenue of Rs 1.84 crore

Visakhapatnam Port Trust

11.24 Imprudent payment of advance to sick supplier

Advance of Rs 2.57 crore paid to supplier of electrical wharf crane ignoring advice of FA & CAO regarding supplier's financial health.

Visakhapatnam Port Trust (VPT) placed orders in March 1996, for a 15 ton electrical wharf crane on company 'A', the lowest bidder. The supplier was paid Rs 2.57 crore as advance between October 1996 and May 1999. The

Purchase order placed on sick company despite finance wing's advice against it.

equipment, which was scheduled to be commissioned in May 1997, was supplied as late as September 1999.

Audit scrutiny revealed that even at the time of placement of orders the Board of Trustees of VPT was aware that the supplier was facing financial difficulties. The Deputy Financial Advisor and Chief Accounts Officer (DFA & CAO), who was sent in November 1995 to assess the financial and technical capacities of company 'A', reported that the working capital and net worth of the company were negative. The company had been referred to the Board for Industrial and Financial Reconstruction (BIFR) in February 1995. In view of the poor financial position, the DFA & CAO expressed reservations about the likelihood of timely supply of the equipment by the company and suggested negotiation with other suppliers. However, the BoT ignored the advice, placed orders on the sick company and paid advance of Rs 2.57 crore.

VPT replied in October 1999 that the crane had been erected and load trials were conducted satisfactorily in September 1999 and the supplier was attending to certain minor problems before commissioning of the crane. However, the fact remains that the electrical wharf crane, which should have been commissioned in May 1997, was yet to be commissioned (October 1999). The advance of Rs 2.57 crore paid ignoring financial advice remained idle without any addition to the Port facilities.

The matter was referred to the Ministry in November 1999; their reply was awaited as of February 2000.

11.25 Non-levy of pilotage fee on re-entry of vessels

The Port Trust suffered a loss of revenue of Rs 2.14 crore during 1998-99 alone due to non-application of tariff in respect of pilotage fee on re-entry of vessels.

A vessel on its arrival remains at "Roads". A Port pilot tows the vessel into inner/outer harbour with the help of tugs. After unloading, some of the vessels are towed back to wait at the "Roads" for want of adequate cargo till a berth is provided again for loading as and when cargo is ready. This process is at times repeated more than once for the same vessel depending upon the availability of cargo for loading.

The scale of rates prescribed from time to time provided for collection of pilotage fee for the "first shifting for each entry" of the vessel which was inclusive of fee for (a) towage (b) mooring and (c) unmooring. VPT, however, had not been collecting pilotage fee for the second and subsequent entries though required to do so as services provided for the second and subsequent entries of the vessel from "Roads" to working berths were in no way less than those provided on first entry.

* Specified area within Indian sea water but outside the outer harbour.

Fee not collected for second and subsequent entry of vessels

Test check of records revealed in March 1999 that 47 vessels had re-entered the port more than once for loading the cargo during the year 1998-99 but had not been charged the pilotage fee. The loss of revenue on this account as worked out by Audit was Rs 2.14 crore for the year 1998-99 alone, the loss for earlier period could not be worked out due to non-production of relevant records.

VPT contended in March 1999 that no provision existed for collection of pilotage fee for the second and subsequent entries of the vessels. The reply was not tenable since the prescribed scale was for each entry. Further, VPT was collecting other charges known as 'Port dues' for each entry, including re-entries.

Thus, due to non-levy of pilotage fee, on re-entry of vessels, VPT has suffered loss of revenue aggregating Rs 2.14 crore for the period from April 1998 to March 1999 alone.

The matter was referred to Ministry in July 1999; their reply was awaited as of February 2000.

11.26 Avoidable payment of customs duty

Failure of the Visakhapatnam Port Trust to get its ship repair unit registered with the Director General of Shipping resulted in an avoidable payment of Rs 63.41 lakh.

Capital goods and spares, components, raw material, material handling equipment and consumables imported by a ship repair unit registered with the Director General of Shipping (DG) are exempt from payment of customs duty when imported for undertaking repairs of ocean-going vessels including tugs, dredgers, fire boats and salvage ships.

Customs paid despite provisions for exemption

The VPT imported spares, consumables, for replacement/repairs to ocean-going vessels during October 1996 to March 1998, paying customs duty aggregating Rs 63.41 lakh because its ship repair unit was not registered with the DG (Shipping). On this avoidable payment being pointed out in audit, VPT confirmed in May 1999 the factual position but without indicating remedial action if any proposed to be taken by it to avoid such payment in future.

Thus, failure of the Visakhapatnam Port Trust to get its ship repair unit registered resulted in its having to make an avoidable payment of customs duty of Rs 63.41 lakh during 1996-98 alone.

The matter was referred to the Ministry in July 1999; their reply was awaited as of February 2000.

11.27 Avoidable expenditure due to incorrect specification

Avoidable expenditure of Rs 32.98 lakh on repair and replacement of locomotives due to incorrect specification in the purchase order.

Premature failure of locomotives due to incorrect specification in the purchase order

Controller of Stores of VPT placed orders in November 1989 on Bharat Heavy Electricals Limited (BHEL) for supply of two 700 HP diesel locomotives at a cost of Rs 250.71 lakh. In the purchase order it was stipulated that the locomotives should be able to push 28 wagons on a gradient of one in 400. Both the locomotives (OHC-7 and OHC-8) were commissioned in April 1990. However, even during the warranty period of two years, the performance of both locomotives was very poor. BHEL observed (November 1992) that the actual capacity of the locomotives should have been to push 25 to 28 wagons of 92 ton each on a gradient of one in 40 over a length of 200 meters on a straight line instead of the wagon capacity of one in 400 specified in the purchase order. The premature failure of the locomotives was attributed to the above incorrect specification which resulted in operations far in excess of track conditions specified in the purchase order.

In order to make both the locomotives operational the Port Trust had to incur expenditure of Rs 32.98 lakh on repair and replacement during the period February 1993 to December 1993. Even after replacement/repairs, one of the locomotives remained idle since February 1995 and the other was kept as stand-by.

Failure of the Port Trust authorities to incorporate the correct specification of the locomotives resulted in incurring avoidable payment of Rs 32.98 lakh on repairs/replacement. Besides, equipment worth Rs 283.69 lakh remained partially utilised for only five years over its prescribed life of 30 years.

The Port Trust replied in August 1999 that the dispute relating to the premature failure of the locomotives was yet to be settled and the Ministry had taken up the matter with the Department of Heavy Industry (Administrative Ministry for BHEL). However, the port trust authorities were yet to fix responsibility for incorporation of incorrect specification in the purchase order.

The matter was referred to the Ministry in November 1999; their reply was awaited as of February 2000.

11.28 Failure to accept offer for supply at old rates

Avoidable extra expenditure of Rs 10.83 lakh incurred on spares due to non-acceptance of offer of foreign supplier to supply at old rates.

Offer of foreign supplier to supply at old rates not accepted

VPT placed an order in November 1996, for supply of one piece of slew bearing, a spare part for electrical wharf crane, for Rs 17.26 lakh on a foreign firm. In December 1996, when one more piece of the spare part for another

crane was needed, even though the same foreign firm was prepared to supply the spares at the old rates, the Chairman of VPT decided to call for global tender.

Avoidable extra expenditure of Rs 10.83 lakh due to non-acceptance of offer

In response to the global tender, a single tender of the same foreign firm was received and purchase order for two pieces of the spares for Rs 45.35 lakh at the rate of Rs 22.675 lakh each, was placed in August 1998. Failure of the VPT authorities to utilise the offer of the foreign firm to supply the material at old rates resulted in avoidable extra expenditure of Rs 10.83 lakh on the two pieces of spares ordered subsequently.

The matter was referred to the Ministry in November 1999; their reply was awaited as of February 2000.

11.29 Recoveries made at the instance of Audit

The observations of audit on the financial transactions of central autonomous bodies conducted under various provisions of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 were communicated to the autonomous bodies concerned for remedial action.

The major items of recoveries made at the instance of audit during 1998-99 by five port trusts amounted to Rs 177.83 lakh as detailed in the Appendix XXX.