

## CHAPTER II

### Performance review relating to Statutory Corporation

#### 2 Himachal Road Transport Corporation

##### Executive Summary

*The Himachal Road Transport Corporation (Corporation) provides public transport in the State through its 23 depots. The Corporation had fleet strength of 1,908 buses as on 31 March 2009 and carried an average of 1.20 lakh passengers per day during 2008-09. It accounted for a share of 41.26 per cent in public transport with rest coming from private operators. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the buses model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.*

##### **Finances and Performance**

*The Corporation suffered a loss of Rs. 34.18 crore in 2008-09. Its accumulated losses and borrowings stood at Rs. 512.23 crore and Rs. 140.01 crore as at 31 March 2009, respectively. The Corporation earned Rs. 25.19 per kilometre and expended Rs. 27.34 per kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to reduce costs, so as to earn profit and serve its cause better.*

##### **Declining share**

*Of 4,624 buses licensed for public transport in 2008-09, about 41.26 per cent belonged to the Corporation. The percentage share of the Corporation*

*increased from 40.35 per cent in 2004-05 to 41.82 per cent in 2007-08 but decreased marginally to 41.26 in 2008-09. The decline in share during 2008-09 was mainly due to its operational inefficiency. Nonetheless, vehicle density (including private operators buses) per one lakh population increased marginally from 65.31 in 2004-05 to 66.85 in 2008-09 indicating stability in the level of public transport in the State.*

##### **Vehicle profile and utilisation**

*Corporation's buses consisted of own fleet of 1,881 buses and 27 hired buses as on 31 March 2009. Of its own fleet, 588 (31.26 per cent) were overage. The percentage of overage buses increased from 24.46 per cent in 2004-05 to 31.26 in 2008-09 due to non-replacement of overage buses though the Corporation acquired 960 new buses during 2004-09. The acquisition was funded through grant-in-aid of Rs. 40 crore and share capital contribution of Rs. 36.24 crore from the State Government. Corporation's fleet utilisation at 98.67 per cent in 2008-09 was above All India Average (AIA) of 90.01 per cent. Its vehicle productivity at 224 kilometres per day per bus was above the AIA of 196 kilometres for hilly areas. Similarly, its load factor at 64.83 per cent in 2008-09 remained above the AIA of 63 per cent. Though, the Corporation did well on operational parameters, its 95 per cent schedules of buses were unprofitable due to high cost of operations. The Corporation did not carry out preventive maintenance as required in 12.70 to 13.53 per cent cases during 2004-09.*

#### **Economy in operations**

Manpower and fuel constitute 72.97 per cent of total cost. Interest, depreciation and taxes account for 14.22 per cent and are not controllable in the short term. Thus, the controllable expenditure has to come from manpower and fuel. The Corporation succeeded in reducing the manpower per bus from 5.09 in 2004-05 to 4.41 in 2008-09 though the manpower cost rose from Rs. 8.44 to Rs. 10.60 per effective Km in 2004-09. Further, the expenditure on repairs and maintenance was Rs. 66.24 crore (Rs. 3.52 lakh per bus) in 2008-09 of which nearly 44 per cent was on manpower. The Corporation did not attain its own fuel consumption targets resulting in excess consumption of fuel valued at Rs. 5.26 crore.

The Corporation had just 27 hired buses where bus owners provide buses with drivers and incur all expenses. The Corporation provides conductors and makes payment as per kilometres operated. Since the net loss per effective Km of hired buses was lower than the same in respect of owned buses, this arrangement has the potential to cut down the cost substantially. The Corporation needs to explore possibility to replace overage buses by hired buses in future.

#### **Revenue maximisation**

The State Government reimburses the cost of concessional/free passes and operation on uneconomical routes. However, against the claim of Rs. 311.92 crore lodged by the Corporation, the State Government had reimbursed Rs. 231 crore only leaving a sum of Rs. 80.92 crore unrecovered.

#### **Need for a regulator**

The fare per kilometre stood at 92.50

paise from February 2008. Though the Government approves the fare increase, there is no scientific basis for its calculation. The Corporation has also not formed norms for providing services on uneconomical schedules. Thus, it would be desirable to have an independent regulatory body (like Public Tariff Commission as envisaged by the State Government) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

#### **Inadequate monitoring**

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. The shortfall in operations is required to be deliberated upon in the Board of Directors with suitable remedial actions to be taken. However, the Corporation lacked in these aspects and could not control the cost by exercising effective management control over operational parameters.

#### **Conclusion and recommendations**

Though the Corporation is incurring losses, it is mainly due to its high cost of operations, negligible reliance on hired buses and low fare structure. The Corporation can control the losses by reducing operational cost and resorting to hiring of buses. This review contains five recommendations to improve the Corporation's performance. Reduction of operational cost, hiring of buses and effective monitoring by top management are some of these recommendations.

## Introduction

**2.1** In Himachal Pradesh, the public road transport is primarily provided by Himachal Road Transport Corporation (Corporation), which is mandated to provide an efficient, adequate, economical and properly co-ordinated road transport. The State Government also allows the private operators to provide public transport. The State Government has reserved certain routes exclusively for the Corporation while both Corporation and private operators have been allowed to operate on some other routes. The fare structure is controlled and approved by the State Government. This structure is same for both the Corporation as well as private operators.

The Corporation was incorporated in September 1974 by the State Government under Section 3 of the Road Transport Corporations Act, 1950 as a wholly owned Corporation of the State Government. The Corporation is under the administrative control of the Transport Department of the Government of Himachal Pradesh. The Management of the Corporation is vested with a Board of Directors comprising Chairman<sup>#</sup>, Managing Director (MD) and the Directors appointed by the Government of Himachal Pradesh. The day-to-day operations are carried out by the MD, who is the chief executive of the Corporation, with the assistance of Chief General Manager, Divisional Managers and Financial Advisor & Chief Accounts Officer at the Head Office. The Corporation has four\* Divisional Offices, 23 Depots and four\* Divisional Workshops. The bus body building and tyre retreading operations are carried out at three out of four Divisional Workshops (except Taradevi). In addition to Divisional Workshops, Workshops are also attached to the Depots for carrying out day to day repair and maintenance of the vehicles.

The Corporation had a fleet strength of 1,908 buses as on 31 March 2009 including 27 hired buses. The Corporation carried an average of 1.10 lakh to 1.20 lakh passengers *per day* during 2004-05 to 2008-09. The Corporation's share in the passenger transport operations in the State was 39.36 to 41.82 *per cent* and the private operators accounted for the remaining share. The turnover of the Corporation was Rs. 401.18 crore in 2008-09, which was equal to 1.09 *per cent* of the State Gross Domestic Product. The Corporation employed 8,413 employees as on 31 March 2009.

A review on the working of the Corporation was included in the Report of the Comptroller and Auditor General of India for the year ended March 1997 (Commercial), Government of Himachal Pradesh. The Report was discussed by COPU during June 1999 and recommendations of COPU were received in November 1999. The recommendations made by COPU did not relate to the areas covered in the present performance audit review.

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# Hon'ble Transport Minister, Government of Himachal Pradesh.  
\* Dharamshala, Hamirpur, Mandi and Shimla.  
♣ Jassure, Mandi, Parwanoo and Taradevi.

## Scope of Audit and Audit Methodology

**2.2** The present review conducted during February to June 2009 covers the performance of the Corporation during the period from 2004-05 to 2008-09. The review mainly deals with operational efficiency, financial management, fare policy, fulfillment of social obligations and monitoring by top management of the Corporation. The audit examination involved scrutiny of records at the Head Office, two ♦ Divisional Workshops and six ♦ out of the 23 Depots. Selection of Depots for audit was made on the basis of operation of bus services in urban, rural, tough, moderate, semi plain areas and inter/intra State. The Divisional Workshops were selected on the basis of volume of operations. The fleet strength and turnover of selected units (Depots and Workshops) was 553 buses and Rs. 110.06 crore against the total fleet strength of 1,908 buses and turnover of Rs. 401.18 crore respectively as on 31 March 2009.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

## Audit Objectives

**2.3** The objectives of the performance audit were to assess:

### Operational Performance

- the extent to which the Corporation was able to keep pace with the growing demand for public transport;
- whether the Corporation succeeded in recovering the cost of operations;
- the extent to which the Corporation was running its operations efficiently;
- whether adequate maintenance was undertaken to keep the vehicles roadworthy; and
- the extent to which economy was ensured in cost of operations.

### Financial Management

- whether the Corporation was able to meet its commitments and recover its dues efficiently; and
- the possibility of realigning the business model of the Corporation to tap non-conventional sources of revenue and adopting innovative methods of accessing such funds.

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- ♦ Jassure and Mandi.
  - Shimla (local), Shimla (Rural), Taradevi, Kullu, Rampur and Una.

### Fare Policy and Fulfillment of Social Obligations

- the existence and adequacy of fare policy; and
- whether the Corporation operated adequately on uneconomical routes.

### Monitoring by Top Management

- Monitoring by Top Management and future needs of the Corporation.
- whether the monitoring by Corporation's top management was effective.

### Audit Criteria

2.4 The audit criteria adopted for assessing the achievement of the audit objectives were:

- all India averages for performance parameters;
- performance standards and operational norms fixed by the Association of State Road Transport Undertakings (ASRTU);
- physical and financial targets/norms fixed by the Management;
- manufacturers' specifications, norms for life of a bus, preventive maintenance schedule, fuel efficiency norms, etc.;
- instructions of the Government of India (GOI) and Government of State and other relevant rules and regulations;
- corporate policy for investment of funds; and
- procedures laid down by the Corporation.

### Financial Position and Working Results

2.5 The financial position of the Corporation for the five years up to 2008-09 is given below:

	(Rs. in crore)				
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
<b>A. Liabilities</b>					
Paid up Capital	252.51	264.81	277.11	308.11	339.60
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	-	16.28	66.15	51.72	38.29
Borrowings (Loan Funds)	62.60	110.78	159.96	141.73	140.01
Current Liabilities & Provisions	120.70	106.98	93.81	142.52	155.75
<b>Total</b>	<b>183.3</b>	<b>498.85</b>	<b>597.03</b>	<b>644.08</b>	<b>673.65</b>
<b>B. Assets</b>					
Gross Block	151.45	158.78	177.80	199.12	214.93
Less: Depreciation	108.20	112.39	119.30	123.74	128.24
Net Fixed Assets	43.25	46.39	58.50	75.38	86.69
Capital works-in-progress (including cost of chassis)	2.88	4.07	2.00	3.68	2.11
Investments	0.31	0.36	0.63	0.70	0.81
Current Assets, Loans and Advances	22.24	42.69	97.95	86.27	71.81
Accumulated losses	367.13	405.34	437.95	478.05	512.23
<b>Total</b>	<b>695.46</b>	<b>770.02</b>	<b>894.13</b>	<b>644.08</b>	<b>673.65</b>

The details of working results like operating revenue and expenditure, total revenue and expenditure, net surplus/ loss and earnings and cost *per kilometre* of operation are given below:

(Rs. in crore)						
Sl. No.	Description	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Revenue	280.70	303.58	334.24	352.77	401.18
2.	Operating Revenue <sup>φ</sup>	271.07	294.08	321.06	335.25	381.60
3.	Total Expenditure	312.59	341.80	366.85	392.86	435.36
4.	Operating Expenditure <sup>ψ</sup>	302.51	333.18	362.35	386.18	426.33
5.	Operating Loss	31.44	39.10	41.29	50.93	44.73
6.	Loss for the year	31.89	38.22	32.61	40.09	34.18
7.	Accumulated Loss	367.13	405.34	437.95	478.05	512.23
8.	Fixed Costs					
	(i) Personnel Costs	120.37	125.86	135.94	157.26	168.81
	(ii) Depreciation	14.68	10.91	8.13	8.67	13.17
	(iii) Interest	10.08	8.62	4.50	6.68	9.03
	(iv) Other Fixed Costs	4.38	4.04	5.18	6.00	10.30
	Total Fixed Costs	149.51	149.43	153.75	178.61	201.31
9.	Variable Costs					
	(i) Fuel & Lubricants	95.34	115.30	129.55	132.37	148.88
	(ii) Tyres & Tubes	11.70	13.32	14.70	16.97	19.07
	(iii) Other Items/ spares	13.59	14.42	15.30	16.89	17.82
	(iv) Taxes (MV Tax, Passenger Tax, etc.)	34.91	36.81	38.26	36.85	39.69
	(v) Other Variable Costs	7.54	12.52	15.29	11.17	8.59
	Total Variable Costs	163.08	192.37	213.10	214.25	234.05
10.	Effective Kms operated (in lakh)	1,425.95	1,470.42	1,521.29	1,576.69	1,592.59
11.	Earnings <i>per Km</i> (Rs.) (1/10)	19.69	20.65	21.97	22.37	25.19
12.	Fixed Cost <i>per Km</i> (Rs.) (8/10)	10.48	10.16	10.11	11.33	12.64
13.	Variable Cost <i>per Km</i> (Rs.) (9/10)	11.44	13.08	14.01	13.59	14.70
14.	Cost <i>per Km</i> (Rs.) (12+13)	21.92	23.24	24.12	24.92	27.34
15.	Net Earnings <i>per Km</i> (Rs.) (11-14)	(-)2.23	(-)2.59	(-)2.15	(-)2.55	(-)2.15
16.	Traffic Revenue <sup>§</sup>	224.07	246.08	273.06	295.25	333.60
17.	Traffic Revenue <i>per Km</i> (Rs.) (16/10)	15.71	16.74	17.95	18.73	20.95
18.	Operating loss <i>per Km</i> (Rs.) (5/10)	-2.20	-2.66	-2.71	-3.23	-2.81

φ Operating revenue includes traffic earnings, passes and season tickets, reimbursement against concessional passes, fare realised from private operators under KM Scheme, etc.

ψ Operating expenditure include expenses relating to traffic, depreciation on fleet, repair and maintenance, electricity, welfare and remuneration, licences and taxes and general administration expenses.

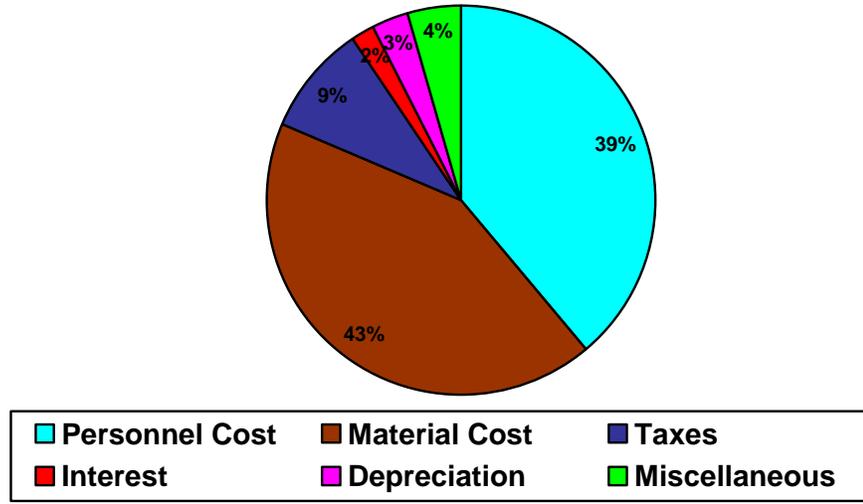
§ Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.

The working results show that the Corporation was not able to recover the cost in all the five years and losses kept on mounting and were Rs.512.23 crore at the end of 2008-09.

**Elements of Cost**

**2.6** Personnel costs and material costs constitute the major elements of costs. The percentage break-up of costs for 2008-09 is given below in the pie-chart.

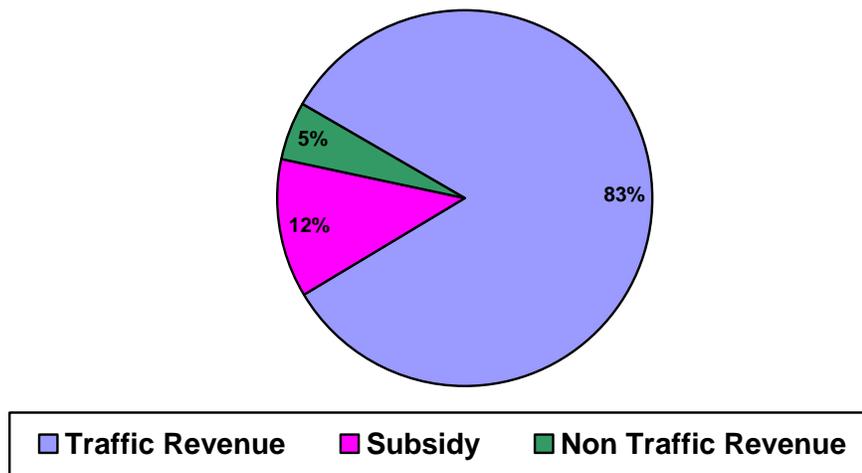
**Components of various elements of cost**



**Elements of revenue**

**2.7** Traffic revenue, subsidy and non-traffic revenue constitute the elements of revenue. The percentage break-up of revenue for 2008-09 is given below in the pie-chart.

**Components of various elements of revenue**



### **Audit Findings**

**2.8** Audit explained the audit objectives to the Corporation during an ‘entry conference’ held on 4 March 2009. Subsequently, audit findings were reported to the Corporation and the Government in August 2009. They were again requested (September 2009) to furnish replies which are still awaited (October 2009). The audit findings are discussed below.

### **Operational Performance**

**2.9** The operational performance of the Corporation for the five years ending 2008-09 is given in the **Annexure 7**. The operational performance of the Corporation was evaluated on various operational parameters as described below. It was also seen whether the Corporation was able to maintain pace with the growing demand of public transport. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and there is scope for improvement in performance.

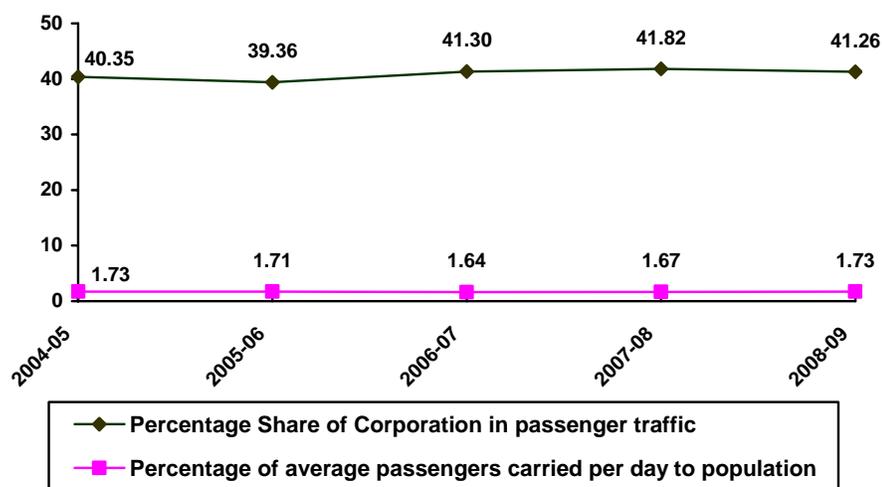
### **Share of Corporation in public transport**

**2.10** The transport policy of the State Government (2004) seeks to achieve a balanced regional development and harnessing the growth potential of each and every sector of the State economy by improving the ability and efficiency of transport services. The policy states that the focus should be on augmentation of transportation in the remote and interior parts of the State. The people are largely dependent on road transport services as other means of transport are negligible.

Line-graphs depicting the percentage share\* of the Corporation in the passenger traffic of the State (including private operators buses) and percentage of average passengers carried per day by the Corporation to the population of the State during five years ending 2008-09 are given below:

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\* The percentage share of the Corporation in the passengers traffic of the State has been worked out in Audit on the basis of number of buses held by the Corporation to total buses (including private operators buses) in the State.



The table below depicts the growth of public transport in the State.

Sl.No.	Particular	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Corporation's buses including hired buses (at the end of the respective year)	1,709	1,702	1,842	1,941	1,908
2.	Private stage carriages	2,526	2,622	2,618	2,700	2,716
3.	Total buses for public transport	4,235	4,324	4,460	4,641	4,624
4.	Percentage share of Corporation	40.35	39.36	41.30	41.82	41.26
5.	Percentage share of private operators	59.65	60.64	58.70	58.18	58.74
6.	Estimated population (lakh)	64.84	65.89	66.95	68.06	69.17
7.	Vehicle density <i>per</i> one lakh population	65.31	65.62	66.62	68.19	66.85
8.	Vehicle density of Corporation's buses <i>per</i> one lakh population	26.36	25.83	27.51	28.52	27.58

The percentage share of passenger traffic of the Corporation vis-à-vis the private operators remained more or less constant. The effective *per* Capita Km operated by the Corporation *per* year as given below shows improving trend in service by the Corporation except in 2008-09 when there was marginal decrease.

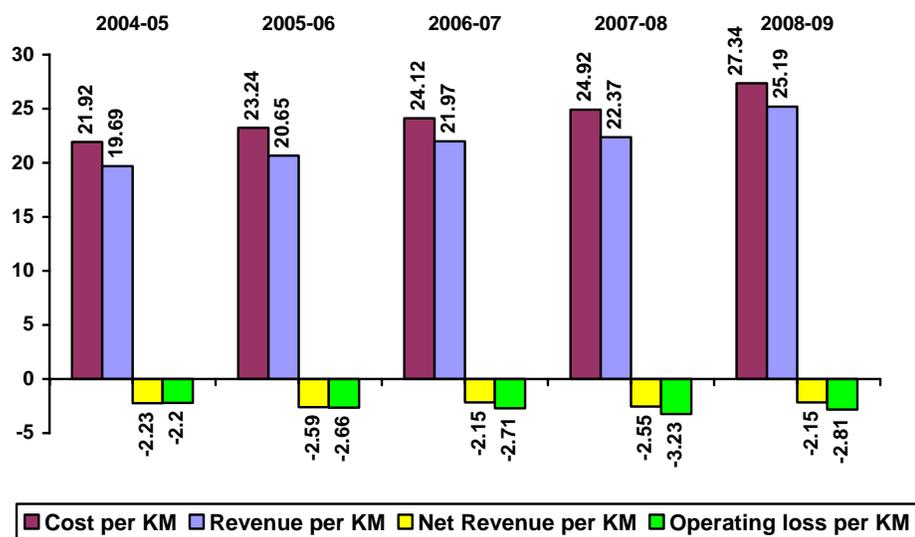
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective Km operated (lakh)	1,425.95	1,470.42	1,521.29	1,576.69	1,592.59
Estimated Population (lakh)	64.84	65.89	66.95	68.06	69.17
<i>Per</i> Capita Km <i>per</i> year	21.99	22.32	22.72	23.17	23.02

Public transport has definite benefits over personalised transport in terms of costs, congestion on roads and environmental impact. The public transport services have to be adequate to derive those benefits. In the instant case, though the Corporation was able to maintain its share in public transport, the same could not be enhanced mainly due to operational inefficiencies as described later.

### Recovery of cost of operations

**2.11** The Corporation was not able to recover its cost of operations in any of the years under review. During the last five years ending 2008-09, the net revenue remained negative as depicted in the graph<sup>⊗</sup> below:

The operating loss per Km increased from Rs. 2.20 in 2004-05 to Rs. 2.81 in 2008-09.



Above graph indicates the deteriorating performance of the Corporation over the period. The operating loss has been increasing year after year except in

**Orissa, Uttar Pradesh and Karnataka registered best net earnings per Km at Rs. 0.49, Rs. 0.47 and Rs. 0.34 respectively during 2006-07. (Source : STUs profile and performance 2006-07 by CIRT, Pune)**

2008-09 when it decreased to Rs. 2.81 per Km. The Corporation was not able to achieve the all India average for cost (Rs. 24.55 for hilly area) in 2007-08 and 2008-09. The revenue per Km showed an increasing trend and

remained higher than all India average of Rs. 20.34 per Km in all the years under review except 2004-05. The high cost of operations has been impacting the ability of the Corporation to provide public transport services adequately as it is not able to replace its overage fleet in time. However, the level of operations of the Corporation was above average in the category.

⊗ Cost per Km represents total expenditure divided by effective Km operated.  
 Revenue per Km is arrived at by dividing total revenue with effective Km operated.  
 Net Revenue per Km is revenue per Km reduced by cost per Km.  
 Operating loss per Km would be operating expenditure per Km reduced by operating income per Km.

## Efficiency and Economy in operations

### Fleet strength and utilisation

#### *Fleet Strength and its Age Profile*

**2.12** The Corporation has its own fleet of buses. It also hires buses from contractors. Audit findings in respect of hired buses are given in paragraph 2.24. The table below explains the position of Corporation's own fleet.

The Association of State Road Transport Undertakings (ASRTU) had prescribed (September 1997) the desirable age of a bus as eight years or five lakh kilometres, whichever was earlier. The Corporation, however, has established its own norms for the life of buses. The Management had fixed (April 2000) the normal life of 42 and 37 seater buses as six lakh kilometres. For 52 and 47 seater buses, the same was fixed at seven lakh kilometres. However, due to improved technology and better road conditions, the norm was revised by the Corporation to 6.30 lakh kilometres and eight lakh kilometres respectively with effect from 1 April 2007. The table below shows the age-profile of the buses held (in terms of kilometres) by the Corporation for the period of five years ending 2008-09.

Sl.No.	Particulars <sup>Π</sup>	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total No. of buses at the beginning of the year	1,718	1,652	1,645	1,763	1,884
2.	Additions during the year	108	175	219	269	189
3.	Buses scrapped during the year (1+2-4)	174	182	101	148	192
4.	Buses held at the end of the year	1,652	1,645	1,763	1,884	1,881
5.	Number of overage buses as per Corporation's norms	404	541	662	690	588
6.	Percentage of overage buses to total buses	24.46	32.89	37.55	36.62	31.26

The above table shows that the Corporation was not able to achieve the norm of right age buses. During 2004-09, the Corporation added 960 new buses at a cost of Rs. 76.24 crore. The expenditure was funded through grant in aid of Rs. 40 crore and share capital contribution of Rs. 36.24 crore by the State Government. To achieve the norm of right age buses, the Corporation was required to buy 588 new buses as on 31 March 2009 which would have cost it Rs. 69.15 crore approximately at an average cost of Rs. 11.76 lakh per bus. However, the Corporation did not generate adequate resources through its operations to finance the replacement of buses. Instead, it incurred a loss of

**The Corporation had 31.26 per cent overage buses as on 31 March 2009.**

Π The number of busses will not match with the figures given in the table of paragraph 2.10 as it excludes hired buses.

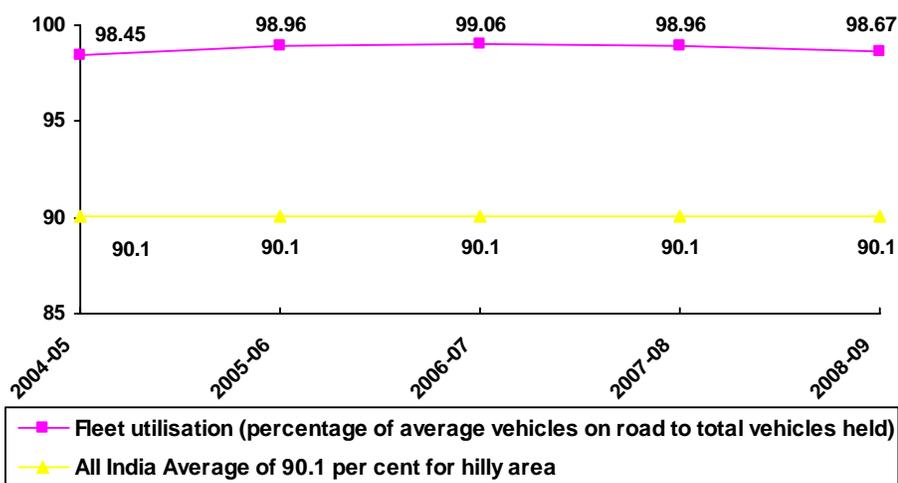
Rs. 121.43 crore before charging of depreciation during 2004-09. Thus, the Corporation's ability to survive and grow depends on its efforts to remove operational inefficiencies, cut costs and tap non-conventional revenue avenues so that it can fund its capital expenditure and be self-reliant.

The overage fleet requires high maintenance and results in extra cost and less availability of vehicles compared to underage fleet, other things being equal. This only goes on to increase operational inefficiency and causes losses which, in turn, affects the ability of the Corporation to replace its fleet on a timely basis.

### Fleet Utilisation

**2.13** Fleet utilisation represents the ratio of buses on road to those held by the Corporation (including hired buses). The Corporation had not set any target of fleet utilisation. The fleet utilisation of the Corporation remained between 98.45 and 99.06 per cent during 2004-09 which was higher than the AIA<sup>∞</sup> of 90.1 per cent for hilly area as indicated in the graph given below.

Andhra Pradesh, Tamil Nadu (Kumbakonam) and Tamil Nadu (Coimbatore) registered best fleet utilisation at 99.4, 98.4 and 98.3 per cent respectively during 2006-07. (Source : STUs profile and performance 2006-07 by CIRT, Pune)



In spite of better fleet utilisation, the Corporation was continuously incurring losses which were mainly due to high cost of operation.

### Vehicle productivity

**2.14** Vehicle productivity refers to the average Kilometres run by each bus (including hired buses) per day in a year. The vehicle productivity of the

<sup>∞</sup> AIA is for the year 2006-07 which has been used for comparison for the period under review.

Corporation vis-à-vis the overage fleet for the five years ending 2008-09 is shown in the table below:

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Vehicle productivity (Kms run <i>per day per bus</i> )	224	232	230	225	224
2.	Overage fleet (percentage)	24.46	32.89	37.55	36.62	31.26

Compared to the AIA of 196 Kms for hilly area *per day*, the vehicle productivity of the Corporation has been on higher side for all the years under review. Test check in Audit of six Depots, however, revealed a different picture. In five Depots, out of a total number of buses ranging from 441 to 475 during the period 2004-08, buses ranging from 247 to 321 were found to be running below the AIA of 196 Kms. The average kilometres run per day by these buses ranged from 108 Kms to 147 Kms. The Corporation did not fix any targets of vehicle productivity for control purposes. This suggests that there is a lot of scope of improving the vehicle productivity further by making scientific route planning. Had these buses also achieved vehicle productivity of 196 Kms, the Corporation could have earned additional traffic revenue of Rs. 51.27 crore during 2004-08.

**Tamil Nadu (Villupuram), Tamil Nadu (Salem) and Tamil Nadu (Kumbakonam) registered best vehicle productivity at 474, 469 and 462.8 Kms per day respectively during 2006-07. (Source : STUs profile and performance 2006-07 by CIRT, Pune)**

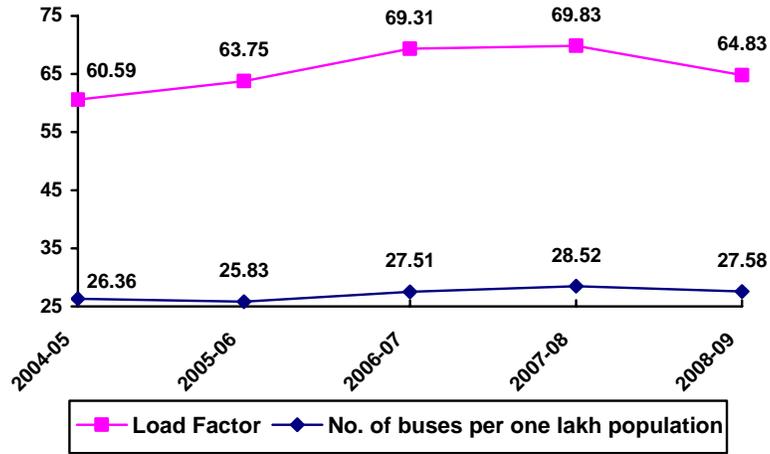
### Capacity Utilisation

#### Load Factor

**2.15** Capacity utilisation of a transport undertaking is measured in terms of load factor, which represents the percentage of passengers carried to seating capacity. The schedules to be operated are to be decided after proper study of routes and periodical reviews are necessary to improve the load factor. The Corporation calculates load factor on the basis of percentage of passenger Kms actually covered\* to the passenger Kms operated#. The load factor of the Corporation increased from 60.59 *per cent* in 2004-05 to 69.83 *per cent* in 2007-08. It, however, decreased to 64.83 *per cent* in 2008-09 due to increase in fare by 25 *per cent* in February 2008, charging of lower fare by private operators and unauthorised plying of taxis. The load factor, however, remained higher than the AIA of 63 *per cent*. A graph depicting the load factor vis-à-vis number of buses *per* one lakh population is given below:

\* Passenger Kms actually covered = Operating revenue dividing by fare per Km per seat.

# Passenger Kms operated = Effective Kms multiplied by average seating capacity of bus.



### Break-even load factor

2.16 The table below provides the details for break-even load factor (BELF) for traffic revenue. Audit worked out this BELF at the given level of vehicle productivity and total cost *per* Km.

		(In Rupees)				
Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost <i>per</i> Km	21.92	23.24	24.12	24.92	27.34
2.	Traffic revenue <i>per</i> Km at 100 <i>per cent</i> load factor	25.93	26.26	25.90	26.82	32.32
3.	BELF (Percentage) (1/2)	84.54	88.50	93.13	92.92	84.59

The break-even load factor is quite high and is not likely to be achieved given the present load factor and the fact that the Corporation is also required to operate uneconomical routes. Thus, while the scope to improve upon the load factor remains limited, there is scope to cut down costs of operations as explained later.

### Route Planning

2.17 Appropriate route planning to tap demand leads to higher load factor. There is no policy of the Corporation regarding introduction of new routes or increasing/decreasing frequency of services on existing routes. Feasibility appraisal and traffic survey are not conducted before introduction of new routes or changing frequency on existing routes. These are done on the basis of public demand. As a result, the Corporation is operating many routes and services which are uneconomical.

Some services are profitable while others are not. The position in this regard is given in the table below:

Particulars	Total No. of services	No. of services making profit	No. of services not meeting total cost
2004-05	2,398 (100)	66 (3)	2,332 (97)
2005-06	2,364 (100)	49 (2)	2,315 (98)
2006-07	2,458 (100)	76 (2)	2,382 (98)
2007-08	2,518 (100)	80 (3)	2,438 (97)
2008-09	2,542 (100)	132 (5)	2,410 (95)

(The percentage under the above heads is given in brackets for each year).

**Ninety five per cent of the services operated by the Corporation in 2008-09 could not recover total cost.**

The above table shows that in 2008-09, only five *per cent* services were profitable while 95 *per cent* services were unprofitable. Though, some of the services now appearing unprofitable would become profitable once the Corporation improves its efficiency, there would still be some uneconomical services. Given the scenario of mixed routes and obligation to serve uneconomical routes/services, the Corporation should decide an optimum quantum of services on different routes so as to optimise its revenue while serving the cause. However, no such exercise was carried out by the Corporation.

The Management stated (March 2009) that according to Section 18 of the Road Transport Corporations Act, 1950, it shall be the general duty of the Corporation to exercise its powers to provide or secure or promote the provision of an adequate, economical and properly coordinated system of transport services in the State. However, it may be mentioned here that Section 22 of the Act also states that the Corporation should be run on business principles. Thus, with proper planning of routes/services by Management, the Corporation could have provided requisite services on uneconomical routes/services besides making some unprofitable services into profitable ones.

### ***Cancellation of Scheduled Kilometres***

**2.18** Cause-wise analysis for cancellation of services was not done by the Corporation for taking remedial measures. The details of scheduled kilometres, effective kilometres, cancelled kilometres calculated as difference between the scheduled kilometres and effective kilometres are furnished in the

table below:

(In lakh Kms)						
Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Scheduled kilometres	1,451.60	1,483.49	1,540.75	1,576.64	1,583.76
2.	Effective kilometres <sup>§</sup>	1,397.83	1,441.98	1,492.45	1,542.44	1,566.80
3.	Kilometres cancelled	53.77	41.51	48.30	34.20	16.96
4.	Percentage of cancellation	3.70	2.80	3.13	2.17	1.07
5.	Contribution per Km (in Rupees)	4.27	3.66	3.94	5.14	6.25
6.	Loss of contribution (3x5) (Rupees in crore)	2.30	1.52	1.90	1.76	1.06

Due to cancellation of scheduled kilometres, the Corporation was deprived of contribution of Rs. 8.54 crore during 2004-09.

**Tamil Nadu (Salem), State Express Transport Corporation (Tamil Nadu) and Tamil Nadu (Villupuram) registered least cancellation of scheduled Kms at 0.45, 0.67 and 0.78 per cent respectively during 2006-07. (Source: STUs profile and performance 2006-07 by CIRT, Pune)**

It can be seen from the above table that the percentage of cancellation of scheduled kilometres decreased from 3.70 per cent to 1.07 per cent during 2004-05 to 2008-09 but remained on higher side as compared to the best performers. The Corporation has not made cause-wise analysis of the

cancelled kilometres and in the absence of the same, the Corporation did not have any mechanism for exercising effective control on cancellation. Due to cancellation of the scheduled kilometres, the Corporation was deprived of contribution of Rs. 8.54 crore during 2004-09.

### Maintenance of vehicles

#### Preventive Maintenance

**2.19** Preventive maintenance is essential to keep the buses in good running condition and to reduce breakdowns/ other mechanical failures. The Corporation has set up Workshops at all the Depots and Divisions for undertaking repairs and maintenance of vehicles. While Depot Workshops are required to attend to minor repairs or preventive maintenance that could be carried out on vehicles, Divisional Workshops carry out major repairs, renovation of bus bodies and reconditioning of engines/assembling etc. The Corporation had Tata and Leyland make buses, for which two major preventive maintenance schedules had been prescribed as under:

- On completion of 18,000/24,000 Kms for Tata/Leyland there should be change of oil, wheel alignment, cleaning of fuel injection pump, engine tuning, brake adjustment, etc.

§ This may not tally with Sl. No. 10 of table in paragraph 2.5 relating to working results due to non inclusion of kilometres run in respect of specially booked buses.

- On completion of 36,000 Kms (for both Tata and Leyland make buses) there should be overhauling of engines, spring leaves, wheel, brakes fuel injection pump, cooling system, change of gear oil, body work, etc.

The details of number of preventive maintenance required to be done vis-à-vis actually carried out during the five years ending 2008-09 is tabulated below:

(Numbers in lakh)					
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Number of preventive maintenance required to be done	1.20	1.23	1.26	1.34	1.33
Number of preventive maintenance actually carried out	1.04	1.07	1.10	1.16	1.15
Shortfall	0.16	0.16	0.16	0.18	0.18
Percentage of shortfall to total preventive maintenance required	13.33	13.01	12.70	13.43	13.53

The above table shows that required preventive maintenance schedules were not adhered to. The reasons for not carrying out required preventive maintenance were not on record. Test check of records of six Depots in Audit revealed that main reason for not adhering to preventive maintenance schedule was shortage of vehicles due to which the vehicles could not be withdrawn on scheduled dates for preventive maintenance. Continuous non-adherence to preventive maintenance schedules might have led to increase in repair and maintenance cost per bus over the review period as discussed in the succeeding paragraph despite acquisition of new buses by the Corporation over the years.

### **Repairs & Maintenance**

**2.20** A summarised position of fleet holding, over-aged buses, repairs and maintenance (R&M) expenditure for the last five years up to 2008-09 is given below:

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total buses at the end of the year excluding hired buses (No.)	1,652	1,645	1,763	1,884	1,881
2.	Over-age buses (as per Corporation's norms)	404	541	662	690	588
3.	Percentage of over age buses	24.46	32.89	37.55	36.62	31.26
4.	R&M Expenses (Rs. in crore)	46.11	49.80	53.07	61.15	66.24
5.	R&M Expenses per bus (Rs. In lakh.) (4/1)	2.79	3.03	3.01	3.25	3.52
6.	Percentage of manpower cost in R&M expenses	45	44	43	45	44

**Repairs and maintenance expenses per bus increased from Rs. 2.79 lakh in 2004-05 to Rs. 3.52 lakh in 2008-09.**

The above table shows that repair and maintenance expenses per bus has continuously increased over the period from Rs. 2.79 lakh in 2004-05 to

Rs. 3.52 lakh in 2008-09 except in 2006-07. The above included manpower cost engaged in repair and maintenance activity up to 43-45 per cent.

### **Docking of vehicles for fitness Certificates**

**2.21** The buses are required to be repaired and made fit before sending the same to Regional Transport Office (RTO) for renewal of fitness certificate under Section 62 of the Central Motor Vehicle Rules, 1989. As the date of expiry of the old fitness certificate is known in advance, Management should plan accordingly to get the buses repaired in time so that bus days are not lost due to delay in renewal. Test check of the records of five Depots<sup>▲</sup> in Audit indicated that after allowing the grace of three days, 403 buses were held up for periods ranging from one to 100 days for want of Motor Vehicle Inspection Certificate resulting in loss of 3,067 bus days during 2004-09. This led to loss of contribution of Rs. 32.60 lakh. It was observed in Audit that the Corporation did not have any system to monitor and ensure timely repairs. Further, the Corporation failed to obtain fitness certificates due to reasons like shortage of spare parts, non-receipt of registration certificate from other depots and poor condition of the buses, which are *prima facie* controllable.

### **Manpower Cost**

**2.22** The cost structure of the Corporation shows that manpower and fuel constitute 72.97 per cent of total cost. Interest, depreciation and taxes – the costs which are not controllable in the short-term – account for 14.22 per cent. Thus, the major cost saving can come only from manpower and fuel.

Manpower is an important element of cost which constituted 38.77 per cent of

Gujarat, Tamil Nadu (Villupuram) and Tamil Nadu (Salem) registered best performance at Rs. 6.10, Rs. 6.13 and Rs. 6.21 cost per effective Kms respectively during 2006-07.  
(Source : STUs profile and performance 2006-07 by CIRT, Pune)

total expenditure of the Corporation in 2008-09. Therefore, it is imperative that this cost is kept under control and the manpower is utilised optimally to achieve high productivity. The Table below

provides the details of manpower, its cost and productivity.

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Manpower (Nos.)	8,706	8,552	8,484	8,595	8,413
2.	Manpower Cost (Rs. in crore)	120.37	125.86	135.94	157.26	168.81
3.	Effective Kms (in lakh)	1,425.95	1,470.42	1,521.29	1,576.69	1,592.59
4.	Cost per effective Km (Rs.)	8.44	8.56	8.94	9.97	10.60
5.	Productivity per day per person (Kms)	45	47	49	50	52
6.	Total Buses at the end of the year (No.) <sup>λ</sup>	1,709	1,702	1,842	1,941	1,908
7.	Manpower per bus	5.09	5.02	4.61	4.43	4.41

▲ Shimla (local), Shimla (Rural), Taradevi, Kullu, and Rampur.

λ Including hired buses.

**Manpower cost per effective Km increased from Rs. 8.44 in 2004-05 to Rs. 10.60 in 2008-09.**

The manpower cost per effective Km was increasing year after year and was on higher side as compared to AIA of Rs. 7.50 per effective Km. The increase in manpower cost was due to payment of terminal benefits to retiring employees, increase in dearness allowance and grant of interim relief in 2007-08 and 2008-09 pending implementation of 5<sup>th</sup> Pay Commission of the Punjab Government, which is adopted by the State. Though the State Government had notified the same in August 2009, the Corporation had not implemented the same till date (October 2009) due to financial constraint. Productivity per day per person increased from 45 Kms in 2004-05 to 52 Kms in 2008-09 which was more than the AIA of 38 Kms for hilly area.

The Corporation had fixed norms for deployment of 5.80 manpower per bus against which actual deployment reduced from 5.09 in 2004-05 to 4.41 in 2008-09. To arrest the increasing trend of manpower cost, the Management may consider exploring the possibilities of hiring more buses with drivers.

**North West Karnataka State Road Transport, Karnataka State Road Transport and Himachal Pradesh registered best performance at 4.89, 4.99 and 4.94 manpower per bus. (Source : STUs profile and performance 2006-07 by CIRT, Pune )**

### Fuel Cost

**2.23** Fuel is a major cost element which constituted 34.20 *per cent* of total expenditure in 2008-09. Control of fuel costs by a road transport undertaking has a direct bearing on its productivity. The table below gives the targets fixed by the Corporation for fuel consumption, actual consumption, mileage obtained *per litre* (Kilometre *per litre* i.e. KMPL), AIA and estimated extra expenditure.

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Gross Kilometres operated (owned buses only) (in lakh)	1,421.34	1,433.93	1,479.41	1,549.95	1,593.68
2.	Target of KMPL fixed by Corporation (Average)	3.70	3.72	3.75	Not fixed	Not fixed
3.	Actual Consumption (in lakh litres)	390.81	392.42	399.61	417.70	434.41
4.	Kilometre obtained per litre (KMPL)	3.64	3.65	3.70	3.71	3.67
5.	All India Average in the category	3.69	3.69	3.69	3.69	3.69
6.	Consumption as per All India Average (in lakh litres) (1/5)	385.19	388.60	400.92	420.04	431.89
7.	Excess Consumption in terms of AIA (in lakh litres) (3-6)	5.62	3.82	-	-	2.52
8.	Average cost per litre (in Rs.)	24.06	29.31	31.82	30.87	33.14
9.	Extra expenditure (Rs. in crore) (7X8)	1.35	1.12	-	-	0.84
10.	Consumption as per own targets (1/2) (In lakh litres)	384.15	385.47	394.51	-	-
11.	Excess consumption in terms of own target (in lakh litres) (3-10)	6.66	6.95	5.10	-	-
12.	Extra expenditure in terms of own targets (Rs. in crore) (11X8)	1.60	2.04	1.62	-	-

It can be seen from the above table that the mileage obtained *per* litre was on lower side during 2004-06 and 2008-09 as compared to AIA of 3.69 for hilly area. However, it remained marginally above the AIA during 2006-08. The Corporation had not analysed the reasons for sudden decrease in mileage obtained in 2008-09. The Corporation consumed 11.96 lakh litres of fuel in excess as compared to AIA during 2004-06 and 2008-09 resulting in extra expenditure of Rs. 3.31 crore. The Corporation had also fixed its own targets for fuel consumption considering the local situations. From December 2006, internal targets were not fixed by the Corporation. As compared to the internal targets, excess consumption of 18.71 lakh litres of fuel during 2004-07 resulted in extra expenditure of Rs. 5.26 crore.

**North East Karnataka State Road Transport, Uttar Pradesh and Andhra Pradesh registered mileage of 5.45, 5.33 and 5.26 KMPL. (Source : STUs profile and performance 2006-07 by CIRT, Pune)**

### Cost effectiveness of hired buses

**2.24** The Corporation started (March 2004) hiring private buses on Kilometres payment basis (Km scheme). The owners of these buses were required to provide buses with drivers and to incur all expenditure for the running of the buses. The Corporation was to provide conductors and make payment as *per* the actual Kilometres operated by the hired buses. During 2004-09, the Corporation incurred loss of Rs. 5.93 crore from the operation of hired buses as shown below:

(Amount in Rs.)

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Own fleet</b>						
1.	Cost <i>per</i> effective Km*	21.98	23.38	24.22	25.06	27.43
2.	Traffic Revenue <i>per</i> effective Km <sup>†</sup>	15.74	16.64	17.85	18.71	21.05
3.	Net loss <i>per</i> effective Km (1-2)	(-) 6.24	(-) 6.74	(-) 6.37	(-) 6.35	(-) 6.38
<b>Hired buses</b>						
4.	No. of Hired buses at the end of the year	57	57	79	57	27
5.	Cost <i>per</i> effective Km <sup>‡</sup>	19.23	20.23	21.74	20.65	21.61
6.	Traffic Revenue <i>per</i> effective Km <sup>*</sup>	14.38	18.89	20.03	19.16	14.47
7.	Net loss <i>per</i> effective Km (5-6)	(-) 4.85	(-) 1.34	(-) 1.71	(-) 1.49	(-) 7.14
8.	Total effective Kms operated by hired buses (in lakh)	29.07	61.21	67.16	51.47	24.94
9.	Loss from hired buses (Rs in crore)	1.41	0.82	1.15	0.77	1.78

\* This may not tally with Sl. No.14 in the table of paragraph 2.5 under working results because this excludes cost incurred and effective Kms operated by hired buses, which are included in overall working results.

♣ Traffic revenue *per* effective KM in respect of owned and hired buses is different because of inclusion of reimbursement of concessional claims in the traffic revenue of owned buses.

£ This includes contract price plus conductors pay plus overheads.

It may be seen from the table above that net loss per effective Km on operating own buses had been higher than the same for hired buses in all the years under review except 2008-09. Audit analysed that increase in 2008-09 was due to significant reduction in number of hired buses on which traffic earnings were quite high. In view of this, running of more number of hired buses on high traffic earning routes may be beneficial to the Corporation. However, the number of hired buses reduced from 79 in 2006-07 to 27 in 2008-09.

### **Body Building**

**2.25** The Corporation had established three bus body building units. The Corporation engaged contract labour at a cost of Rs. 24.81 lakh for fabrication of 73 bus bodies during 2004-05, 2006-07 and 2007-08. During 2005-06 and 2008-09, bus bodies were fabricated using only in-house labour.

As per the agreement made with private body builders, while engaging contract labour, the Corporation allowed 12 days for fabrication of a bus. Audit observed that during 2004-09, 562 buses were not fabricated in the units within 12 days. The delay beyond 12 days resulted in loss of 14,509 bus days. Besides, there was abnormal delay in despatch of fabricated buses to Depots by the Workshops. It was also observed that 539 buses were despatched to Depots after delays up to 37 days during 2004-09 resulting in loss of 4,028 bus days. Thus, there was loss of contribution to the extent of Rs. 2.01 crore during review period.

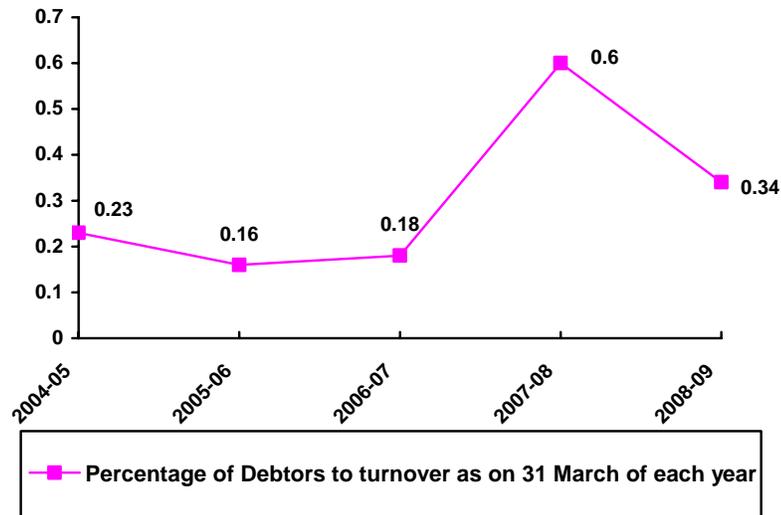
### **Financial Management**

**2.26** Raising of funds for capital expenditure, i.e., for replacement/addition of buses happens to be the major challenge in financial management of Corporation's affairs. This issue has been covered in paragraph 2.12. The section below deals with the Corporation's efficiency in raising claims and their recovery. This section also analyses whether an opportunity exists to realign the business model to generate more resources without compromising on service delivery.

### **Claims and Dues**

**2.27** The Corporation provides free/concessional passes to various categories of public like students, senior citizens, physically handicapped persons, employees including police personnel, freedom fighters, etc. However, the Corporation does not maintain proper records of beneficiaries for free/concessional travel and services provided on uneconomical routes and submits its claim with the State Government for reimbursement on estimation basis. During review period, the Corporation lodged claims of reimbursement amounting to Rs. 311.92 crore; of which the State Government reimbursed Rs. 231 crore only leaving a sum of Rs. 80.92 crore unrecovered.

The Corporation had not maintained year-wise break-up of debtors. Based on the scrutiny of records and analysis in Audit of the debtors outstanding as a percentage of turnover for the five years ending March 2009 are depicted in the graph below.



From the above, it can be seen that the outstanding dues remained between 0.16 to 0.60 *per cent* to the total turnover during 2004-09. Further, the scrutiny of records in Audit revealed that Rs. 5.64 lakh is recoverable from the Indian Railways since 1995. However, the same could not be recovered due to lack of effective pursuance by top Management.

**Fare policy and fulfillment of social obligations**

**Existence and fairness of fare policy**

**2.28** There is no fare policy of the Corporation. The fares are fixed by the State Government but are not based on the input costs. These are largely based on socio-economic and political considerations. This is evident from the fact that fares fixed in April 2003 were revised upward to the extent of 25 *per cent* in February 2008 without taking into consideration the increase of 37.80 *per cent* in the price of diesel, mobile oil, tyres and other consumable items during this period. Fare structure for ordinary buses for the years

2004-09 shown in the table below:

Stages	2004-05	2005-06	2006-07	2007-08		2008-09
				Up to 22.2.2008	From 23.2.2008	
First 5 Kms						
Hills	4	4	4	4	5	5
Plains	2	2	2	2	3	3
First 10 Kms						
Hills	7	7	7	7	9	9
Plains	5	5	5	5	6	6
25 Kms						
Hills	19	19	19	19	23	23
Plains	12	12	12	12	15	15
100 Kms						
Hills	74	74	74	74	93	93
Plains	48	48	48	48	59	59

ASRTU recommended (August 1996) an automatic fare revision formula for the STUs. The Ministry of Surface Transport was also of the opinion (August 1997) that a flexible fare revision policy with an automatic fare revision formula to adjust to the rising cost of operations is inevitable to make the STUs viable entities. The State Government had also proposed (April 2005) setting up of a Public Tariff Commission (PTC) to advise on important issues and bringing transparency in the costs and the latent subsidies. However, Audit observed that the PTC had not been established so far (October 2009). Non-revision of fares on the basis of input costs was leading to increase in losses. However, the table below shows that the Corporation could have curtailed cost with better operational efficiency.

(In Rupees)						
Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost <i>per</i> Km	21.92	23.24	24.12	24.92	27.34
2.	Earning <i>per</i> Km	19.69	20.65	21.97	22.37	25.19
3.	Excess cost due to high manpower cost ( <i>per</i> Km)	0.94	1.06	1.44	2.47	3.10
4.	Excess cost due to excess consumption of fuel ( <i>per</i> Km)	0.10	0.08	-	-	0.05
5.	Ideal cost <i>per</i> Km [1-(3+4)]	20.88	22.10	22.68	22.45	24.19
6.	Net revenue <i>per</i> Km (2-1)	(-) 2.23	(-) 2.59	(-) 2.15	(-) 2.55	(-) 2.15
7.	Net ideal revenue <i>per</i> Km (2-5)	(-) 1.19	(-) 1.45	(-) 0.71	(-) 0.08	(+) 1.00
8.	Effective Kms (in lakh)	1,425.95	1,470.42	1,521.29	1,576.69	1,592.59
9.	Avoidable loss (Rs. in crore) [(6-7) x 8]	14.83	16.76	21.91	38.94	18.31

The above table does not take into account other inefficiencies such as excess tyre cost, defective route planning, etc. Nonetheless, it shows that the net loss

could be lower, if the operations are properly planned and efficiently managed, than what they actually are.

The above facts lead to conclude that it is necessary to regulate the fares on the basis of input costs. Further, the State Government may consider early establishment of PTC as mentioned in preceding paragraphs to advise on fixation of fares, specifying operations on uneconomical routes and addressing the grievances of commuters.

#### **Adequacy of services on uneconomical routes**

**2.29** The Corporation had about five *per cent* profit making services as of March 2009 as shown in table under paragraph 2.17. The position would, however, change if the Corporation improves its efficiency. Nonetheless, there would still be some routes/services which would be uneconomical. Though the Corporation is required to cater to these routes or provide services thereon, the Corporation had not formulated any norms in this regard. In the absence of norms, the adequacy of services on uneconomical routes/services could not be ascertained in Audit. The desirability to have an independent regulatory body to specify the quantum of services on uneconomical routes, taking into account the specific needs of commuters, is further underlined.

#### **Monitoring by top management**

**2.30** For an organisation like a Road Transport Corporation to succeed in operating economically, efficiently and effectively, there has to be written norms of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that the achievement of which would make an organisation self-reliant. In the light of this, Audit reviewed the system in the Corporation and noticed as under:

- The Corporation had fixed targets for operational performance up to November 2006 only. Thereafter, no targets were fixed. In the absence of targets, review of performance by the Chairman/MD/Board of Directors (BOD) did not serve the intended purpose.
- The daily/monthly data relating to physical and financial performance sent by the Depots/Divisional Offices/Divisional Workshops were reviewed by the MD but in the absence of targets/norms, the achievement was compared with previous year's and reasons were called for.
- Review meetings of Divisional Managers/ Regional Managers (Depot Incharge) were also held under the chairmanship of the Chairman/MD to review the physical and financial performance of the units but there was no laid down periodicity for holding such

**The number of Board of Directors meetings as required under the Road Transport Corporation Act, were not held during 2004-09.**

meetings. As a result, during the last five years ending March 2009, only one meeting each was held in 2005-06, 2007-08 and 2008-09 while two meetings each were held in 2004-05 and 2006-07.

- Data of physical/financial performance was consolidated and put up to the BOD for consideration. However, it was noticed in Audit that against the requirement of four Board of Directors meetings in each year as per the Road Transport Corporation Act, only one meeting was held in 2005-06 and 2007-08. Further, only two meetings each were held in 2004-05 and 2008-09 while three meetings were held in 2006-07. This was not only in contravention of the Act but also deprived the Corporation of the expertise of the Board.

The top management of the Corporation is expected to demonstrate managerial capability to set realistic and progressive targets, address areas of weakness and take remedial action wherever the things are not moving on expected lines. However, such ability was not seen either from records or performance of the Corporation during the period under review.

## **Conclusion**

### ***Operational performance***

- **The Corporation's share in public transport increased marginally from 40.35 per cent in 2004-05 to 41.26 per cent in 2008-09.**
- **The Corporation could not recover the cost of operations in any of the five years under review. The operating loss per Km increased from Rs. 2.20 in 2004-05 to Rs. 3.23 in 2007-08 and decreased marginally to Rs. 2.81 in 2008-09. This was mainly due to operational inefficiencies and inadequate/ineffective monitoring by top Management.**
- **The Corporation did not carry out the preventive maintenance as required in 12.70 to 13.53 per cent cases, affecting the roadworthiness of its buses.**
- **The Corporation did not ensure the economy in operations as its manpower and fuel costs were higher than the AIA.**
- **The Corporation drastically reduced the operation of hired buses in 2008-09 though the net loss per effective Km from owned buses was higher than the same from hired buses.**

### ***Financial management***

- **The Corporation did not demonstrate utmost discipline in recovering its dues as it failed to recover an amount of Rs. 80.92 crore from the State Government during 2004-09.**

***Fare policy and fulfillment of social obligations***

- **The Corporation neither has a fare policy based on scientific norms, nor any yardstick for adequacy of operation of uneconomical routes.**

***Monitoring by top management***

- **The MIS system of Corporation was not effectively utilised by its top management for exercising control over key operational parameters and service standards.**

**On the whole, there is scope to improve the performance of the Corporation. However, the present set up of the Corporation does not seem to be equipped to handle this. Effective monitoring of key parameters, coupled with certain policies measures, can see improvement in performance.**

**Recommendations**

***Operational performance***

- **The Corporation may increase its operations and share in passenger traffic by increasing its fleet strength through hiring of buses which would also result in reduction of manpower and fuel costs.**
- **The Corporation may ensure carrying out of preventive maintenance as per schedule to control repair and maintenance expenditure.**

***Financial performance***

- **The Corporation may consider maintaining proper records for free/concessional travel provided at the instance of the State Government besides services provided on uneconomical routes so that claims raised by it can be substantiated.**

***Fare policy and fulfillment of social obligations***

- **The Government may consider early establishment of PTC to regulate fares in accordance with cost of operations and also services on uneconomical routes taking into account the specific needs of commuters.**

***Monitoring by top management***

- **The Corporation may streamline its monitoring mechanism to exercise effective control over operational parameters and take remedial measures for improvement.**