CHAPTER XIII: MINISTRY OF SURFACE TRANSPORT

13.1 Payment of inadmissible interest differential subsidy

Ministry made an inadmissible payment of Rs 6.18 crore towards interest differential subsidy to Shipping Corporation of India.

Ministry of Surface Transport (MOST) introduced in September 1993 subsidy schemes duly approved by the Cabinet Committee on Economic Affairs (CCEA) for the revival of Public Sector shipyards. One of such schemes was payment of interest subsidy to shipping companies in case the orders were placed with public sector shipyards. This scheme envisaged loans at concessional rate of 9 *per cent* to the extent of 80 *per cent* of the cost of the ship. The scheme was to be administered by MOST and the funds were routed through the shipyards. The scheme was valid upto 7 September 1995.

M/s Hindustan Shipyard Ltd.,(HSL), Visakhapatnam entered into an agreement in May 1994 with M/s Mideast India Ltd., (MIL) Mumbai, a private sector company for the construction of a vessel (Hull No. 1135) at a price of US $ 22 Million.M/s MIL paid two installments amounting to Rs 13.85 crore between December 1994 and April 1995 towards first and second stage payments. A defective provision on effective date of the contract entered into by HSL allowed MIL to refuse to honour their contractual obligations by committing defaults in making due payment after second stage payments on the plea that they were not able to make financial arrangements from the financial institutions for the construction of the vessel.

The Ministry also failed to notice this deficiency in the contract either at the time when a copy of the contract was made available to the Ministry by HSL in October 1994 or when it advised HSL on different matters from time to time. It also did not evolve any system to ensure that the Model Contract framed by it was being adhered to by the shipyards. As a result of these deficiencies in the clause, HSL had to refund an amount of Rs13.85 crore to MIL.

The Ministry stated, in August 2000 that the clause, dealing with the aspect of effective date of the contract could not be incorporated in the contract of MIL in accordance with the model contract, because owners always insist that the contract should be effective after the owners made satisfactory arrangements to finance the construction of the vessel. The Ministry further added that the provisions of model shipbuilding contract was slightly adjusted in the contract entered into between HSL and MIL considering the recession in the ship building activity and dumping by certain foreign countries due to which Indian Public sector shipyards had become almost non-competitive in the world market. These contentions are not tenable as the Ministry evolved the model contract for safeguarding the interest of Government/Public Sector shipyards.

Thereafter, M/s HSL entered into a contract in October 1997 with the Shipping Corporation of India Limited (SCI), the new buyer of the above stated vessel with some modifications at a contract price of US $ 22.63 million in accordance with the decision taken in the meeting held in July 1997 headed by the Secretary of the Ministry. The Ministry also decided, interalia, to allow the benefit of the interest differential subsidy, introduced in September 1993, although the scheme was valid only upto 7 September 1995. The Ministry did not obtain the approval of CCEA for such deviation from the scheme.

Thus, the action of the Ministry in providing the benefit of interest differential subsidy to SCI on the order placed on M/s HSL in October 1997, after the expiry of the scheme in September 1995, amounted to undue favour to SCI. This had also resulted in undue benefit to SCI of Rs 6.18 crore towards the amount of interest differential subsidy paid by the Ministry as of March 2000.

The plea of the Ministry that the contract concluded with SCI in December 1997 was not a fresh contract for extending benefits of interest differential subsidy scheme, which expired in September 1995, is not tenable because there had been change of ownership as well as price of the vessel and hence it was a new contract.

13.2 Avoidable loss of revenue

Due to avoidable administrative delays in making proper arrangements for toll collection at all the levels, National Highways Division, Visakhapatnam, had to forego potential revenue of Rs 4.49 crore.

National Highways (Fees for the use of National Highways Section and Permanent Bridge-Public Funded Project) Rules, 1997, notified by the Central Government on 27 August 1997, require levy and collection of a fee in perpetuity either departmentally or through private contractors, on all mechanical vehicles for the use of a notified National Highway Section.

Accordingly, the Chief Engineer, National Highways (CE NH), Andhra Pradesh, sought on 4 September 1997 permission of Ministry of Surface Transport (MOST), to conduct auction and collect tolls on a section of NH-5 between Vijayawada and Visakhapatnam, on which the work of strengthening and upgrading was completed in July 1997; MOST granted the permission three months later on 30 December 1997. CE issued a notification more than a month afterwards on 7 February 1998 for the auction of rights to collect tolls for 1998-99. The Executive Engineer (EE), NH Division, Visakhapatnam, conducted the auction on 19 March 1998 which had, however, to be cancelled in April 1998 as the highest bidder as also the next two highest bidders did not pay requisite earnest money deposit. EE conducted fresh auction on 30 May 1998 and entrusted the collection of tolls to the highest bidder at Rs 7.62 crore *per annum* with effect from 21 July 1998 after confirmation of the bid by the Government of Andhra Pradesh on 13 July 1998. Thus, collection of tolls on a road which had the potential to fetch over Rs 2 lakh per day had to be foregone for 215 days (excluding 113 days spent in the auction process) after the relevant rules came into force, due mainly to avoidable administrative delays at various levels in initiating and finalising the contract for toll collection. Further, at no stage, did the CE consider the alternative option of departmental collection to arrest loss of revenue while the matter of bidding and finalisation of contract awaited consideration. Avoidable administrative delays in making arrangements for toll collection by CE, NH, AP; EE, NH Division, Visakhapatnam and MOST resulted in loss of potential revenue of Rs 4.49 crore.

While accepting the fact, MOST stated in September 2000 that it was for the State Government to make arrangements for toll collection (departmentally) even temporarily. It added that instructions were being issued to all concerned, to initiate advance action in toll cases and to make immediate arrangements for departmental collection, as an interim measure, in case any delay is visualised in conducting auction.

13.3 Extra cost due to delay in acceptance of tender

Failure of Chief Engineer, Engineer-in-Chief and Government of Madhya Pradesh to finalise tender within its validity period, resulted in extra cost of Rs 44.38 lakh in construction of high level bridge over Degree Nallah on Agra-Mumbai National Highway.

The Superintending Engineer, Public Works Department (PWD), National Highway Circle, Gwalior invited item rate tenders for construction of Degree Nallah high level bridge (km. 177/2) on Agra-Mumbai National Highway No.3 in March 1997. The offers were opened on 26 April 1997. The Superintending Engineer, PWD, Gwalior recommended (14 May 1997) the lowest offer (Rs 2.62 crore) of M/s Chambal Developers, Gwalior which was valid upto 23 August 1997. The Chief Engineer, PWD, National Highway, Bhopal forwarded the same to Engineer-in-Chief on 7 July 1997 who sent it to the Government of Madhya Pradesh on 12 August 1997. The Government of Madhya Pradesh accepted the tender on 27 August 1997. By then the validity of the offer had expired. The contractor did not agree to the Department's request to extend it and asked for refund of the earnest money. The Superintending Engineer, PWD, National Highway Circle, put the work to tender again in October 1997. The lowest offer (Rs.3.06 crore) of M/s Ravi Construction Co. accepted by the Government of Madhya Pradesh on 7 October 1998, was higher than that accepted earlier by Rs 44.38 lakh. The work was in progress as of October 2000.

Thus, delay in processing and scrutiny of tender by the Chief Engineer, Engineer-in-Chief and Government of Madhya Pradesh by 124 days as against 120 permissible days led to a refusal by the contractor to execute the work on the rates tendered due to the validity of offer having expired. This resulted in an extra cost of Rs 44.38 lakh.

Audit reported the matter to the Ministry in May 2000; who have not replied as of February 2001.

13.4 Avoidable extra expenditure

Erroneous approval by Ministry of Surface and Transport of the estimates proposed by the National Highways Department of Tamil Nadu state, on the basis of the superceded specificaitons, resulted in excess use of bitumen; and, consequently, avoidable extra expenditure of Rs 29.55 lakh.

Ministry of Surface and Transport (MOST) revised the specifications for roads and bridges for the third time in November 1994, and, advised National Highways Departments of all the State Governments that all future projects and estimates should be framed accordingly. MOST had made the revisions to make specifications consistent with equipment based construction techniques and the latest construction practices.

Yet, MOST approved a proposal of July 1995 from Chief Engineer, National Highways Department of Tamil Nadu in October 1995 for the work of strengthening the two lane weak pavement from KM 94/0 to 130/0 of Bangalore-Salem-Madurai section of National Highway Division, Dharmapuri for Rs 8.23 crore on the basis of the superceded second revision.

The State National Highways Department called for tenders twice in January 1996 and June 1996. The work commenced on 26 November 1997 and ended on 10 July 1999 at a total cost of Rs 7.55 crore. Erroneous approval by MOST of the estimates on the basis of superceded specifications resulted in utilisation of excess bitumen and in avoidable extra expenditure of Rs 29.55 lakh.

The State National Highways defended taking up the construction on the basis of old specifications on the plea that revision of estimates on the basis of the third revision would have taken more time and would have resulted in huge cost escalation. The reply is not tenable as there was sufficient time for adoption of third revision which involved only change in the quantity of bitumen, before tendering and actual start of the work.

Audit reported the matter to the Ministry in June 1999; who have not replied as of February 2001.

13.5 Excess payment and avoidable extra cost

Executive Engineer authorised payment of higher rates, overriding the conditions stipulated in the contract for variations in the quantities, leading to an extra payment of Rs 8.36 lakh besides extra cost of Rs 16.93 lakh towards earth not borrowed for distance of 2 km.

Construction of approaches to the Degree Nallah Bridge in km 174/8 to 177/8 of AB Road (NH-3) in July 1997 at Rs 1.15 crore provided for revision of prices for additional quantities of item of work in excess of 30 *per cent* of agreed quantities.

The Schedule of items annexed with the agreement provided for the following rates of earthwork quoted by the contractor:

Item No.		Quantity (in cum)	Rate (Rs per cum)	Amount in Rupees (considered for tender)
4.	Earth work	91,701.12	29	26,59,332
5.	Lead (Distance upto)			
i)	1.5 km	1,507.00	50	75,350
ii)	2 km	65,750.00	7	4,60,250
iii)	0.5km	2,191.00	40	87,640
iv)	300 M	3,614.00	30	1,08,420
v)	250 M	717.60	25	17,940
vi)	200 M	18,923.00	10	1,89,230

The quantities actually executed for item-4 construction of embankment (b) Hard Soil was 79880.84 cum. Yet, the Divisional Officer had withdrawn from item No.4 and added to item No.5 i.e. "lead for earth work" and paid at fresh derived rate (SOR rate minus over all tender percentage) for 67975.66 cum quantity of earth work, although the executed quantity i.e. 79880.84 cum was within the tendered quantity. This has resulted in excess payment of Rs 8.36 lakh.

It was further seen that while executing the work the earth was shown as brought from the borrow area of which the contractor had quoted higher rate. It was seen that not a single cubic metre quantity of earth was borrowed from distance of 2 km. and the entire quantity of earth was borrowed from the leads having lesser distance and at higher rates. This resulted in an avoidable extra cost of Rs 16.93 lakh.

On this being pointed out in audit, the Executive Engineer stated that the matter will be referred to the tender sanctioning authority for decision.

Audit reported the matter the Ministry in April 2000; who have not replied as of February 2001.