CHAPTER IX

FINANCE: CASH FLOW & FUND FLOW

Financial Needs — long term and short term.

Sources.

Long-term Capital:

(a) Government capital grants, loans or share participation.
(b) Loans from banks and other financial institutions.
(c) Public issue of shares and state guaranteed loans.
(d) Ploughing back of profits.

Short-term Capital:

(a) Contract Services.
(b) Passengers Luggage & Parcel Services.
(c) Outagency Receipts.
(d) Postal Mail Carriage.

Utilisation.

Capital Expenditure.

Revenue Expenditure.

(a) Salaries & Allowances.
(b) Welfare & Superannuation.
(c) Stores.
(d) Reconditioning and Repairs.
(e) Fuel Power.
(f) Taxes.
(g) Rent, Rates and Taxes.
(h) Insurance.
(i) Depreciation.
(j) General charges & Other charges.
(k) Provision for (i) Clearance of Stock Adjustments, and (ii) Obsolescence.
(l) Debt Charges.
(m) Interest on Capital.
(n) Provision for Income Tax.
(o) Provision for Additional Depreciation.
(p) Development Rebate Reserve.
(q) Sinking Fund.

Buying Practices and Inventory Control.

Investment Policy.

Audit.

Public Accounts Committee.

Presentation and Publication of Annual Financial Accounts.
CHAPTER IX
FINANCE: CASH FLOW & FUND FLOW

Finance constitutes the base on which the superstructure of an enterprise is built. The efficiency and profitability of an organisation is chiefly determined by the adequacy of finance. This will require the careful drawing up of a financial plan which will ensure financial stability and soundness of the organisation, earn satisfactory profits and guarantee a reasonable return on capital invested. "Perhaps the more prolific source of failure of business undertakings is the lack of a definite financial plan. Bad production management and bad sales management have slain their thousands but faulty finance had slain its tens of thousands." Thus observes Prof. Hoagland.¹ The financial structure should be elastic so that it can be expanded and contracted as per the requirements of the enterprise. As Prof. Ramana-dham has suggested, "... the structural arrangements in the field of finance must enable every enterprise to work automatically towards the pricing and profit policies declared as appropriate to it."²

The financial structure depends considerably upon the form of organisation of an enterprise. The Government

departmental form may have a different structure as all its expenditures will have to be shown under the demand for grants of the ministry controlling it and will have to be voted upon by the Parliament/Legislative Assembly. This form, therefore, is under strict financial discipline. Corporations and Boards and Joint Stock Companies enjoy relatively greater freedom and autonomy in their financial administration, though they, too, are required to seek approval of the Government for any and every financial action which is beyond the powers granted to them by the legislatures enacting them.

The GSRTC is a public Corporation created by the State Government. Its financial structure is framed with reference to the nature of services it is enjoined upon to render. Quite a huge sum is required to keep the buses moving and to look after a number of obligations — both to the employees and to the travelling public.

Financial Needs — long-term and short-term:

The powers conferred upon the Corporation (Vide: Sec. 19 of the RTC Act 1950) "(a) to operate road transport services in the State and in any extended area; (b) to provide for any ancillary service; and (c) to provide for its employees suitable conditions of service including fair wages, establishment of provident fund, living accommodation, places for rest and recreation and other amenities" gives an idea of its capital requirements — both long-term and short-term.
The long-term or the fixed capital will be required for the purpose of purchasing (i) land for constructing bus-stations, bus-stands, office premises, residential quarters, etc., (ii) buildings (also for their construction), (iii) vehicles, (iv) chassis, (v) tools, (vi) plant and machinery, (vii) furniture and fixture, (viii) electrical equipment, (ix) office equipment, (x) fire-fighting equipment, (xi) medical equipment, (xii) photographic equipment, and (xiii) other equipments.

The short-term or working capital needs arise out of the recurring expenditure on various items like: (i) salaries and allowances, (ii) printing and stationery, (iii) uniforms, (iv) tools & equipments, (v) advertising & publicity, (vi) spare parts, (vii) lubricants, (viii) tyres and tubes, (ix) batteries, (x) other stores, (xi) clothing, (xii) electric power, (xiii) repairs to vehicles and spares by out agencies, (xiv) reconditioning of buses, (xv) reconditioning of assemblies and spares, (xvi) diesel, (xvii) licences and taxes, (xviii) welfare and superannuation including contribution to provident fund, E.S.I.S.; write off of subsidised Industrial Housing Scheme Buildings; pension and gratuities; (xix) insurance, (xx) staff car and van expenses, (xxi) maintenance & repairs of buildings and plants, (xxii) heating, lighting and water, (xxiii) claims and accidents, (xxiv) postage, telephone and telegram charges, (xxv) law charges, (xxvi) audit fees, (xxvii) expenditure on temporary work,
(xxviii) depreciation, (xxix) interest on capital and loans, and (xxx) provisions for development rebate, obsolete stores, bad and doubtful debts and income-tax.

The Corporation inherited its financial structure from the ex-B.S. R.T.C. However, it was necessary to draw up a detailed financial plan in the new circumstances. A substantial amount of capital expenditure was envisaged for the purchase of new vehicles, the construction of bus stations and bus stands, the taking over of the existing routes from the private operators & the payment of compensation to them, and for providing residential accommodation to the staff. The distinctive feature of the Corporation's activities is that the capital expenditure on some of the items like purchase of vehicles and chassis and building construction are of a recurring nature, for the old buses have to be scrapped and the new ones have to be purchased. Similarly, with the expansion in the area of operation and the rise in the number of travelling passengers, new office premises, bus stations and bus stands have to be constructed. The capital expenditure on these accounts, however, starts earning the revenues immediately.

Sources:
Like any business enterprise, a public enterprise can borrow funds from external sources with a restriction imposed upon it by the enacting legislation or by the Government — Central or State. It is only when the activities for which
it has been brought into being commence that the internal flow of funds starts. The Corporation starts earning the revenues soon after the buses have been purchased and are put on the roads. Gradually, internal funds constitute a considerable portion of the total funds required and contribute to the developmental activities.

Long-term Capital:

The sources of long-term capital for a public enterprise may be summarised as under:

(a) government capital-grants, loans or share participation;
(b) loans from banks and other financial institutions;
(c) public issue of shares and state-guaranteed loans; and
(d) ploughing back of profits.

(a) Government capital-grants, loans or share participation:

Many public enterprises are wholly government-owned. The government is, therefore, the principal supplier of capital. The preference for this practice by the government is mainly due for easy direct effective control over the capital expenditure; that for the public enterprise is owing to the availability of easy money at cheaper rates without facing the test of the capital market.

There are certain inherent dangers in easy money. It may breed irresponsibility and inefficiency. Grants do not
bear any interest and are not to be repaid. This may lead
to extravagance. Again, the government being the only
capital contributor, it alone will have a right to profit.
Consequently, the enterprise will not feel the same urge to
make profits as when its expansion and improvement are at
least partially dependent upon its own accumulation of
reinvestible funds.

Loans from the government are relatively a more suitable
form for raising efficiency and responsibility as they
carry interest and are to be repaid. Hanson very rightly
observes: "The fact that a rate of interest and/or amorti-
sation payments are included among the charges that a public
enterprise is required to meet stimulates efficiency more
powerfully than the mere announcement that eventually it
will be expected to yield a surplus of indefinite amount."³

Again, when a moratorium is granted in regard to the
payment of loan and/or interest for a particular public
enterprise, it creates an ill-will among the tax-payers as
it amounts to unreasonable subsidisation.

Government may also subscribe to the equity shares of
a public enterprise. This seems to be a good method in the
sense that the enterprise is aware of its total capital and
is sure it will get it; it will not have to starve of capital

³ Hanson A.H.: Public Enterprise and Economic Development
as it happens many a time with regard to capital grants.

(b) Loans from banks and other financial institutions:
Public enterprises may also borrow funds from banks and other financial institutions provided their enacting legislations so empower them, if they are public corporations (in some cases even when the Acts empower the undertakings, government approval for such borrowings is necessary!), or they are so authorised under their Articles of Association if they are government-companies. This source also cannot be availed of during the early and formative years of an undertaking.

(c) Public issue of shares and state guaranteed loans:
A public enterprise may be authorised to issue shares to the public, depending upon the provisions contained in the enacting legislation.

Quite an interesting controversy has centred round the problem as to whether the shares of a public enterprise should be issued to the public. There are two schools of thought. One school contends that there is an inherent contradiction and clash in the basic objectives of the public enterprise and the private investment. The former may not necessarily work for profits much less for their maximisation, while the latter's main objective is the maximisation of profits/returns. Public participation may mean representation of private investors on the Board of
Management and the following of a particular policy which may not always be in the public interest. Again, if an enterprise does not make profit for a long time, private shareholders might dispose off their shares and strangle the enterprise. Therefore, "the issue of equities is ruled out as a means of raising capital," remarks Hanson.\(^4\) Again, to the extent that peoples' money may flow into the shares of public sector undertakings, the amount that would otherwise be available in the market wholly to investors in equities would be reduced. As it is, there is a hue and cry that the Government is draining away a major portion of the funds in the capital market by means of its varied borrowing programmes, leaving very little capital for the private sector to tap.

The other school holds that such a gesture on the part of the government would mobilise savings and channel them to desired directions of productive investment. It would also enable the public enterprises to take advantage of the managerial abilities of those who are in the private sector. Again, this will raise the efficiency and responsibility of all within the enterprise as it will have to face the questions raised by the private shareholders who are worried about their capital investment. Affairs of an enterprise will get widely publicised, reducing scope for

---

any malpractices and mismanagement. Moreover, a question of principle gets involved: how can these enterprises be termed 'public enterprises' if the public is not associated with them in any way except, in a few cases, as direct consumers/clients/customers? It has been argued that the term is a misnomer and that an enterprise without public participation in the share capital can hardly be described as the peoples' enterprise as claimed by the government.

Various suggestions have been made to introduce the private shareholders' element as a source of capital. Prof. E.V. Morgan suggested the issue of such a form of equity, in the nationalised industries, in which (a) dividends would be linked with the sales and not the profits, (b) there would be guaranteed minimum return and (c) the shareholders would have no voting rights. According to him, "the shareholder would have the advantage, compared with the holder of fixed interest stock of a fairly good hedge against inflation and a prospect of sharing in an increase in the sales-capital ratio resulting from increasing efficiency." Two arguments can be advanced against the suggestion. One: it is difficult for the investing public to have a clear-cut and continuous idea about the sales of a public enterprise and, therefore, the investing public may not be attracted as envisaged. Two: a major share of the increased

5. (Redcliffe) Committee on Working of the Monetary System (1959): Para 593.
profits will have to be distributed to the shareholders, thereby leaving a little sum for ploughing back.

The Estimates Committee of the Indian Parliament voted in favour of a limited public participation. The Committee in its 16th Report (First Lok Sabha) suggested that "at least 25 per cent of the total capital investment must be available for the public." The suggestion was repeated by the Estimate Committee in its 19th Report (Second Lok Sabha) in these words: 'The Committee would again like to point out that the implementation of this recommendation would evoke the enthusiasm of the public for participation in the national development and would also enable the undertakings to function effectively under the vigil of a body of shareholders, who would in their own interests keep a watchful eye on the working of the undertaking.'

The Krishna Menon Committee, appointed by the Congress Party in Parliament to report on the Parliamentary Supervision over State undertakings, also endorsed the views expressed by the Estimates Committees. It went a step further by advocating public participation in management also.

As a result of these suggestions the Prime Minister at a meeting of the All Party Committee on the Third Five Year Plan stated that the Planning Commission has been asked "to work out proposals for giving to the general public opportunity to contribute to a limited extent to the capital of the state enterprises in industry and allied fields."\(^9\)

I believe that, in a developing country like ours, public participation in the share-capital is a strong necessity. Preference for such participation should, in particular, be given to those in the employment of the enterprise as it would improve employee morale, increase their efficiency and lead to better industrial relations. It would enable the government to diversify its resources over a wider range of activity. The government can use it as a lever for passing it into private hands when felt necessary simply by effecting a sale of the required number of its shares to private interests.\(^{10}\)

Public Enterprises may also procure long-term capital by raising loans in the market, which are guaranteed by the government for the payment of interest and the repayment of principal amount after a particular period. The loan may be raised in the form of debentures/bonds carrying a particular per cent rate of interest, and may be issued for

a fixed period. This mode of raising the capital is very widely used in many countries. The system does away with the possible fears of public participation and still raises the money from among the investing public in the market. The only disadvantage that can be stated against this system is that it would be too heavy a financial burden on an enterprise and, therefore, a young and inefficient enterprise will not be able to make use of this source.

(d) **Ploughing back of profits:**

The secret of easy flow of funds in the case of private sector units is that many of them with a history have large reserves build up from out of the profits which are ploughed back. This practice can be adopted in the public enterprises also and those units which are working profitably should be allowed to retain parts of their earnings for plough backs. This would ease the financial situation of the unit concerned and relieve the participating government/s from their burden in this regard.

Looking to the objectives for which most of the public enterprises are brought into being, this method is ruled out as a source of capital. Exploiting the natural resources and accelerating the economic growth and service to the community are considered to be the basic objectives. Profit making is not the criterion for their establishment and, consequently, there does not arise a problem of ploughing back of profits; only those enterprises which are capable of
making reasonable profits and are not expected to distribute them over as dividends can follow this method.

The problem has been studied under different socio-economic conditions and there are a number of opinions expressed as to whether the method is just or otherwise. For example, in an underdeveloped or developing economy where the government has to take care of the entire economy with limited funds, it cannot be expected to meet the financial demands of all the public sector enterprises. Under such circumstances, these undertakings should accumulate their earnings for meeting their expansive requirements. Herbert Committee\(^\text{11}\) which seemed to proceed with a basic assumption that it is only high prices that can ultimately go to build up capital for expansion voted against the method by saying that 'to make present consumers subsidise in this way, the capital requirements of future consumers would be quite inequitable.' Sir Roy Harrod on the other hand, has expressed the view '... that the nationalized industries be told that in future they will have to find all their capital requirement by internal finance.'\(^\text{12}\) The Redcliffe Committee had, however, concluded that it would not be realistic to look for a solution of the problem of capital supply along these lines.

\(^{11}\) Report of the Committee on Enquiry into the Electricity Supply Industry (Herbert Committee) Cmd. 9672, para 545; Quoted by Bansal B.L. in Financial Planning and Public Enterprises: p.23.

The Third and the Fourth Five Year Plans laid considerable emphasis on surpluses of public sector undertakings while estimating the resources for the Plans. The Third Plan\textsuperscript{13} envisaged a contribution of Rs. 440 crores both from the Central and State Government undertakings whereas the corresponding figure in the Fourth Plan\textsuperscript{14} has been put at Rs. 1,465 crores.

To conclude, the use of this source for expansion will depend upon the state of the economy, the nature of industry and the stage of its development. Again, the source cannot be a major one; it can supplement the capital requirements. Regular and even supply cannot be expected from it. It will be uneven both in terms of quantum and time. These limitations may operate more acutely in the case of underdeveloped or developing economies where the projects generally involve huge capital outlays and have long gestation periods thereby thinning out the possibilities of profits for considerable periods.

The RTC Act 1950 has made elaborate provisions for the Capital-Formation of the Corporation. As per Section 23(1), "The Central Government and the State Government may provide to a Corporation established by the State Government in such proportion as may be agreed to by both the Governments any

\begin{itemize}
  \item \textsuperscript{13} Third Five Year Plan GOI: Planning Commission (1961): p.95.
  \item \textsuperscript{14} Fourth Five Year Plan 1969-74(Draft) GOI: Planning Commission: p.35.
\end{itemize}
capital that may be required by the Corporation for the purpose of carrying on the undertaking or for purposes connected therewith on such terms and conditions, not inconsistent with the provisions of this Act, as the State Government may, with the previous approval of the Central Government determine.\(^{15}\)

Sub-sections (2) to (6) provide for the raising of capital by issue of shares, the power of the State Government in relation thereto, the parties to whom the allotment of shares can be made and the number of shares to be so allotted, the restriction on the transferability of shares except in accordance with the rules made under the Act, and the redemption of shares. Section 24 further empowers the Corporation to raise additional capital by further issue of shares while Section 25 deals with the guarantee of the State Government as to the payment of the principal and the minimum annual dividends.

The capital of the Corporation has been provided by both, the State Government and the Central Government in the proportion of two to one. This is in accordance with the provision of Section 23. The Corporation has, therefore, not to bother about raising the capital through the issue of shares.

\(^{15}\) State Transport Manual; p.7.
When the bifurcation of the bilingual Bombay State took place and the GSRTC was formed, the bifurcation of assets and liabilities between the BSRTC (now the MSRTC) and the GSRTC was not finalised immediately. The Corporation, however, inherited the vehicles, bus stations and bus stands, workshops at Ahmedabad and at all the divisions and depots, etc. It also inherited the assets and liabilities of the then existing SSRTC and KSRTC.

At the time of the formation of the Corporation, the capital investment by both the State Government and the Central Government amounted to Rs. 752.14 lakhs. This was made up of Rs. 490 lakhs plus Rs. 24.10 lakhs and Rs. 225.93 lakhs plus Rs. 12.11 lakhs contributed by the State Government and the Central Government (Railways) towards the Ordinary and Preference capitals respectively. During the first year of the Corporation, the State Government further contributed Rs. 53.62 lakhs and the Central Government Rs. 46.78 lakhs towards the Ordinary capital. This capital investment got reduced to Rs. 8.46 lakhs during the second year, as neither the Governments contributed anything towards the capital nor did the Corporation redeem the first annual instalment of Preference capital to the State Government (Rs. 5.63 lakhs) and to the Central Government (Rs. 2.83 lakhs). During the next two years

16. AR(GSRTC) 1960-61: p.27.
the flow of capital from both the State and the Central Governments was even, it being Rs. 32.20 lakhs and Rs. 16.10 lakhs and Rs. 34.00 lakhs and Rs. 17.00 lakhs respectively for 1962-63 and 1963-64. The corresponding redemption to the extent of Rs. 5.89 lakhs and Rs. 6.15 lakhs to the State Government and Rs. 2.96 lakhs and Rs. 3.09 lakhs to the Central Government towards the Preference capital was made by the Corporation during the two years, leaving a balance of Rs. 9.66 lakhs (Rs. 6.43 lakhs State Govt. and Rs. 3.23 lakhs Central Govt.) which was finally repaid in the year 1964-65. While the State Government contributed a sum of Rs. 117.00 lakhs and Rs. 116.90 lakhs during the years 1964-65 and 1965-66, the amount of the matching contribution by the Central Government for both the years was received in the latter year. The succeeding two years compelled the Corporation to go to the market for raising loans as neither Government contributed any capital. A sum of Rs. 142.50 lakhs, being Rs. 95.00 lakhs and Rs. 47.50 lakhs from the State, and the Central Governments respectively, was received as contribution during the year 1968-69, while the corresponding figures for 1969-70 were Rs. 31.70 lakhs and Rs. 15.00 lakhs respectively. During the subsequent three years the capital contribution by both the Governments—

the State and the Central — was as under:—

<table>
<thead>
<tr>
<th>Year</th>
<th>State Government</th>
<th>Central Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>Rs. 100 lakhs</td>
<td>Rs. 25 lakhs</td>
</tr>
<tr>
<td>1971-72</td>
<td>Rs. 140 lakhs</td>
<td>Rs. 95 lakhs</td>
</tr>
<tr>
<td>1972-73</td>
<td>Rs. 150 lakhs</td>
<td>Rs. 61 lakhs</td>
</tr>
<tr>
<td>Total:</td>
<td>Rs. 390 lakhs</td>
<td>Rs. 181 lakhs</td>
</tr>
</tbody>
</table>

Thus, at the end of 1972-73 the total capital investment of the State Government stood at Rs. 1,360.42 lakhs and that of the Central Government at Rs. 666.21 lakhs, making a total of Rs. 2,026.63 lakhs.

The Act has made sufficient provision for borrowings.

Sec. 26 confers the borrowing powers on the Corporation by laying down thus: "A Corporation may, with the previous approval of the State Government, borrow money in the open market or otherwise for the purpose of raising its working capital." The Corporation had availed of these powers on three occasions — during the years 1966-67, 1967-68 and 1968-69 — when it raised loans of Rs. 106.77 lakhs, Rs. 109.16 lakhs and Rs. 106.70 lakhs respectively, from the open market. This was mainly due to the fact that, during the first two years, the participating governments did not contribute any capital while in the third year, it would not otherwise have been possible to meet for the 10% expansion in the services. Thus, the public borrowings,

in the form of the loans by the Corporation, have been of Rs. 321.62 lakhs at the end of the year 1972-73.

In addition to these funds, a sum of Rs. 39.86 lakhs was also inherited from the erstwhile BSRTC, being the amount of the Canadian Aid Loan. It was only during the year 1968-69 that the Corporation repaid the amount of Rs. 13.16 lakhs to the Central Government towards the loan, thus leaving a balance of Rs. 26.70 lakhs at the end of the year 1972-73. 27

The Corporation has also made use of the internal resources for its long term capital requirements. They are composed of contributions to (a) Reserve Fund, (b) Development Fund, (c) Depreciation Reserve Fund, and (d) Development Rebate Reserve. Sec. 29 of the Act lays down that: "A Corporation shall make such provisions for depreciation and for reserve and other funds as the State Government may, from time to time, direct." 28 Sub-section (2) of Sec. 29 leaves the management of these funds to the Corporation.

From the third year i.e. 1962-63, the Corporation has been making use of its internal resources as a source of capital. As Table IX.1 shows these funds have attained further heights every year with the only exception of the year 1965-66 when it had registered a fall of Rs. 105.11 lakhs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-63</td>
<td>389.82</td>
</tr>
<tr>
<td>1963-64</td>
<td>530.54</td>
</tr>
<tr>
<td>1964-65</td>
<td>601.86</td>
</tr>
<tr>
<td>1965-66</td>
<td>426.75</td>
</tr>
<tr>
<td>1966-67</td>
<td>754.49</td>
</tr>
<tr>
<td>1967-68</td>
<td>877.33</td>
</tr>
<tr>
<td>1968-69</td>
<td>1005.95</td>
</tr>
<tr>
<td>1969-70</td>
<td>1126.13</td>
</tr>
<tr>
<td>1970-71</td>
<td>1261.51</td>
</tr>
<tr>
<td>1971-72</td>
<td>1476.70</td>
</tr>
<tr>
<td>1972-73</td>
<td>1867.15</td>
</tr>
</tbody>
</table>

The sum total of all these resources goes to make a huge amount. But with a constant growth-demand in the services of the Corporation, it also falls short of meeting the expansive programmes. This gives rise to numerous cyclical issues including (a) the dissatisfaction of the travelling public as the services cannot be expanded, (b) the creation of unnecessary problems for the staff, (c) the loss of sympathy of the public in general because of the repeated appearances of complaints in the newspapers, and (d) the threats of 'Satyagrahas' by the public. Therefore, Shri K.P. Shah, once the Chairman of the Corporation, made a

categorical demand on the Centre for increasing the present quantum of 50% contribution to 100% to match that of the State Government. 'Such increased contribution' he further added, 'will help the Nationalised Transport Undertakings to fulfil their obligations to the common man'. 30 He also pleaded for the allowance of development reserve as was the practice until 1959, when the Corporation was allowed to build up reserves to meet the deficit between the cost of the old vehicles and the new ones for replacement; he believed that such an allowance would help the Transport Organisations to expand their fleet according to the need while still running the services well. 31

Short-term Capital:

Short-term or working capital is as important as the long-term or fixed capital. Working capital may be described as the life-blood of an organisation. Inadequate working capital may mean that the fixed assets purchased from out of the permanent capital cannot be utilised effectively. Shortage of materials or labour on account of shortage of working capital may mean that machines can be used for only part of the available time. Again, the shortage should not be abnormally high so as to breed a low state of efficiency. The production and the sales cycles are important factors in the determination of the working capital needed. Generally

31. The Corporation, however, enjoyed the benefit of Development Rebate Reserve right from its inception.
speaking, the longer the periods, the larger will be the working capital requirements. Closely linked with the sales cycle is its seasonality. If sales are obtained in certain seasons only and for the rest of the year the stocks are built up, then the cash requirements in the slack period may call for special measures.32

The sources of the short-term capital for a public enterprise comprise: (a) government, (b) various financial agencies supplying credit, and (c) internal operations.

Government may provide the capital only under exceptional circumstances. Under normal conditions the enterprise is expected to make its own arrangements. Credit from the financial agencies constitute the main source of capital. The need is generally satisfied through cash credit arrangements with the State Bank of India or its subsidiaries. Sometimes, these agencies do not grant them unless when the government stands as guarantor. The internal operations constitute an important source. The cash which is received by an enterprise may be utilised as working capital. Interest will have to be paid on the borrowed capital and that will have an impact on the profits. To earn a substantial profit and at the same time to have an overdraft is not an ideal state. Larger profits will be possible only when the heavy burden of interest can be eliminated. 'Indeed, if adequate

Cash is available, full advantage can be taken of any new opportunities which arise. This could lead to larger profits still. All this is sound common sense -- it is better to use your own money rather than to borrow.\footnote{33}

While no clear and specific provision has been made by the Act under the title of 'working capital', it does lay down under Sec. 27 that "Every Corporation shall have its own fund and all receipts of the Corporation shall be credited thereto and all payments by the Corporation shall be made therefrom."\footnote{34} Again Sec. 31, which deals with the 'power of the Corporation to spend', also provides that "a Corporation shall have power to spend such sums as it thinks fit on objects authorised under this Act and such sums shall be treated as expenditure payable out of the fund of the Corporation."\footnote{35}

Like any other public enterprise, the Corporation has made arrangements for overdraft facilities with the State Bank of India for meeting the working capital requirements. However, during its life of thirteen years it had never availed of the arrangement; it could manage its affairs from the daily revenue receipts.

'Revenue' receipts have been classified as (a) Operating Revenue, and (b) Non-operating Revenue. Operating revenue covers revenue from (i) passengers, (ii) contract services,

\footnote{33. Ibid.: p.403.}

\footnote{34. State Transport Manual: p.8. 35. Ibid.: p.9.}
(iii) passenger luggage and parcel services, (iv) out-agency receipts and (v) postal mail carriage.

'Non-operating revenue is composed of (i) receipts from advertising, (ii) rents, and (iii) miscellaneous receipts including (a) sale of scrap, (b) interest, (c) profit from fully depreciated vehicles, (d) miscellaneous receipts, and (e) adjustments.

Out of the total annual revenue of the Corporation, nearly 95.71% comes from operating revenue, the rest being contributed by the non-operating revenue. Table IX.2 presents the yearwise statistics of both the types of revenues and their relative percentages to the total revenue.

Again, the operating revenue, as is evident from the Table IX.2 grew by more than seven times and the non-operating revenue rose by slightly more than four times during 13 years since 1960-61. Further, in terms of the percentage, a constant rise is witnessed in regard to the former whereas the latter has registered a gradual decline during the period.

The Corporation receives a considerable amount in cash every day as revenue from the passengers and from various other items. This cash needs proper management. No amount should be kept idle as it would mean loss of interest and provide a possibility of frauds. At the same time it has to be ensured that the units are not starved of finance, and
Table IX.236

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Revenue</th>
<th>Non-operating Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>% of total revenue</td>
</tr>
<tr>
<td>1960-61</td>
<td>603.17</td>
<td>93.60</td>
</tr>
<tr>
<td>1961-62</td>
<td>713.60</td>
<td>92.99</td>
</tr>
<tr>
<td>1962-63</td>
<td>883.98</td>
<td>93.92</td>
</tr>
<tr>
<td>1963-64</td>
<td>1060.37</td>
<td>95.26</td>
</tr>
<tr>
<td>1964-65</td>
<td>1268.64</td>
<td>96.32</td>
</tr>
<tr>
<td>1965-66</td>
<td>1495.03</td>
<td>95.89</td>
</tr>
<tr>
<td>1966-67</td>
<td>1775.40</td>
<td>96.54</td>
</tr>
<tr>
<td>1967-68</td>
<td>2212.55</td>
<td>96.93</td>
</tr>
<tr>
<td>1968-69</td>
<td>2674.60</td>
<td>97.56</td>
</tr>
<tr>
<td>1969-70</td>
<td>2924.09</td>
<td>96.55</td>
</tr>
<tr>
<td>1970-71</td>
<td>3438.98</td>
<td>96.50</td>
</tr>
<tr>
<td>1971-72</td>
<td>4017.15</td>
<td>96.05</td>
</tr>
<tr>
<td>1972-73</td>
<td>4422.44</td>
<td>96.09</td>
</tr>
</tbody>
</table>

that the contingencies are met with. The maximum and the minimum of cash balance has to be laid down and be strictly adhered to. The maintenance of the minimum and the maximum balances of cash will (a) smoothen the cash flow required for meeting the day to day expenditures, and (b) avoid the malady of both overtrading and undertrading.

The services of the Corporation cover the entire state. A depot runs a number of trips on various routes. Conductors who are large in number collect the fares from the

These sums collectively go to make a huge total. Similarly there are a number of depots under each division and there are a number of divisions under the Corporation. The organisation, thus, is so big that if proper control over the collection of passenger revenue is not exercised and a continuous and constant follow up is not undertaken, the Corporation might lose quite a good amount. The problem, therefore, for the Corporation is not that of maintenance of maximum and minimum of cash balance so much as it is in regard to devising a foolproof system whereby the revenue receipts are not defalcated. Depots are required to maintain the Conductors' Chart in which will be noted the movement of the conductors and their remittances. Again, whatever cash is received either by the depots or by the divisions during the day, has to be deposited on the same day in the local branch of the State Bank of India or a branch of its subsidiary. Elaborate provisions regarding the procedure of such deposits and withdrawals have also been laid down by the Corporation which have already been dealt with in Chapter VII. The ceilings of the cash balance that can be retained by a unit during the first three weeks of the month and during the last week of the month are fixed by the Chief Accounts Officer. Any cash in excess of the ceiling has to be transferred to the Central Office. While fixing the ceilings the Chief Accounts Officer takes into account the size of the division or the depot.
The system works like this: Every conductor is given an imprest of Rs. 5/- when he resumes duty for the first time during the day. The depots are also given imprest petty cash. The amount of the petty cash is recouped either daily, weekly or fortnightly, depending upon the size of expenditure. The depots have to put their demands to the Chief Accounts Officer, who may ask for justification before the imprests are finally sanctioned.

In the case of divisions, the same procedure is followed. The CAO will take into account the number and size of depots while fixing the ceiling of the cash as the recoupment of the imprest petty cash to the depots will have to be made by respective divisions.

The revenue from passengers which averages out at about 92% of the total revenue of the Corporation constitutes the lion's share. It has registered a constant rise during thirteen years and is reflective of the expansion of the services by the Corporation. It increased by more than seven times within a period of thirteen years. The yearwise rises in the amount and its percentage contribution to the total revenue of the Corporation is reflected in Table IX.3.

The other sources of revenue both, operating and non-operating, constitute a relatively small figure. Again, the receipts from these sources are not even; they are of a sporadic nature.
Table IX.3  
(Re. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Re.)</th>
<th>Per Cent of the total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>582.68</td>
<td>90.42</td>
</tr>
<tr>
<td>1961-62</td>
<td>691.72</td>
<td>90.14</td>
</tr>
<tr>
<td>1962-63</td>
<td>854.19</td>
<td>90.75</td>
</tr>
<tr>
<td>1963-64</td>
<td>1020.38</td>
<td>91.66</td>
</tr>
<tr>
<td>1964-65</td>
<td>1219.73</td>
<td>92.61</td>
</tr>
<tr>
<td>1965-66</td>
<td>1450.72</td>
<td>93.04</td>
</tr>
<tr>
<td>1966-67</td>
<td>1707.89</td>
<td>92.87</td>
</tr>
<tr>
<td>1967-68</td>
<td>2119.15</td>
<td>92.84</td>
</tr>
<tr>
<td>1968-69</td>
<td>2559.95</td>
<td>93.38</td>
</tr>
<tr>
<td>1969-70</td>
<td>2794.54</td>
<td>92.27</td>
</tr>
<tr>
<td>1970-71</td>
<td>3286.32</td>
<td>92.22</td>
</tr>
<tr>
<td>1971-72</td>
<td>3849.00</td>
<td>92.60</td>
</tr>
<tr>
<td>1972-73</td>
<td>4244.42</td>
<td>92.21</td>
</tr>
</tbody>
</table>

(a) **Contract Services:**

The Corporation besides running the regular passenger services, also provides the buses on contract to the public during marriage seasons, religious and other holidays, etc. on payment of prescribed charges based on the seating capacity of the bus contracted. The bus may be hired for a casual contract, i.e. for both way journeys or for a drop contract, i.e., for outward journeys alone.

The revenue from this source is depicted in Table IX.4.

---

37. Ibid.
### Table IX.4

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rs.)</th>
<th>Per Cent of total Revenue</th>
<th>Year</th>
<th>Amount (Rs.)</th>
<th>Per Cent of total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>10.62</td>
<td>1.65</td>
<td>1966-67</td>
<td>36.06</td>
<td>1.96</td>
</tr>
<tr>
<td>1961-62</td>
<td>10.36</td>
<td>1.35</td>
<td>1967-68</td>
<td>54.90</td>
<td>2.41</td>
</tr>
<tr>
<td>1962-63</td>
<td>16.39</td>
<td>1.74</td>
<td>1968-69</td>
<td>68.77</td>
<td>2.51</td>
</tr>
<tr>
<td>1963-64</td>
<td>23.83</td>
<td>2.15</td>
<td>1969-70</td>
<td>80.01</td>
<td>2.64</td>
</tr>
<tr>
<td>1964-65</td>
<td>27.88</td>
<td>2.12</td>
<td>1970-71</td>
<td>97.80</td>
<td>2.74</td>
</tr>
<tr>
<td>1965-66</td>
<td>19.61</td>
<td>1.26</td>
<td>1971-72</td>
<td>109.89</td>
<td>2.64</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1972-73</td>
<td>113.18</td>
<td>2.46</td>
</tr>
</tbody>
</table>

(b) **Passengers Luggage & Parcel Services:**

Every passenger having a full ticket is entitled to carry with him luggage weighing 15 kgs. and a passenger having half ticket, to carry 7.5 kgs. luggage. Passengers desirous of carrying more luggage-weight are required to pay extra at the rate of 2 paise per 5 kgs., per stage with a minimum of 10 paise.

Similarly, the Corporation also arranges to transport the goods from one place to another under its Parcel Transport Scheme at the prescribed rated based on both the size and the value of the parcel, with a minimum of Re. One. On viewing the contents of Table IX.5, it can be concluded that a notable progress has been made by the scheme and that the revenue earned therefrom has steadily risen.

---

38. Ibid.
### Table IX.539

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rs.)</th>
<th>Per Cent of total Revenue</th>
<th>Year</th>
<th>Amount (Rs.)</th>
<th>Per Cent of total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>8.94</td>
<td>1.39</td>
<td>1966-67</td>
<td>29.10</td>
<td>1.58</td>
</tr>
<tr>
<td>1961-62</td>
<td>10.32</td>
<td>1.35</td>
<td>1967-68</td>
<td>35.89</td>
<td>1.57</td>
</tr>
<tr>
<td>1962-63</td>
<td>12.21</td>
<td>1.30</td>
<td>1968-69</td>
<td>42.40</td>
<td>1.54</td>
</tr>
<tr>
<td>1963-64</td>
<td>14.53</td>
<td>1.31</td>
<td>1969-70</td>
<td>47.80</td>
<td>1.58</td>
</tr>
<tr>
<td>1964-65</td>
<td>18.98</td>
<td>1.44</td>
<td>1970-71</td>
<td>52.94</td>
<td>1.49</td>
</tr>
<tr>
<td>1965-66</td>
<td>23.27</td>
<td>1.49</td>
<td>1971-72</td>
<td>56.36</td>
<td>1.36</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1972-73</td>
<td>60.37</td>
<td>1.32</td>
</tr>
</tbody>
</table>

---

(c) **Outagency Receipts:**

For the convenience of the passengers, the Corporation provides outagency services. Such services are also extended for transport of the parcels and goods. These services seem to have been suspended from the year 1969-70. The receipts from these services did not constitute a big figure. It averaged out to a meagre contribution of Rs. 64,000 and just 0.6% of the total revenue.

(d) **Postal Mail Carriage:**

The Corporation also carries the postal mail from those villages which are not connected by railways at the request of the Postal Department. The rates for the service are decided by an agreement between the Corporation and the Postal Department. The revenue earning on this account is also very

39. Ibid.
negligible and comes to about Rs. 1.57 lakhs on an average or 0.7% of the entire revenue.

As already mentioned, the non-operating revenue contributes on an average 4.34% of the gross revenue of the Corporation. Its composition is reflected in Table IX.6.

<table>
<thead>
<tr>
<th>Source of receipt</th>
<th>Average Amount</th>
<th>Average per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Net Receipt from Advertising</td>
<td>1.36</td>
<td>0.08</td>
</tr>
<tr>
<td>(2) Rents</td>
<td>1.47</td>
<td>0.08</td>
</tr>
<tr>
<td>(3) Miscellaneous Receipts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Sale of Scrap</td>
<td>18.66</td>
<td>0.82</td>
</tr>
<tr>
<td>(b) Interest</td>
<td>20.42</td>
<td>1.26</td>
</tr>
<tr>
<td>(c) Profit from fully depreciated vehicles</td>
<td>7.00</td>
<td>0.42</td>
</tr>
<tr>
<td>(d) Miscellaneous Receipts</td>
<td>29.91</td>
<td>1.51</td>
</tr>
<tr>
<td>(4) Adjustments etc.</td>
<td>3.36</td>
<td>0.17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>82.08</strong></td>
<td><strong>4.34</strong></td>
</tr>
</tbody>
</table>

Utilisation:

The efficient use of capital is dependent not only on the acquisition of capital in the required amounts, at the right time and under favourable conditions, but also on the formulation of internal financial policies and constant vigilence in their use. The Corporation has been provided with long-term capital by the State and the Central Governments. It also earns considerable revenue from a number of sources. Both these — the Capital receipts as well as
the revenue receipts — will have to be managed in such a manner as would enable the Corporation to carry out the services most efficiently and reduce the wastages to the minimum extent possible.

The Act has made adequate provisions for the proper management of the resources. Sec. 32(1) lays down that "Every Corporation shall, by such date in each year as may be prescribed, prepare and submit to the State Government for approval, a budget for the next financial year showing the estimated receipts and expenditure during the financial year in such form as may be prescribed. Rule 13.40 spells out the provisions of the Section by prescribing the Form of the Budget. 'The Budget Estimate of the Corporation shall consist of seven parts:

Part I: A detailed estimate of expenditure on capital account.

Part II: A detailed estimate of (a) receipts, and (b) the expenditure on revenue account.

Part III: A detailed estimate of contribution from the State Government and the Central Government and other receipts on capital account to be exhibited under various heads to show the nature of receipts; and a summary of the amounts due to and by the Central and State Governments.

Part IV: Expenditure statement regarding funds.

40. State Transport Manual: p. 18A.
deposits and advances.

Part V: A detailed statement of the appropriation of net profits.

Part VI: Cash account of the State Transport Working Fund.


The provisions regarding the prior submission of the budget to the government are diverse. In some cases its mere submission is required; in the other, it is required to be submitted for approval. It is contended by many that the Government should not surreptitiously impinge upon the enterprise's financial and managerial autonomy. A public enterprise has been brought into being by the Government of a State which has the power to appoint/nominate members on the Board and some of the top executive officers. Under these circumstances the financial interest of the Government which has contributed the capital is adequately protected.

As Prof. Ramanadham has observed: "The annual programmes of performance and the working results are to remain the privilege of the boards to decide, and decide flexibly, bearing in mind the targets set for them, and working within the pricing and profit directives of the government."41 He further argues: "There is another incidental reason for

preserving this privilege. For commercial enterprises, it may not be proper to reveal the full details of their financial estimates, though they operate in public sector; the argument is stronger where a corporation works in competition with other enterprises.\(^{42}\) Again, this provision would mar the enterprising nature of the Board as extra caution will be exercised by the members of the board in regard to financial matters. The board develops a feeling of sanctity for the budget figures and would not like to change them even if it is warranted on commercial grounds.

The provisions under the Act, however, have granted freedom to the Corporation to sanction any re-appropriation within the grant from one head of the expenditure to another or from a provision made for one scheme to that in respect of another, subject to the condition that the aggregate budget grant is not exceeded. (Sec. 32(3)). Thus it is not that 'steel frame' of figures within which the Board will have to take decisions. The Act has also gone a step further by making provision for expenditures in excess of the budgeted figures under any head of expenditure or in connection with any particular scheme, subject to the prescribed conditions. I shall discuss this issue further in Chapter XI. on Functional Autonomy and Accountability.

The sanction to the expenditure granted under the budget falls in two broad heads: Capital Expenditure, and

\(^{42}\) Ibid.
Revenue Expenditure.

Capital Expenditure:

Rule 20 of the Act describes Capital Expenditure thus:

'Capital Expenditure shall represent all expenditure incurred in acquiring assets for the purpose of earning income or increasing the earning capacity of the Corporation and includes charges in creating and bringing the assets into beneficial use'.

Thus expenditures on acquiring land, construction and/or purchase of buildings, and purchase of vehicles, plant, machinery & equipment constitute capital expenditure. The capital assets which may be acquired/purchased from these expenditures enable the Corporation to earn revenues. The nature of services rendered by the Corporation is such that capital expenditure cannot be deferred for some time. Grants for expenditure under various heads are, therefore, made separately for each head.

Vehicles take away a larger share of the total capital expenditure. On an average it claims 79.39% of the expenditure. Buildings which come next in terms of toll of the capital expenditure share only 13.21%, the remaining expenditure being shared between Land (3.76%) and Machinery & Equipment (3.64%). Again, the expenditure on vehicles has maintained its parity with that of the total capital as can be evinced from Table IX.7. While the total capital expenditure

43. Ibid: p.20.
<table>
<thead>
<tr>
<th>Year</th>
<th>Land Amount</th>
<th>%</th>
<th>Buildings Amount</th>
<th>%</th>
<th>Vehicles Amount</th>
<th>%</th>
<th>Plant, Machy. &amp; Equipment Amount</th>
<th>%</th>
<th>Total Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>43.32</td>
<td>4.38</td>
<td>157.19</td>
<td>15.89</td>
<td>744.08</td>
<td>75.23</td>
<td>44.45</td>
<td>4.50</td>
<td>989.04</td>
<td>100</td>
</tr>
<tr>
<td>1961-62</td>
<td>44.75</td>
<td>3.81</td>
<td>167.24</td>
<td>14.25</td>
<td>909.52</td>
<td>77.47</td>
<td>52.49</td>
<td>4.47</td>
<td>1174.00</td>
<td>100</td>
</tr>
<tr>
<td>1962-63</td>
<td>51.66</td>
<td>3.93</td>
<td>175.27</td>
<td>13.34</td>
<td>1029.18</td>
<td>78.38</td>
<td>57.10</td>
<td>4.35</td>
<td>1313.21</td>
<td>100</td>
</tr>
<tr>
<td>1963-64</td>
<td>53.85</td>
<td>3.60</td>
<td>185.76</td>
<td>12.42</td>
<td>1195.92</td>
<td>79.96</td>
<td>60.16</td>
<td>4.02</td>
<td>1495.69</td>
<td>100</td>
</tr>
<tr>
<td>1964-65</td>
<td>57.21</td>
<td>3.42</td>
<td>195.25</td>
<td>11.66</td>
<td>1358.21</td>
<td>81.12</td>
<td>63.68</td>
<td>3.80</td>
<td>1674.35</td>
<td>100</td>
</tr>
<tr>
<td>1965-66</td>
<td>61.29</td>
<td>3.40</td>
<td>214.64</td>
<td>11.90</td>
<td>1460.98</td>
<td>81.03</td>
<td>66.13</td>
<td>3.67</td>
<td>1803.04</td>
<td>100</td>
</tr>
<tr>
<td>1966-67</td>
<td>83.49</td>
<td>3.85</td>
<td>252.62</td>
<td>11.66</td>
<td>1754.92</td>
<td>81.00</td>
<td>75.52</td>
<td>3.49</td>
<td>2166.55</td>
<td>100</td>
</tr>
<tr>
<td>1967-68</td>
<td>92.70</td>
<td>3.86</td>
<td>293.48</td>
<td>12.24</td>
<td>1933.87</td>
<td>80.63</td>
<td>78.49</td>
<td>3.27</td>
<td>2398.54</td>
<td>100</td>
</tr>
<tr>
<td>1968-69</td>
<td>101.15</td>
<td>3.66</td>
<td>335.61</td>
<td>12.15</td>
<td>2241.09</td>
<td>81.10</td>
<td>85.35</td>
<td>3.09</td>
<td>2763.20</td>
<td>100</td>
</tr>
<tr>
<td>1969-70</td>
<td>109.84</td>
<td>3.75</td>
<td>389.31</td>
<td>12.29</td>
<td>2337.99</td>
<td>79.79</td>
<td>92.94</td>
<td>3.17</td>
<td>2930.08</td>
<td>100</td>
</tr>
<tr>
<td>1970-71</td>
<td>128.40</td>
<td>4.02</td>
<td>446.08</td>
<td>13.98</td>
<td>2515.04</td>
<td>78.84</td>
<td>100.94</td>
<td>3.16</td>
<td>3190.46</td>
<td>100</td>
</tr>
<tr>
<td>1971-72</td>
<td>137.62</td>
<td>3.78</td>
<td>522.25</td>
<td>14.34</td>
<td>2863.92</td>
<td>78.66</td>
<td>116.86</td>
<td>3.22</td>
<td>3640.65</td>
<td>100</td>
</tr>
<tr>
<td>1972-73</td>
<td>144.19</td>
<td>3.40</td>
<td>619.32</td>
<td>14.60</td>
<td>3349.34</td>
<td>78.95</td>
<td>129.25</td>
<td>3.05</td>
<td>4242.10</td>
<td>100</td>
</tr>
</tbody>
</table>

during the period under review has been marked by a four-fold increase, expenditure on vehicles has also risen in the same proportion. However, the expenditures on other items do not show a similar trend.

The sources of capital expenditure are the capital receipts in the form of (a) contribution by the State and Central Governments, (b) internal resources, (c) public loans, and (d) Canadian Aid loan. Their relative contributions are depicted in Table IX.8. The figures show that the proportion of contribution by the governments went on declining from year to year, if viewed in relation to the total capital. Thus, while the contribution from the State and Central Governments accounted for 57.40% and 28.80% of the total capital at the end of the first year of the working of the Corporation, it went down to as low as 32.07% and 15.70% respectively at the end of the thirteenth year. During the sixth, the seventh and the eight years, neither government had made any contribution. Conversely, the Corporation had to rely more and more on its internal resources. Its share as a source of total capital expenditure rose from 9.98% to 44.01%. In absolute terms also it has registered an nineteenfold increase during thirteen years. Similarly, the Corporation had to raise public loans from the market during the years 1966-67 to 1968-69 amounting to a total of Rs.321.62 lakhs, contributing about 7.58% to the total capital.
<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Per</th>
<th>Central</th>
<th>Internal</th>
<th>Public</th>
<th>Per</th>
<th>Canadian</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Govt.</td>
<td>Cent</td>
<td>Govt.</td>
<td>Cent</td>
<td>Sources</td>
<td>Cent</td>
<td>Loan</td>
<td>Air</td>
</tr>
<tr>
<td>1960-61</td>
<td>567.72</td>
<td>57.40</td>
<td>284.82</td>
<td>28.80</td>
<td>98.74</td>
<td>9.98</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1961-62</td>
<td>562.09</td>
<td>47.88</td>
<td>281.99</td>
<td>24.02</td>
<td>290.06</td>
<td>24.70</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1962-63</td>
<td>588.40</td>
<td>44.80</td>
<td>295.13</td>
<td>22.48</td>
<td>389.82</td>
<td>29.69</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1963-64</td>
<td>616.25</td>
<td>41.20</td>
<td>309.04</td>
<td>20.67</td>
<td>530.54</td>
<td>35.46</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1964-65</td>
<td>726.82</td>
<td>43.41</td>
<td>305.81</td>
<td>18.26</td>
<td>601.86</td>
<td>35.95</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1965-66</td>
<td>843.72</td>
<td>46.80</td>
<td>422.71</td>
<td>23.44</td>
<td>496.75</td>
<td>27.55</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1966-67</td>
<td>843.72</td>
<td>38.94</td>
<td>422.71</td>
<td>19.51</td>
<td>754.49</td>
<td>34.82</td>
<td>105.77</td>
<td>4.89</td>
</tr>
<tr>
<td>1967-68</td>
<td>843.72</td>
<td>35.17</td>
<td>422.71</td>
<td>17.62</td>
<td>877.33</td>
<td>36.58</td>
<td>214.92</td>
<td>8.96</td>
</tr>
<tr>
<td>1968-69</td>
<td>938.72</td>
<td>33.97</td>
<td>470.21</td>
<td>17.02</td>
<td>1005.95</td>
<td>36.41</td>
<td>321.62</td>
<td>11.64</td>
</tr>
<tr>
<td>1969-70</td>
<td>970.42</td>
<td>33.12</td>
<td>485.21</td>
<td>16.56</td>
<td>1126.13</td>
<td>38.43</td>
<td>321.62</td>
<td>10.98</td>
</tr>
<tr>
<td>1970-71</td>
<td>1070.42</td>
<td>33.55</td>
<td>510.21</td>
<td>15.99</td>
<td>1261.51</td>
<td>39.54</td>
<td>321.62</td>
<td>10.08</td>
</tr>
<tr>
<td>1971-72</td>
<td>1210.42</td>
<td>33.25</td>
<td>605.21</td>
<td>16.62</td>
<td>1476.70</td>
<td>40.57</td>
<td>321.62</td>
<td>8.83</td>
</tr>
<tr>
<td>1972-73</td>
<td>1360.42</td>
<td>32.07</td>
<td>666.21</td>
<td>15.70</td>
<td>1867.15</td>
<td>44.01</td>
<td>321.62</td>
<td>7.58</td>
</tr>
</tbody>
</table>

expenditure. Canadian aid loan subscribed a minor proportion since the first year (3.82%). It has also gone on declining year by year. It stood at an insignificant figure of 0.64% at the end of the year 1972-73.

Revenue Expenditure:

Over and above the Capital expenditure, the Corporation has to incur expenditures which are recurring in nature. The vehicles which are purchased have to be driven. Fuel is required. Spare parts, tyres, tubes, etc. have to be purchased and stored for replacement. Employees have to be paid. Taxes have to be paid to the government. Expenditure on these and so many other similar items constitutes the revenue expenditure.

Rule 1546 of the Act provides for the grant of revenue expenditure under the following heads:

Grant 1: Administration — This grant will include expenditure on General Administration, Accounts Department, Traffic(Administrative), Expenses on departmental vehicles, and Miscellaneous expenditure.

Grant 2: Operations — This grant will include expenses under traffic(operational).

Grant 3: Workshops and Maintenance — This grant will include expenditure on workshops and maintenance.

Grant 4: Civil Engineering — This grant will include expenditure on civil engineering.

Grant 5: Contingencies, Supplies and Taxes — This grant will include expenditure on general contingencies (of all departments excepting Civil Engineering), fuel supplies, stores charges and rates and taxes.

Grant 6: Petty works and repairs — This grant will include the expenditure on repairs and maintenance of buildings and petty temporary works, experimental works and repairs to furniture and other equipment.

Grant 7: Contribution to Funds — This grant will include expenditure on the contributions to the various funds set up by the Corporation.

Grant 8: Interest — This grant will include expenditure on the interest to be paid by the Corporation.

There seems to be an overall rise in the Revenue Expenditure of the Corporation. It can be primarily attributed to the operation of the numerous factors beyond the control of the Corporation. If understood and appreciated in its proper perspective, it can be concluded that both the governments -- Central and State -- have not given any 'favourite child' treatment to the Corporation. On the contrary, they did not lose any opportunity of contributing to the rise in the cost. A variety of types of taxes and
duties was either levied or increased, thus raising the
cost of operation. It was the efficient operation of the
services and other economy measures by the Corporation
that stopped a corresponding high rise. A yearwise per­
centage of Revenue Expenditure under different heads is
presented in Table IX.9.

(a) Salaries & Allowances: This is the major item of
expenditure claiming about 21.5% of the total revenue ex­
penditure. In terms of absolute figures, it went up by
about eight times during 1960-61 -- 1972-73. However, as
a percentage of total expenditure, it has registered a rise
of a mere 2.12% during the same period. The factors res­
ponsible for the yearwise rising trend were: (i) Increase
in the number of employees due to increase in the total
services. (ii) Increase in the rates of dearness allowance
on the lines of the increased rates to the employees a of
the State Government. These revisions took place thirteen
times during the period 1964-65 and 1972-73 -- twice in
1964-65, once in 1965-66, four times in 1966-67, once in
1967-68, once in 1968-69, twice in 1970-71, once each in
1971-72 and 1972-73. (iii) Increase in the rates of House
Rent Allowance on 1-8-67, 1-1-69 and 1-7-72. Its payment
was further extended to other towns with effect from 1-10-67.
(iv) Tri-annual Labour Settlements entered into between the
Corporation and its Employees revising the rates of various
allowances and providing other non-monetary benefits involving financial burden on the Corporation.

(b) Welfare & Superannuation: With the rise in the number of employees, expenditure on this account is bound to rise. With an expenditure of Rs. 8.60 lakhs in the initial year it reached the peak figure of Rs. 165.96 lakhs at the end of the year 1972-73 — a nineteenfold rise! Public enterprises should come out as model employers and, therefore, are expected to undertake a wide range of welfare activities. The rise in the expenditure under this head can be attributed (i) to the extension of medical benefits to the employees and their families, (ii) to contribution to the Employees State Insurance Scheme for the benefit of the employees, (iii) to increasing the rate of Provident Fund from 6½% to 8%, and (iv) to payment of ex-gratia bonus at the rate of 4% of pay plus D.A. Over and above these, provision for pension and gratuity was also made by the Corporation every year to meet the expenditure on that account.

(c) Stores: Stores is another major item of revenue expenditure of the Corporation next to the Salaries & Allowances. It comprises of (i) Spare Parts, (ii) Tyres & Tubes, and (iii) Other Stores.

Though the expenditure on Spare Parts and Other Stores has gone on increasing in terms of their absolute figures, it has registered a fall as percentage of the total expenditure.
The low percentage does not mean that the prices have gone down; it is due to the fact that the expenditure on other items has also correspondingly increased. The reasons for the relatively low expenditure on these two items are (i) the non-availability of certain spare parts, (ii) standardisation of the fleet by the Corporation, and (iii) the policy of retrieving the spare parts and using them again. Moreover not only did the prices of these stores increase from year to year, but also the sales tax on auto-stores rose from 7% in 1959-60 to 10.26% in 1965-66, and continued to be at that level at the end of 1969-70. Excise duty on batteries which was @ 10% ad valorem in 1959-60, was raised to 18% in 1965-66 and to 20% in 1971-72. An excise duty @20% on lubricants and 10% on specified auto spare parts was levied during the year 1971-72. Rate of excise duty on latex foam was also raised from 20% to 40% during the same year and again to 60% in 1972-73. Import duty on automobile components rose from 60% to 100% in 1971-72 and to 110% in 1972-73.

Tyres and tubes are the most important components of a bus service. It would be unwise to exercise any economy on this count. Whatever be the price prevailing in the market, these will have to be procured; otherwise the revenue earnings would come to a standstill. It is for this reason, therefore, that while the total expenditure on Spare Parts and Other Stores rose from Rs. 55.18 lakhs and Rs. 20.45 lakhs
to Rs. 214.08 lakhs and Rs. 119.14 lakhs respectively during thirteen years, expenditure on Tyres and Tubes went up from Rs. 31.61 lakhs to Rs. 284.93 lakhs during the same period. There was a series of price rises either on account of the market forces or on account of the levy of surcharge, etc. In March 1964 the prices rose from Rs. 379 to 446 as a result of the levy of 20% surcharge. By 1965-66, the prices had almost doubled on account of the two revisions. During 1967-68, bigger size tyres were required to be used for technical reasons and, therefore, higher prices had to be paid. The average price increased from Rs. 690 per tyre to Rs. 795 by 1972-73. The Corporation, thus, was required to pay Rs. 100 per tyre more on 8.25x20.12 ply tyres due to shortage of 9.00x20, 10 ply tyres, during 1972-73.

(d) Reconditioning and Repairs: Here, too, while the expenditure increased gradually from Rs. 48.23 lakhs to Rs. 112.71 lakhs during thirteen years of the Corporation, it definitely does not show a rising trend as viewed against the total expenditure. Beginning with 7.37% at the time of the inception of the Corporation, it came down to a meagre 2.40% at the end of 1972-73. No other models excepting those of Dodge and Fargo were considered for either repairing and/or reconditioning. This policy was adopted due to non-availability of required spare parts.

(e) Fuel Power: Excise duties, Sales Tax and other taxes contributed heavily to the price rise on this item. Commencing
from the year 1963-64, almost every budget gifted an addition to the prevailing duties. Both the Central and the State Governments went on levying higher excise duties and raising the rates of sales tax on diesel oil and other petroleum products. The excise duty on diesel increased during the six years from Rs. 283.80 per kilolitre in 1959-60 to Rs. 450.45 during April 1965 to August 1965, to Rs. 507.60 in September 1965 and to Rs. 518.50 on 31-3-1973. Again, the rate of Sales Tax on diesel was raised to Rs. 20 and Rs. 30 per kilolitre from 26-5-1967 and 22-9-70 respectively. Similarly, a surcharge @ Rs. 15 per kilolitre was levied from 1-3-68 on petroleum products. On 11-10-68, an additional surcharge of Rs. 12 per kilolitre was also levied on these products. Excise duty was again increased on 31-3-69 to make it Rs. 508.15 per kilolitre. A further excise duty of Rs. 200 per kilolitre was levied during 1971-72.

The State Government did not, however, lag behind. It raised the Sales Tax on diesel from 2 paise to 5 paise per litre with effect from 15-11-65. On 21-2-70 the rate was brought up at 6 paise, was again revised on 22-9-70 and fixed at 8 paise per litre. Similarly, Sales Tax on lubricant was increased to 3% from 1-9-67, which was till then 2%. The State Government also levied a retail turnover tax of 1%.

All these factors contributed to a substantial rise in
All these factors contributed to a substantial rise in the expenditure under this head during the period under review. It went up by over 6.5 times over the figure of 1960-61. It was, however, (i) the increase in KMPL, and (ii) the overall rise in the total expenditure that accounted for the reduction in terms of its percentage of total expenditure.

(f) Taxes: Taxes are classified as (i) Passenger tax, (ii) Motor Vehicle tax, and (iii) Other taxes.

There is a long history of the Passenger tax. It was first introduced by the State Government in October 1958. It was fixed at 10% of the passenger fare collected by the Corporation, which may recover it from the passengers. Any way, the revenue earnings of the Corporation will be reduced to the extent of the passenger tax. This probably proved to be 'a hen laying the golden eggs' for the Government as is evident from the fact that the rate was revised many a time before it reached the present level of 25%. Soon after the Corporation completed its first year, the rate was raised to 15% on 21-4-61 causing a financial burden of Rs. 32 lakhs for that year. For the next year the expenditure on this account amounted to Rs. 41.39 lakhs. It was again revised on 1-7-63 and was fixed at 171/2%. A passenger tax of 5% was also levied on city services inflicting a financial liability of Rs. 18.79 lakhs. On 25-3-66, the rate was raised to 20% and passenger tax at the rate of 1% was also
levied on the revenue earned from city services. The rate revised on 15-9-69 to bring it to 23%. The latest revision took place on 17-8-72 when it was brought to the present level of 25%.

These revisions contributed heavily to the expenditure on this account. It rose from Rs. 56.10 lakhs in 1960-61 to Rs. 998.62 lakhs at the end of the year 1972-73. With the rise in traffic, the expenditure on this account is also bound to rise. Though entitled, it was not possible for the Corporation to recover the tax from the passengers by a corresponding rise in the fares every time the rise in the rate of the passenger tax was levied. Therefore it resulted in reduced revenue earnings for the Corporation.

Motor Vehicles using motor spirit and plying for hire and use for the carriage of passengers are required to pay M.V. tax at a prescribed rate fixed on the basis of the sitting capacity of the vehicle. Thus, for example up to 31-3-1963, a vehicle licensed to carry more than 4 passengers was required to pay the tax at the rate of Rs. 240 + Rs.32 for each passenger in excess of 4 passengers which the vehicle was licensed to carry. This rate was revised from 1-4-63 at Rs. 400 + 32 for each passenger in excess of 9 passengers which the vehicle was licensed to carry. An additional tax of Rs. 16 per standee allowed to travel in a passenger bus was introduced with effect from 1-1-64.
With the rise in the number of passengers, the amount of tax also rises. During thirteen years, it had registered a rise of two and a half times on its figure of 1960-61. It was Rs. 30 lakhs during the first year and rose to Rs. 97.68 lakhs, at the end of 1972-73. Excise duty on vehicles was levied for the first time in March 1960 at the rate of 12\% ad valorem on the tariff value of the chassis and a special excise duty at the rate of 20\% of the basic duty was levied from March 1963. From 1st December 1965, the excise duty was charged, on lump sum basis at Rs. 5,340 for Leyland and Rs. 4,392 for Tata/Dodge Chassis. These duties went to increase the prices of the vehicles.

Similarly, there are a number of other taxes like goods tax, sales tax, octroi duty and wheel tax which add to the expenditure structure of the Corporation. These rates are levied at different stages by different bodies. Goods Tax is levied by the State Government at the rate of 3\% of the freight charged for the carriage of goods. This is applicable to unaccompanied luggage and parcels carried on the passenger buses. Sales Tax on a number of items forming component parts of vehicles and other articles including rubber and other tyres and tubes and batteries and adopted for use as parts accessories of such vehicles, lubricants and high speed diesel, contributed to the rise in expenditure. The rates were changed a number of times.

Octroi duties form one of the major sources of revenue for municipalities. These duties are levied on different commodities including motor vehicles at different rates by different municipalities. They are based either on the ad valorem or lump sum basis.

The next constituent of the item 'Other taxes' is Wheel tax. The Government prescribes the maximum rates which can be levied by Borough or District municipalities. The rates prescribed are as under:

<table>
<thead>
<tr>
<th></th>
<th>Borough Municipality</th>
<th>District Municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Wheeled</td>
<td>Rs. 64</td>
<td>Rs. 60</td>
</tr>
<tr>
<td>6 Wheeled</td>
<td>Rs. 80</td>
<td>Rs. 72</td>
</tr>
</tbody>
</table>

The sum total of expenditure on all these items goes to make a big amount and constitutes an important expenditure head. Thus, beginning with an expenditure of just Rs. 68,000 at the end of the first year, it mounted up to Rs. 23.25 lakhs at the end of the thirteenth year. This rise also goes to establish that the Corporation contributes quite a handsome amount to the revenue of the State.

(g) Rent, Rates and Taxes: It may not be possible for an organisation to own buildings or lands for carrying on its activities. This may necessitate their hiring. Offices and staff will have to be housed. The Corporation, by the very nature of the activities it is enjoined to undertake,

will require buildings to accommodate the administrative offices and land to accommodate the fleet of the buses. Provision will also have to be made for providing amenities to the passengers who are waiting for the buses and to the staff on duty. This will require the rents to be paid to the landlords/landowners. Even where the Corporation has its own buildings, etc., various types of municipal taxes, like house tax, water charges and drainage charges will have to be paid. Rates and taxes for using the electricity power, telephones, etc. will also be required to be paid.

Similarly, the vehicles will have to be registered, they will have to be passed and fitness certificates for them will have to be obtained. Permits for plying on different routes will have to be obtained from the Regional Transport Authorities. All these will require payment of certain fees and taxes at prescribed rates.

Though the amount on this account has increased from year to year, the rate of rise has been low — it rose from Rs. 1.80 lakhs to Rs. 4.29 lakhs. Actually, as a percentage of total expenditure, it has indeed gone down.

(h) **Insurance**: A provision for a variety of types of risks has to be made. For the purpose, an Insurance Fund is created by way of a provision in the revenue expenditure. A limit of the Fund is fixed and any depletion from it is made good through a further provision in the revenue
expenditure. Thus, in the case of Insurance Fund for Vehicles (3rd party risk), the Corporation has decided to maintain a fund of Rs. 12.00 lakhs. Any expenditure incurred during the year by way of payments made to the parties is being reimbursed to the fund from the revenue accounts of the subsequent year.

In case of insurance on property of the Corporation for risks of fire, flood and lighting, different rates are fixed at: (i) For buildings exclusive of land - ¾% of cost of structure. (ii) For plant, machinery and equipment - 2% of cost, (iii) For vehicles - ¾% of cost of maximum number of vehicles held at any time. Similarly to cover the risks due to fire, flood, lighting, theft, burglary and decoy, the rates of contribution are fixed at (i) For stores - 1% of the cost. (ii) For cash in transit - 0.0375%, i.e., 37.5 paise per thousand rupees carried.

In case of accident-claims, the actual amount of compensation paid will be debited to the Revenue Account.

The impact of insurance was relatively a little heavy during the first and the third years of the Corporation, it being Rs. 5.68 lakhs and Rs. 7.15 lakhs respectively. Out of the provision for Rs. 7.15 lakhs during 1962-63, Rs. 5.22 lakhs were paid as compensation to those who were

50. Ibid.
involved in a very big accident near Kapadvanj. The year 1969-70 again witnessed a considerably high figure of Rs. 11.51 lakhs which has been mainly due a debit of Rs. 9.34 lakhs during the year 1968-69.

(i) **Depreciation:** Assets get depreciated because of use over a number of years. They have to be replaced after the expiry period. It necessitates the making of an appropriate provision from out of the revenues earned every year. This would not only enable an organisation to replace the assets easily but also protect it from exercising any sudden jolt on its Profit & Loss A/c.

The Corporation, for the purpose of providing depreciation has classified the assets as (i) vehicles, and (ii) other assets. Such a classification is essential for the simple reason that the bases of the provision of depreciation are different for both the types. The vehicles, for example, are depreciated on the basis of its assumed life in lakhs of kilometers and are related to the cost of the vehicle. The rate, therefore, has gone on rising almost every year with the rise in the costs of vehicles. An exception was found in regard to Departmental vehicles — Cars, Station wagons and Jeeps — only, where the rate was fixed at 20% of the original cost, annually.

Different rates are fixed for (i) Buildings and Structures, and (ii) Plant, Machinery and Equipment. Though these
rates from asset to asset individually, they are all based on a uniform principle, viz., cost. In Table IX.10 is presented the rates of Depreciation as prevalent on 31-3-73:

<table>
<thead>
<tr>
<th>Description of Asset</th>
<th>Rate of Depreciation (Percentage of the cost)</th>
</tr>
</thead>
</table>
| **Table IX.10**  
1. **Building and Structures:**  
   (i) Permanent                                                                 1.67  
   (ii) Others                                                                   12.50  
   (iii) Electric Installations                                                  12.50  
2. **Plant, Machinery and Equipment:**  
   (i) Machinery, Plant and Tools                                               10.00  
   (ii) Furniture -- Wooden & Steel                                              15.00  
   (iii) Electric Equipment                                                     10.00  
   (iv) Office Equipment                                                         15.00  
   (v) Fire-fighting Equipment                                                   20.00  
   (vi) Photographic Equipment                                                   20.00  
   (vii) Medical Equipment                                                       20.00  
   (viii) Tickets Machines                                                       25.00  
   (ix) Other items of Equipment  
   (At such rates as may be determined by the Corporation from time to time with the previous sanction of the State Govt.)  

There was more than sixfold rise in the total amount of depreciation on vehicles during the span of thirteen years. It registered a gradual rise from Rs. 68.23 lakhs

---

(1960-61) to Rs. 462.85 lakhs (1972-73). But its claim on the total expenditure declined from 10.42% to 9.63% during the same period. Unlike vehicles, the total amount of depreciation on other assets went up by a little less than 3½ times, while its toll on the total expenditure in percentage came down in 1972-73 to only one fourth of what it was in 1960-61.

(j) **General Charges & Other Charges**: These comprised of charges on (i) Advertising and Publicity, (ii) Postage, (iii) Telephone & Telegrams, (iv) Law, (v) Audit, (vi) Uniforms, (vii) Stationery, (viii) Temporary works, and (ix) Other charges. These have a direct relationship with the rise in the activities of the Corporation. With the rise in the traffic, the number of schedules, the number of depots, and the number of persons employed, the expenditure on this account is bound to rise. The total expenditure under this head rose by more than seven times. The growth had been gradual in all the years except for 1966-67, 1968-69 and 1971-72 when these charges had shot up abnormally.

(k) **Provision for (i) Clearance of Stock Adjustments, and (ii) Obsolescence**: 

(i) **Clearance of Stock Adjustments**: The Corporation is obliged to possess a large amount of stock of spare-parts etc. These may be purchased at one price while the prices prevailing at the time of the closing of the financial year
may be different. This would give rise to a difference in the value of stores at the beginning of the year and the close of the year. This will have to be provided for. The yearwise provision in terms of percentage has gone on varying with an abnormally low figure of 0.03% in 1965-66 and 0.04% in 1971-72. Thus, beginning from 0.26% during the year 1960-61 it came down to 0.11% at the end of 1972-73.

(ii) Obsolescence: The Corporation has to purchase spare-parts in relation to the 'make' of the vehicles. Technological advancement and/or subsequent studies/experiences/experiments may lead to certain changes in the models. Such an activity may turn the spare-parts obsolete. Consequently, the Corporation will have to dispose them off and to write off which could not be sold. As a matter of sound accounting practice and policy the Corporation started making a provision for this from the year 1961-62 onwards.

A study of these figures goes to show that a vigilant eye is kept on the obsolete stores. Some of the spares are also reconditioned at CWA to use them again. Consequently with a few jerks during 1962-63 (0.63%), 1963-64 (0.99%), 1964-65(0.46%) and 1966-67(0.48%) the percentage has gone down substantially, the figure for 1972-73 being only 0.08% of the total expenditure.

(1) Debt Charges: The Corporation inherited the Canadian Aid Liabilities. It had to make use of the loans of the
Industrial Housing Schemes. And, arrangements were made with the State Bank of India for Overdraft facilities for meeting the working capital needs. As already mentioned, considerable use was — and is being — made of the internal resources to cope up with the traffic growth demands. Governments many a time inflicted drastic cuts in the budget demands of the Corporation and did not add anything to their balances of capital contribution. The Corporation was, therefore, caught on the wrong foot during the latter quinquennium when it had to urge the Government to grant it permission to raise long term loans from the market. In consequence, the Corporation raised three 12-year loans; viz., (i) 5\% - 1966-78 loan, (ii) 6% - 1967-79 loan, and (iii) 6% - 1968-80 loan.

The expenditure on account of payment of interest on the debt created by the Corporation remained steady during the first six years. It was of Rs. 1.73 lakhs, Rs. 1.86 lakhs and Rs. 1.94 lakhs during the first, second and sixth years; during the third, and the fifth years it had amounted to Rs. 2.14 lakhs; it was Rs. 2.35 lakhs for the fourth year. During the last four years these charges rose considerably and jumped from Rs. 4.29 lakhs in 1966-67 to Rs. 10.96 lakhs in 1967-68 to Rs. 16.83 lakhs in 1968-69 and to Rs. 20.44 lakhs in 1969-70. This figure has remained steady since then.

(m) Interest on Capital: The Corporation is also required
to pay interest on Capital contributed both by the State and the Central Governments. There were two revisions in the rates: Until 1962-63, the rate was of 4\% p.a. Then it was raised to 5\% p.a. This was again revised in 1965-66 to bring it to 6\% p.a. (The revision was applied retrospectively from 1st April 1964)

As a result of these revisions, though the capital contribution had not increased in some years, the interest charges registered a rise. There was a sharp rise in the expenditure under this head in the year 1965-66 when it had moved up by Rs. 34 lakhs over the figure of the previous year. The rise was mainly due to the payment of the interest at the revised rates from 1-4-64 in that year. However, in terms of the percentage of total expenditure it has registered a fall from 4.78\% in 1960-61 to 2.48\% in 1972-73.

(n) **Provision for Income Tax:** A provision for the payment of Income Tax is made in those years in which the Corporation makes profits. Up to 1972-73, a sum of Rs. 458.86 lakhs was provided under this head out of which a major sum of Rs.295.35 lakhs was provided during the years 1968-69, 1969-70 and 1970-71. The remaining amount came in during the following six years 1960-61, 1962-63, 1964-65, 1965-66, 1971-72 and 1972-73.

The amount so provided is included under Sundry Creditors on the Liability side of the Balance Sheet, while payment
made is shown under Advances and Deposits on the Asset side as it has been the contention of the Corporation that it is not liable to Income Tax. Payments and provisions made are, therefore, purely provisional. It is surprising that this issue has not been settled finally even when a note to that effect is invariably put at the end of the Annual Accounts of the Corporation from the very first year.

(o) **Provision for Additional Depreciation:** The Corporation noticed during 1968-69 that the capital expenditure on purchase of new vehicles to replace the old one was much higher than the original value of the vehicle replaced. Until 1967-68, the additional expenditure over and above the amount accumulated in the depreciation fund against the vehicles replaced was being met from the capital contributions from the participating Governments, public loans raised by the Corporation and its internal resources in the shape of depreciation fund. It, therefore, approached the State Government for revision of the rules in respect of depreciation fund so as to provide additional credits to the fund to meet the shortfall in replacement cost of vehicles. This was approved by the State Government.

The Corporation having started providing additional depreciation from the year 1968-69 has so far provided for a total sum of Rs. 481.16 lakhs.

(p) **Development Rebate Reserve:** The Corporation has been,
since its inception, allowed to provide for the Development Rebate Reserve. This reserve form a part of the internal resources of the Corporation. Barring 1961-62 the provision has been on an uniform pattern viewed from the point of view of the percentage of the total expenditure of the Corporation.

(q) Sinking Fund: The Corporation raised three 12-year long term loans. Provision had to be made every year in a way as would enable the Corporation to repay them on due dates. A Sinking Fund is, therefore, created in which a fixed sum based on the total amount of the loan and its duration, is credited every year from out of the Net Revenue Appropriation A/c.

The Corporation started making provision for Sinking Fund from the year 1967-68, when the first loan was raised. At present provision for Sinking Fund I, II and III is made individually at Rs. 7.56 lakhs, Rs. 7.81 lakhs and Rs. 7.63 lakhs respectively. At the end of 1972-73 Rs. 45.36 lakhs had been credited to Sinking Fund I A/c., while the corresponding figures for Fund II and Fund III were Rs. 39.05 lakhs and Rs. 30.52 lakhs respectively.

Buying Practices and Inventory Control:

As we have seen, barring (a) salaries & allowances, and (b) taxes, quite a substantial amount of the revenue earned by the Corporation is spent on those items which are
essential for keeping the buses on the roads. These have to be purchased from the market and stored in a way that would make them available in the required quantity at the right time and also without requiring the bearing a higher cost. At the same time they should not be purchased in such large quantities as would block up the working capital.

To be able to achieve these seemingly diametrically opposite aims, it necessitated drawing out a scientifically planned purchase policy and also an equally carefully scheduled programme of inventory controls.

Purchasing -- or procuring, a more recent and more inclusive concept than purchasing -- is a specialist activity and is of extreme importance to any and every concern as it has its bearing on quantity, quality, cost, economy, delivery/operation, etc. It is through this activity that much money can be saved or lost.

The first problem in purchasing is whether it should be centralised in a separate department on a functional basis or be done by the individual departments. Most of the organisations favour a centralised Purchase Department headed by a Purchase Manager or buying expert to derive all the advantages of specialisation, skill and efficient and economical buying through bulk purchases.

But it is not enough to have bulk buying alone. Many of its advantages may be lost if a proper purchase budget
is not prepared well in advance. The budget may be prepared on the basis of the requisitions which may emanate from various sources depending upon the nature of materials required and the purpose for which they are needed. These sources may be summarised as (i) stores for routine reimbursement of stocks, (ii) the production department, for materials that are ordinarily not stocked but that are required for particular jobs or orders, (iii) the maintenance department, (iv) the engineering or construction department for materials needed for capital projects, and (v) the departmental heads for special indirect materials required by them from time to time.

In addition to the requisitions, the following points should also be taken note of while preparing the purchase budget:

(a) The stock of material available in the stores and materials expected to arrive under the past purchase orders.

(b) The probable dates on which the materials are required.

(c) Sources of supply with their terms and conditions.

(d) Prices of materials and possible quantity discounts.

(e) Availability of cash to take further advantage or fulfilling the terms and conditions of the suppliers.

(f) Transport requirements and their costs.

(g) Receiving and Inspection facility existing in the
(h) Storage capacity available, handling of stores, obsolescence and losses on various accounts like shrinkage, evaporation and drying up.

A purchase plan or the purchase schedule should also be prepared on the basis of this budget so as to avoid the problem of blocking up a huge sum in the inventories or stopping the machines for want of stores temporarily or indefinitely.

Having decided the purchase budget, the next important problem for the Corporation is to evolve a purchase policy — whether to buy in bulk or whether to adopt a policy of period/rate contract purchase, or whether to make the purchases from the market according to short term requirements, or whether to make hand to mouth purchases. These purchase policies have their own merits and demerits but the adoption of one or the other policy by an organisation will depend upon a variety of factors like (i) the nature and availability of material, (ii) facilities for getting the material, and (iv) circumstances of the organisation.

Organisations which have to make bulk purchases of a number of materials do not leave the buying function with the Purchase Manager only. A Committee is appointed to assist him in taking the related decisions.

The system of inviting tenders of quotations is followed
by both the private and the public sector enterprises. A comparative statement about the rates quoted by different parties and their terms and conditions is prepared by the Purchase Department and placed before the Committee which, after taking into account all the related points, finalises the party from which to purchase. The tender system has not been found to be a foolproof one to eradicate the evils attached to the purchasing function. Many a time high-priced quotations are accepted for one or the other reason, rejecting the low-priced ones. Even where the Committees are appointed for the purpose, the word of the Purchase Manager is taken as final as he is considered to be an expert in that field. The Committee, thus, turns out to be merely a titular body. Again, the Committee system may delay the finalisation of the tenders which may go against the purchasing interest of the organisation. Extra expenditure by way of payment of various types of allowances to the outside members of the Committee may also take away some part of the benefit, if any, to be gained by the organisation on account of such a system of purchases. The desirable course, therefore, is to trust the Purchase Manager and leave him alone for that entire function. This will also enable the organisation to fix responsibility for every matter related to the purchases on him.

The purchasing function does not come to an end here. Having decided the source of supply and the placing of a
purchase order with it, the Corporation will have to make arrangements for following it up, if necessary, and for receiving and inspecting the goods. These, again, are very important functions as any negligence or carelessness may not only cancel out the advantages gained on account of efficient and economical buying but also inflict further losses by way of the receipt of deteriorated goods, or of goods of lower standard or of different specifications.

The procedure usually is: A copy of the Purchase Order is sent to the Receiving Section. On receipt of the goods, the Section is supposed to tally it with the order placed and to prepare a Goods Received Advice. Discrepancies, if any, have to be noted thereon. The goods then are to be sent to the Inspection Section where they have to be technically checked as to their size, specifications, etc. and an Inspection Report is to be prepared. A copy each of GRA and I.R. is then to be sent to the Purchase Department for further necessary action.

After the completion of this ceremony, if the goods are acceptable, they are to be sent to stores; if not, they are to be returned to the supplier.

On receipt of the goods from the Receiving Section, the function of Storekeeper starts. Storekeeping involves proper keeping of stocks, and identifying and classifying them according to their nature, type, sizes, etc. Materials
are equivalent to cash and, since they constitute an important item of the total cost, it is necessary that they should be properly accounted for and safeguarded. Pilferage of materials, loss due to negligence in their regular check and carelessness in handling them may result in loss of profit earned through bulk buying.

Thus, another important problem is that of material management or inventory control.

"The efficient and economical use of materials is essential for the profitable operations of any undertaking. Materials management forms the most important part of the overall managerial effort at cost control." Inventory occupies a predominant position in the structure of working capital. This may raise two problems: One, the organisation may have to face the shortage of working capital; two, some stores may get obsolete. 'Inventory control', therefore, 'is a system which ensures the provision of the required quantity of inventories of the required quality at the required time with the minimum amount of capital.' Both excessive and inadequate inventories generate costly conditions. Inadequate inventories may halt operations completely; excessive inventories may be almost equally

disastrous to profits. In short, the function of inventory control is to obtain the maximum inventory turnover with sufficient stocks to meet all requirements.

A proper inventory control may put an organisation in an advantageous position. It may promote buying economies as the requirements will have to be decided well in advance taking into account the past experience and the market conditions. While it will prevent duplications in the ordering of stocks, it will enable an easy interchange of materials among departments and minimise losses connected with the incoming materials. Again, it will reduce losses of stored materials resulting from mishandling and theft. Further it will aid the processes of costing, making cost comparisons and preparing financial statements.

Public enterprises are accused of maintaining large inventories. The findings of the Committee on Public Undertakings as well as those of the other expert committees show that many public undertakings maintain unduly large inventories. The observation is based on the comparison of the worth of inventory holdings of the undertakings with their net sales and cost of production. The Committee on Public Undertakings in their Fortieth Report (Third Lok Sabha) which is entitled 'Materials Management in Public Undertakings' observed that "if the inventories of industrial running concerns could be reduced to 6 months' production -- which would by no means be difficult -- it would mean release
Several other deficiencies — the absence of scientific methods of inventory control, the lack of proper scheduling in ordering and resultant delays in delivery and under-utilisation of capacity, and the absence of proper storage and handling facilities — in the field of materials management were brought out by various expert committees and study teams.

The importance of the problem, has been felt at all the levels. It is, therefore, essential that well-thought out procedures and practices are evolved to do away with the deficiencies and manage the materials effectively. A sound material management programme should broadly include the following:

(i) A manual, incorporating the actual procedures and practices based on the scientific concepts and latest improved techniques of materials management, should be drawn up.

(ii) The system of planning and purchase of stores and spares should be periodically reviewed so as to keep it uptodate. Similarly, stock levels should also be checked.

(iii) The Stores and spares should be properly classified codified and standardised.

---

(iv) Maximum and minimum of stocks should be laid down after observing the past trends and a system of automatic re-order of items of regular use should be introduced.

(v) The ABC system of analysis should be adopted to avoid the risk of stock outs as well as overstocking.

(vi) The spares should be purchased in consonance with the policy laid down after a thorough review and not on the recommendations of the supplier-manufacturers.

(vii) Materials should be provided to the units in the right quantity, at the right time and at the lowest overall cost, taking into account all the related costs.

(viii) Where there are multiplants, a suitable control procedure should be evolved keeping in view the economy and appropriate decentralisation.

(ix) A thorough material inspection procedure should be laid down,

(x) Import substitution should be experimented upon at all possible levels keeping in view the comparative cost.

(xi) Special attention should be paid to the care, custody and preservation of stocks to minimise the losses arising on account of process, handling and storage.

(xii) The by-products should be properly utilised.

(xiii) Training should be imparted to all those who are concerned with materials management.
The Corporation has to arrange the purchase of a large number of items of a variety of types. The Stores Department collects and consolidates the requirement of stores, viz., auto spares, machinery and equipment, spare parts for machinery, consumable stores, tools, uniforms, stationery and printed forms, tickets and ticket accessories, lubricants, batteries, tyres and tubes and other items that may be required from time to time.

The Corporation follows a centralised purchase policy. Till recently the purchasing activities were carried on by the Controller of Stores through the Purchase Branch. A new post of Controller of Purchases was created in April 1970 and all the purchase functions have, since then, been looked after by him.

Most of the purchases are made through Open Tenders or Limited Tenders, except those of spare parts bought from the Chassis Suppliers. The latter are purchased on the basis of the agreement arrived at, at the time of purchase of chassis. These are supplied at the D.G.S. & D. approved rates. Purchases for other tendered items are made with the help of the Tenders & Stores Committee, Departmental Committee and Competent Authorities. These Committees are appointed by the Corporation to decide upon the parties from whom the materials are to be purchased.

55. Table IX.11 presents the data about purchases so made.
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Limited Tenders</th>
<th>No. of Items</th>
<th>No. of Open Tenders</th>
<th>No. of Items</th>
<th>No.of Purchase orders</th>
<th>Cost of Material (Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>-</td>
<td>16,123</td>
<td>-</td>
<td>-</td>
<td>1,669</td>
<td>112</td>
</tr>
<tr>
<td>1961-62</td>
<td>762</td>
<td>4,455</td>
<td>60</td>
<td>385</td>
<td>3,394</td>
<td>150</td>
</tr>
<tr>
<td>1962-63</td>
<td>883</td>
<td>4,531</td>
<td>50</td>
<td>133</td>
<td>3,720</td>
<td>226</td>
</tr>
<tr>
<td>1963-64</td>
<td>779</td>
<td>5,659</td>
<td>54</td>
<td>344</td>
<td>3,416</td>
<td>238</td>
</tr>
<tr>
<td>1964-65</td>
<td>733</td>
<td>4,904</td>
<td>81</td>
<td>295</td>
<td>3,284</td>
<td>306</td>
</tr>
<tr>
<td>1965-66</td>
<td>784</td>
<td>3,813</td>
<td>120</td>
<td>307</td>
<td>3,068</td>
<td>392</td>
</tr>
<tr>
<td>1966-67</td>
<td>847</td>
<td>3,662</td>
<td>116</td>
<td>2,026</td>
<td>3,181</td>
<td>476</td>
</tr>
<tr>
<td>1967-68</td>
<td>646</td>
<td>2,491</td>
<td>190</td>
<td>1,219</td>
<td>3,395</td>
<td>541</td>
</tr>
<tr>
<td>1968-69</td>
<td>410</td>
<td>1,334</td>
<td>138</td>
<td>1,275</td>
<td>2,725</td>
<td>566</td>
</tr>
<tr>
<td>1969-70</td>
<td>362</td>
<td>1,315</td>
<td>135</td>
<td>1,233</td>
<td>5,943</td>
<td>522</td>
</tr>
<tr>
<td>1970-71</td>
<td>357</td>
<td>1,545</td>
<td>124</td>
<td>692</td>
<td>2,729</td>
<td>636</td>
</tr>
<tr>
<td>1971-72</td>
<td>306</td>
<td>1,560</td>
<td>99</td>
<td>308</td>
<td>3,108</td>
<td>1,117</td>
</tr>
<tr>
<td>1972-73</td>
<td>256</td>
<td>1,261</td>
<td>124</td>
<td>586</td>
<td>3,028</td>
<td>986</td>
</tr>
</tbody>
</table>

Generally, the lowest rate quoted for the required specifications serves as the basis for decision-making. In some cases, however, quotations involving higher rates are accepted, with adequate justification therefor. After finalisation of these tenders, the Purchase Department place the purchase orders with the concerned suppliers. The Vendors are instructed to supply the materials directly to the units concerned as far as possible.

The Tenders & Stores Committee which is authorised to finalise (a) all items of revenue nature, the value of which is above Rs. 20,000/- each, and (b) all items of capital nature which are above Rs. 10,000/-, has undergone a number of changes in its composition since 1965-66, when its composition was as under:—

1. Chairman : Chairman of the Corporation

2. Members : (i) Vice Chairman of the Corporation

(ii) A Non-official Member of the Corporation

(iii) Chief Engineer (Roads & Bldgs.)

P.W.D. G. of G.

(iv) Dy. Secretary to G. of G.

Finance Department

3. Secretary : Secretary to the Corporation

4. Advisers : (i) Chief Accounts Officer

(ii) Controller of Stores

(iii) Sr. Executive Engineer

(iv) Works Manager
The year 1966-67 witnessed two major changes: (a) Instead of one non-official member, three members were included in the Committee, and (b) Controller of Stores, Sr. Executive Engineer and Works Manager were replaced by Dy. General Manager and the Departmental Heads concerned. This structure continued for two years when, in 1968-69, an additional adviser, viz., Dy. General Manager(Adm.) (as now there are two Dy. General Managers -- (i) General and (ii) Administration) was included in the Committee. Again, in the year 1969-70, the strength of the non-official members was raised to 4 and the Chief Engineer (Roads & Bldg.), P.W.D. G. of G., was not included in the Committee. Thus, at the end of 1969, the Tenders & Stores Committee stood as under:—

Chairman : Chairman of the Corporation

Members : (i) Vice Chairman of the Corporation
          (ii) Dy. Secretary to the G. of G.
              Finance Department
          (iii) to (vi) 4 Non official members

Secretary : Secretary to the Corporation

Advisers : (i) Dy. General Manager (Gen.)
           (ii) Dy. General Manager (Adm.)
           (iii) Chief Accounts Officer
           (iv) Departmental Heads concerned

It is not clear as to whether the reconstitution of the
Committee took place on the recommendations of M/s Ibcons Ltd., which was appointed to study the stores procedure and inventory control, or whether some other factors warranted it. Be that as it may, but its reconstitution has reduced the number of technical persons on the Committee and has increased that of the non-official members. It may be held that the Departmental Heads concerned are there on the Committee as advisers and that, therefore, the absence of the technical persons will not be felt. But this may not be the case as the Departmental Heads obviously may be interested in stocking large quantities to be on the safe side. Hence, it will make some difference if a technical person like the Sr. Executive Engineer or the Works Manager is retained on the Committee. Similarly, the Controller of Purchases, who is ultimately supposed to take actions on the basis of the decisions of the Committee, should also be included in the Committee.

The Departmental Committee looks after those tenders which are below the value fixed for consideration by the Tenders and Stores Committee. Thus, it decides all tenders for items of revenue nature, the value of which is less than Rs. 20,000/- and for all capital items below Rs. 10,000/-. On the basis of the recommendations of the Efficiency Experts. M/s. Ibcons Ltd., the Corporation (Vide: its Resolution No. 1616 dated 12.7. '66) amended the previously
adopted Resolution No. 3975 of 18-5-59 in regard to the appointment of authorities to (i) recommend the expenditure, and (ii) accept offers in case of items chargeable to capital, such as machinery items, equipments and furniture as well as those chargeable to revenue stores. The amendment brought about a decentralisation of powers as under:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Competent Authority</th>
<th>Recommending acceptance of offer</th>
<th>Sanctioning expenditure</th>
<th>Category of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tenders &amp; Stores Committee</td>
<td>V.C. &amp; G.M.</td>
<td>(a) Finalising all annual Rate Contracts and half-yearly Rate Contracts for revenue items whose approximate consumption value is more than Rs. 20,000/- per item.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-do-</td>
<td></td>
<td>(b) Finalising all tenders of items whose approximate annual consumption value is above Rs. 20,000/- per item.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-do-</td>
<td></td>
<td>(c) Finalising tenders of capital items for value exceeding Rs. 10,000/- per item.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Departmental Committee</td>
<td>-do-</td>
<td>(a) Finalising all rate contracts for items having average consumption value between Rs. 3,000/- to Rs. 20,000/- per item.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Controller of Purchase</td>
<td></td>
<td>(b) Finalising all tenders of revenue stores whose average consumption is between Rs. 3,000/- to Rs. 20,000/- per item.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. contd...</td>
<td>Controller of Purchase</td>
<td>(c) Finalising 3-monthly Rate Contracts for all revenue items whose approximate annual consumption value is less than Rs. 3,000/- per item.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>V.C. &amp; G.M.</td>
<td>(d) Finalising all capital items of value between Rs. 3,000/- and Rs. 10,000/- per item on lowest to specification basis.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Stores Officer (Purchase)</td>
<td>Controller of Purchase</td>
<td>(a) Finalising all tenders of items whose approximate average annual consumption value is less than Rs. 3,000/- per item. In case of items finalised other than lowest to specification basis, approval of Departmental Committee will be obtained.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) Finalising tenders for capital items valuing less than Rs. 3,000/- per item on lowest to specification basis. In all other cases, the approval of Departmental Committee will be obtained.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Association of All India State Transport Undertakings has set up a Standing Committee (Supplies & Contracts) for securing a better deal in prices from suppliers in respect of numerous items of stores and consumables purchased.
by the State Transport Undertakings throughout the Country, by combining the demands of all the State Transport Undertakings and thus securing cheaper prices on the basis of bulk supplies. The Committee finalises the contracts for important items of stores on competitive terms.

The Corporation took a regular advantage of the system after getting the rates approved from the Tenders & Stores Committee. The number of contracts finalised by the Committee and approved by the Tenders & Stores Committee is presented in Table IX.12.

Table IX.12

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Contracts</th>
<th>Year</th>
<th>No. of Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>NA</td>
<td>1966-67</td>
<td>31</td>
</tr>
<tr>
<td>1961-62</td>
<td>13</td>
<td>1967-68</td>
<td>32</td>
</tr>
<tr>
<td>1962-63</td>
<td>12</td>
<td>1968-69</td>
<td>47</td>
</tr>
<tr>
<td>1963-64</td>
<td>20</td>
<td>1969-70</td>
<td>67</td>
</tr>
<tr>
<td>1964-65</td>
<td>32</td>
<td>1970-71</td>
<td>44</td>
</tr>
<tr>
<td>1965-66</td>
<td>33</td>
<td>1971-72</td>
<td>69</td>
</tr>
<tr>
<td>1966-67</td>
<td>31</td>
<td>1972-73</td>
<td>69</td>
</tr>
</tbody>
</table>

The Corporation also purchases stores from the approved contractors at competitive rates accepted by the Director General of Supplies & Disposals.

The stores requirements of the Corporation are so large.

and constant that it will have to ensure a regular flow of the numerous items. For some of them it may not be possible for it to go to the market whenever required, and purchase them after assessing it. In such cases the Corporation enters into annual rate contracts for as many items as possible with their respective suppliers.

Though this system is adopted to guard against possible price fluctuations and to ensure a regular flow of the various items of stores, perhaps, it does not serve the purpose, and the organisation stands to lose in the case of falling as well as rising prices. In falling prices, it loses because it is contended that there is an annual rate contract and because, normally, the tendency to claim the saving on account of low prices is absent on the part of an organisation. In case of rising prices, the suppliers always ask for revision in prices failing which they have a number of options like disturbing the delivery schedules, supplying inferior products, not supplying the materials under one pretext or the other and the like.

The nature of services rendered by the Corporation is such that sometimes it becomes necessary to make local purchases. Rules are framed and General Standing Orders are issued by the Corporation, permitting the divisions to make local purchases up to specified financial limits, to meet immediate requirements for vehicles off the road. Here,
too, quotations are collected and noted personally and the purchases are made on the lowest rate basis.

Import licences are procured, for making certain essential purchases from abroad. While most of the licences have been issued by the Government, the State Trading Corporation had also issued 3 licences worth Rs. 5.11 lakhs in the year 1967-68. The issuing authorities seem to have taken a sympathetic attitude towards the Corporation as (i) only minor cuts used to be made both in terms of the number of licences and in the total amount sanctioned against the ones applied for and (ii) subsequent revalidations were granted to it to enable it to use them at a later date. This favourable treatment was far stretched during 1967-68 when five licences valuing Rs. 5.0 lakhs were additionally granted against the applications made in 1966-67.\(^5\)

Though the various practices followed by the Corporation for effecting both the Capital and Revenue purchases are ideal, they have not been made use of properly. It was observed by the Public Accounts Committee that there were inordinate delays by the Tenders & Stores Committee in finalising the tenders, resulting in substantial losses to the Corporation. For instance, due to delay in finalising the tenders for Foam Rubber Seat Cushions and Back Squabs

which were quoted by the tenderers at Rs. 35.82 and Rs. 14.75 per metre respectively, the Corporation had to purchase them later from different firms in the market at different rates ranging from Rs. 40.95 to Rs. 45.20 and Rs. 16.50 to Rs. 18.88 per metre. Had the Corporation finalised the tenders and placed the orders with the tenderer within the period mentioned in the tender, the Corporation could have saved a sum of Rs. 1.55 lakhs. 59

Similarly, purchasing the stores on the basis of the recommendations of the manufacturers, without testing them, is a faulty policy. The Corporation purchased about 13,000 'Moulded Brake Linings' costing Rs. 6.84 lakhs during the period June 1963 to June 1965 in preference to 'Wire-back Brake Linings' which was already in use, on the ground that the former was approved as original equipment by manufacturers of Mercedes Benz and Leyland Vehicles. Tests were conducted by the Corporation for a number of months from 1964 and onwards on the two makes of the brake linings, when it was revealed that the latter were more suitable than the costlier earlier one. Consequently, its purchase was discontinued from July 1965. Had the decision to buy the costlier brake-linings been taken after conducting necessary tests, the Corporation could have avoided an extra expenditure of Rs. 1.68 lakhs. 60

Though the idea behind permitting the divisions to make local purchases is to enable them to meet the immediate requirements of the vehicles off the road, the system seems to have been abused more than once. The Audit Report on the Corporation's Accounts for the year 1965-66 by the Government of Gujarat revealed that, as against the normal limit of Rs. 5.31 lakhs up to which local purchases could be effected by all divisions of the Corporation, the local purchases made in 1964-65 had amounted to Rs. 25.42 lakhs. Again, a test check of the rates at which such local purchases were made during one month — May 1964 — undertaken in a majority of the divisions revealed that the Corporation had incurred extra expenditure of Rs. 64,540 during the month, calculated on the basis of the difference between the normal bulk purchase rate of the Corporation and the rates at which local purchases were made.

The Public Accounts Committee also exposed a case when local purchases of the value of Rs. 17,949 of paints to meet immediate requirements were made during the period 18th May, 1962 to 1st September 1962, as against the rate contract value of Rs. 7,581. The Committee observes: "Even after giving an allowance for costlier material there has been an extra expenditure of Rs. 6,539."

As already mentioned earlier, the vendors are instructed to deliver the goods directly to the different divisions, which are supplied with a copy of the purchase orders, so as to save transportation costs and handling losses. The system involves a risk in that the goods of an inferior quality of the same brand may be supplied by the vendors, as the whole procedure of samples-approval and placing purchase orders is carried out at the Central Office. Again, the organisation is so huge and widespread that even a minor collusion between the supplier and the divisional store-keeper may inflict heavy losses on the Corporation. One such scandal involving a sum of Rs. 1.25 lakhs was detected in regard to the purchase of spare parts from a firm in Mehsana.

No scientific method of Inventory Control was followed by the Corporation prior to the implementation of the recommendations of the efficiency experts, M/s. Ibcons Ltd. The system of bulk indenting on an annual basis was adopted by the Corporation. It suffered from a great disadvantage as the items were being short indented or excess indented in relation to the actual requirements. Moreover, there was no check on the procurement and the consumption fluctuations and the likelihood of shortages and excesses for many items used to be still greater. Sometimes this necessitated

62. It will be interesting to note that it was after five years of the establishment of the Corporation that it had thought of going into the problem of inventory (contd....)
the raising of supplementary indents to balance the shortages. Delays in procuring the material could not be avoided and many a time compulsory local purchases had to be made by the Corporation.

The absence of a proper inventory control system and its seriousness was brought out by the Sixth Report of the PAC. The Central Workshop was in need of paints as there were no stocks. It had placed its indent and the Controller of Stores also got the approval of the Tenders & Stores Committee for a rate contract for the purchase of various paints. But the order was not released as the administration then thought of taking a census of the paints in the various divisions and to transfer surplus material available to the Central Workshop. This process took quite a long time and it resulted in the making of local purchases of different quality and costlier paints. Similarly, quite a huge stock of tickets is shown every year as the closing balance, but certain denomination tickets do not seem to be available in the required number. This results in (a) conversion of high denomination tickets into low denominations, or (b) issuing a number of small denomination tickets to make as a particular sum. This inflates the expenses on control, though it did face the problems of surplus stores and obsolescence from its very inception.

Then these experts were appointed.
this item and also puts the travelling public to a lot of inconvenience and confusion.

M/s. Ibcons Ltd. studied the prevailing system and recommended that inventory control levels should be worked out on the basis of the procurement period, consumption fluctuations and stock runouts so that the indents could be automatically raised or cancelled depending upon the characteristics of the items. Under this system, the practice of bulk indenting was discontinued and indenting on recoupment basis was started. The system aimed at controlling the maximum items and avoiding runouts as well as heavy inventories. It provides for purchases of different items of stores taking into account the value and frequency of their consumption. Various levels have been suggested and the items have been classified for the purpose of purchases.

Similar suggestions for inventory control at the divisional and the depot levels were also made by M/s. Ibcons Ltd. Regular recoupment system from Central Stores to the divisional stores, and from the divisional stores to the depot stores, was suggested again according to the value and frequency of the consumption of stores. Where recoupment is not to be made and the stores are to be received directly against the purchase orders placed by the Central Stores, a pattern of the inventory controls on the lines of Central Stores has to be followed.
The Corporation accepted and gradually implemented the recommendations of M/s Ihcons Ltd. at all levels. In spite of this, no visible improvement seems to have taken place, as is visible from Table IX.13,

<table>
<thead>
<tr>
<th>Year</th>
<th>Closing balance* in terms of months of consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>NA</td>
</tr>
<tr>
<td>1961-62</td>
<td>NA</td>
</tr>
<tr>
<td>1962-63</td>
<td>7.05</td>
</tr>
<tr>
<td>1963-64</td>
<td>6.17</td>
</tr>
<tr>
<td>1964-65</td>
<td>7.17</td>
</tr>
<tr>
<td>1965-66</td>
<td>6.15</td>
</tr>
<tr>
<td>1966-67</td>
<td>6.02</td>
</tr>
<tr>
<td>1967-68</td>
<td>7.01</td>
</tr>
<tr>
<td>1968-69</td>
<td>6.03</td>
</tr>
<tr>
<td>1969-70</td>
<td>6.16</td>
</tr>
<tr>
<td>1970-71</td>
<td>4.20</td>
</tr>
<tr>
<td>1971-72</td>
<td>4.16</td>
</tr>
<tr>
<td>1972-73</td>
<td>4.28</td>
</tr>
</tbody>
</table>

* Excluding the stock of Building material, Petrol and Diesel.

Thus, on an average the Corporation maintained stock for 5.06 months' consumption. There was no change in this trend even after the implementation of the recommendations of the efficiency experts. The stocks of tickets & ticket

---

accessories, printed forms & stationery and uniforms also have been heavily maintained — so much so that even after thirteen years of the establishment of the Corporation, the 'Suggestion' forms in use bore the name of 'Bombay State Road Transport Corporation'. Again, though the balance of stock on an average worked out to more than 8.15 months' consumption, in 1964-65 and 1967-68 it was equal to 10.05 and 11.14 months' consumption respectively.

If, however, we view this in the light of the experiences of some of the Central Government public enterprises, the Corporation stands out to be very efficient indeed.

The figures in Table IX.14 exhibit the inventories in terms of number of months' consumption in a few Central government public undertakings.64

<table>
<thead>
<tr>
<th>Name of the Undertaking</th>
<th>Period(months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindustan Teleprinters</td>
<td>39</td>
</tr>
<tr>
<td>Hindustan Aeronautics</td>
<td>37</td>
</tr>
<tr>
<td>Hindustan Shipyard</td>
<td>31</td>
</tr>
<tr>
<td>Bharat Earth Movers</td>
<td>28</td>
</tr>
<tr>
<td>Bharat Electronics</td>
<td>26</td>
</tr>
<tr>
<td>Praga Tools</td>
<td>14</td>
</tr>
<tr>
<td>Hindustan Salts</td>
<td>13</td>
</tr>
<tr>
<td>Indian Telephone Industries</td>
<td>13</td>
</tr>
<tr>
<td>National Coal Development</td>
<td>12</td>
</tr>
<tr>
<td>Corporation</td>
<td></td>
</tr>
</tbody>
</table>

The picture of the public enterprises gets blurred if viewed against the backdrop of the performance of the private sector undertakings in this area. For instance, according to a study, the overall inventories of 1,333 selected non-official/non-government medium and large public limited companies were equivalent to 3.6 months' value of production in 1963-64.65

Again, the balance of the total stock of auto stores held by the Corporation at the end of the year had also not gone down as can be seen from Table IX.15.

The Committee on Public Undertakings66 had, in their 40th Report, observed that though there had been a gradual reduction in the proportion of the annual purchases and consumption of stores to that of obsolescence, further improvement was still possible. The Committee had also expressed the necessity of establishing a definite proportion between the total cost of the fleet and the purchase of stores every year.

The huge inventories maintained by the Corporation may be justified on two grounds. First, the procurement schedules may get disturbed as they depend upon a number of factors, and the Corporation cannot afford to be out of

### Table IX.67

<table>
<thead>
<tr>
<th>Year</th>
<th>Actuals (in lakhs of Rs.)</th>
<th>Average per vehicle owned during the year</th>
<th>Actuals (in lakhs of Rs.)</th>
<th>Average per vehicle as on last day of the year (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>NA</td>
<td>9672</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1961-62</td>
<td>231.09 (12017)</td>
<td>152.28 (1923)</td>
<td>7297 (2087)</td>
<td></td>
</tr>
<tr>
<td>1962-63</td>
<td>279.31 (13231)</td>
<td>160.40 (2111)</td>
<td>7038 (2279)</td>
<td></td>
</tr>
<tr>
<td>1963-64</td>
<td>348.02 (14956)</td>
<td>190.60 (2330)</td>
<td>7918 (2407)</td>
<td></td>
</tr>
<tr>
<td>1964-65</td>
<td>304.54 (12095)</td>
<td>189.62 (2518)</td>
<td>7504 (2733)</td>
<td></td>
</tr>
<tr>
<td>1965-66</td>
<td>390.66 (14939)</td>
<td>209.05 (2615)</td>
<td>8361 (3035)</td>
<td></td>
</tr>
<tr>
<td>1966-67</td>
<td>420.88 (15107)</td>
<td>191.22 (2786)</td>
<td>6677 (2864)</td>
<td></td>
</tr>
<tr>
<td>1967-68</td>
<td>495.53 (16290)</td>
<td>256.96 (3042)</td>
<td>5217 (3127)</td>
<td></td>
</tr>
<tr>
<td>1968-69</td>
<td>444.58 (13263)</td>
<td>225.41 (3352)</td>
<td>5613 (3515)</td>
<td></td>
</tr>
<tr>
<td>1969-70</td>
<td>448.97 (12406)</td>
<td>241.17 (3616)</td>
<td>6492 (3715)</td>
<td></td>
</tr>
<tr>
<td>1970-71</td>
<td>545.28 (14494)</td>
<td>212.39 (3762)</td>
<td>5480 (3876)</td>
<td></td>
</tr>
<tr>
<td>1971-72</td>
<td>668.52 (16399)</td>
<td>249.40 (4079)</td>
<td>5824 (4282)</td>
<td></td>
</tr>
<tr>
<td>1972-73</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Figures in brackets indicate the corresponding number of vehicles on which the averages are based.

Stock for any item of stores unless it is prepared to face a number of consequential problems like loss of revenue and rise in the number of public complaints. It may also have to face the press and the Legislative Assembly. Secondly,

the Corporation, in addition to the Central Workshop, maintains workshops of different sizes at the divisions and the depots, which are also required to keep sufficient balances of inventories to meet their day-to-day requirements. A sum total of all these balances at various stores goes to make a huge figure, in terms of both the number of items and their value.

It is, therefore, suggested that the Corporation should open regional stores with regional workshops. A regional workshop and stores may serve a minimum of three to four divisions. This will help the Corporation to do away with the problem of huge inventories, obsolescence and the blocking up of capital. It may also be possible to reduce the numbers of workers. The size of the depot workshops may also be reduced a little.

Investment Policy:

Various funds are created by way of provisions from out of the revenue in order to meet related expenditures when the needs arise. These funds make big figures as the years roll. The amounts standing to the credit of these funds may be deposited with the bank/s or may be invested in some securities. While investing in securities, care will have to be taken to see that the investment is a sound one and that there is a co-incidence between the maturity dates and the dates when the funds will be needed.
Like so many things, public enterprises receive directives from the Government about the management of their funds. In a few cases, the Government goes to the length of directing the investment in particular enterprises. While there can be no difference of opinion on the question of the government issuing instructions about the channeling of such public sector funds to specific economic sectors for their balanced/priority growth as it is the ultimate owner, it is difficult to appreciate the Government's directing of such autonomous public enterprises like the Corporation to invest its funds in specific units. Again, the Chairman, the members of the Board, the Chief Executive, the Chief of the Accounts Department, etc. of a public enterprise are nominated/appointed by the Government, who are supposed to protect its interests. It should, therefore, feel satisfied with just issuing broad guide lines for investment.

Pursuant to Sec. 29 of the Act, the Corporation has raised the following funds:—

(i) Depreciation Fund.

(ii) Insurance Funds.

(iii) Post-Retirement Funds.

(iv) Development Rebate Reserve Fund.

(v) Reserve Funds.

(vi) Road Development Fund.

(vii) Sinking Fund.
These have grown considerably, since the inception of the Corporation. It will be seen from Table IX.16 that whereas there has been an overall rise by three-times in the total funds, the growth in the Depreciation Fund has been to the extent of 400% and that it has not been even in the case of (a) Post-Retirement Funds, (b) Reserve Fund, and (c) Road Development Fund.

The Act does not seem to grant the Corporation the power of raising a fund on its own. This power is vested in the State Government, which may or may not approve of the raising of a new fund. The Corporation did suffer a reversal when the 'Housing Fund' raised by it in the year 1965-66 was disapproved by the government, and had subsequently to be transferred to the State Transport Road Development Fund.

Sub-section (2) of Sec. 29 of the Act authorises the Corporation to manage the funds, subject to the provision that no fund shall be utilised for any purpose other than that for which it was created, without the previous approval of the State Government. Rule 28 of the Act provides for the investment of surplus money lying to the credit of the Corporation and not immediately required by it for the purposes of the business of the Corporation, in securities authorised by the Indian Trusts Act, 1882. This provision is also applicable to the cash balances of Depreciation,
<table>
<thead>
<tr>
<th>Year</th>
<th>Deprecia-</th>
<th>Insurance</th>
<th>Post-Retirement</th>
<th>Development</th>
<th>Reserve</th>
<th>Road Development</th>
<th>Sinking</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds</td>
<td>Funds</td>
<td>Funds</td>
<td>Funds</td>
<td>Funds</td>
<td>Funds</td>
<td>Funds</td>
<td>Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959-60</td>
<td>383.10</td>
<td>37.28</td>
<td>20.82</td>
<td>24.97</td>
<td>130.40</td>
<td>5.98</td>
<td></td>
<td>602.55</td>
</tr>
<tr>
<td>1960-61</td>
<td>452.01</td>
<td>39.89</td>
<td>23.45</td>
<td>25.52</td>
<td>96.12</td>
<td>5.98</td>
<td></td>
<td>642.97</td>
</tr>
<tr>
<td>1961-62</td>
<td>519.41</td>
<td>39.89</td>
<td>28.40</td>
<td>27.42</td>
<td>124.22</td>
<td>5.98</td>
<td></td>
<td>745.32</td>
</tr>
<tr>
<td>1962-63</td>
<td>573.52</td>
<td>39.89</td>
<td>34.40</td>
<td>28.09</td>
<td>125.76</td>
<td>5.98</td>
<td></td>
<td>807.64</td>
</tr>
<tr>
<td>1963-64</td>
<td>650.78</td>
<td>39.56</td>
<td>39.31</td>
<td>28.61</td>
<td>166.54</td>
<td>5.98</td>
<td></td>
<td>930.78</td>
</tr>
<tr>
<td>1964-65</td>
<td>740.50</td>
<td>38.71</td>
<td>48.14</td>
<td>29.28</td>
<td>188.64</td>
<td>20.98</td>
<td></td>
<td>1066.25</td>
</tr>
<tr>
<td>1965-66</td>
<td>840.31</td>
<td>38.79</td>
<td>10.34</td>
<td>29.68</td>
<td>244.84</td>
<td>23.01</td>
<td></td>
<td>1186.97</td>
</tr>
<tr>
<td>1966-67</td>
<td>980.59</td>
<td>38.93</td>
<td>10.45</td>
<td>31.34</td>
<td>256.35</td>
<td>23.01</td>
<td></td>
<td>1340.67</td>
</tr>
<tr>
<td>1967-68</td>
<td>1102.62</td>
<td>38.19</td>
<td>10.78</td>
<td>32.68</td>
<td>252.11</td>
<td>23.01</td>
<td>7.56</td>
<td>1466.95</td>
</tr>
<tr>
<td>1968-69</td>
<td>1345.56</td>
<td>30.55</td>
<td>11.49</td>
<td>34.18</td>
<td>227.58</td>
<td>18.17</td>
<td>23.17</td>
<td>1690.40</td>
</tr>
<tr>
<td>1969-70</td>
<td>1534.75</td>
<td>38.14</td>
<td>11.73</td>
<td>36.03</td>
<td>227.64</td>
<td>13.10</td>
<td>47.40</td>
<td>1908.80</td>
</tr>
<tr>
<td>1970-71</td>
<td>1537.33</td>
<td>29.89</td>
<td>12.24</td>
<td>37.43</td>
<td>227.67</td>
<td>12.00</td>
<td>72.90</td>
<td>1891.11</td>
</tr>
<tr>
<td>1971-72</td>
<td>1696.70</td>
<td>31.28</td>
<td>8.14</td>
<td>39.43</td>
<td>225.78</td>
<td>11.38</td>
<td>99.90</td>
<td>2084.56</td>
</tr>
<tr>
<td>1972-73</td>
<td>1981.93</td>
<td>28.39</td>
<td>7.92</td>
<td>41.63</td>
<td>262.90</td>
<td>10.38</td>
<td>128.77</td>
<td>2423.67</td>
</tr>
</tbody>
</table>

Note: (1) Post-Retirement Funds include: (a) Pension Fund, (b) Compassionate Fund, (c) Welfare Fund and Gratuity Fund.

(2) Reserve Funds include (a) Reserve Fund, (b) Development Fund, and (c) Investment Fluctuations Fund.

Reserve and other Funds which are not immediately required for disbursement.

Accordingly, the Funds of the Corporation have been invested in Government and semi-Government securities; a large part has also been invested in the Corporation itself in the form of capital. Table IX.17 presents the movement of the investments yearwise, in relation to the total funds and capital investment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Funds</th>
<th>Investment in Securities</th>
<th>Investment in the Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>642.97</td>
<td>375.99</td>
<td>NA</td>
</tr>
<tr>
<td>1961-62</td>
<td>745.32</td>
<td>391.45</td>
<td>NA</td>
</tr>
<tr>
<td>1962-63</td>
<td>807.64</td>
<td>362.82</td>
<td>387.77</td>
</tr>
<tr>
<td>1963-64</td>
<td>930.78</td>
<td>342.60</td>
<td>530.54</td>
</tr>
<tr>
<td>1964-65</td>
<td>1,066.25</td>
<td>394.08</td>
<td>601.18</td>
</tr>
<tr>
<td>1965-66</td>
<td>1,186.97</td>
<td>503.56</td>
<td>496.75</td>
</tr>
<tr>
<td>1966-67</td>
<td>1,340.67</td>
<td>296.70</td>
<td>754.49</td>
</tr>
<tr>
<td>1967-68</td>
<td>1,466.95</td>
<td>302.25</td>
<td>877.33</td>
</tr>
<tr>
<td>1968-69</td>
<td>1,690.40</td>
<td>326.85</td>
<td>1,005.95</td>
</tr>
<tr>
<td>1969-70</td>
<td>1,908.80</td>
<td>350.12</td>
<td>1,126.13</td>
</tr>
<tr>
<td>1970-71</td>
<td>1,891.11</td>
<td>395.41</td>
<td>1,361.61</td>
</tr>
<tr>
<td>1971-72</td>
<td>2,084.36</td>
<td>390.78</td>
<td>1,019.64</td>
</tr>
<tr>
<td>1972-73</td>
<td>2,428.67</td>
<td>390.78</td>
<td>1,867.15</td>
</tr>
</tbody>
</table>

The Table IX.17 gives an impression that the Corporation has been able to use internally large segments of its funds by keeping their investment in other securities at low levels. This has helped the Corporation considerably in going ahead with its expansional programmes. But the route has not been what one is likely to guess. The concurrence of the Government to utilise a major part of these funds for the purposes of capital expenditures has probably been due to its inability to meet the heavy rising capital demand of the Corporation. This is evident from the fact that as against the planned expenditure of Rs. 682 lakhs for the Third Five Year Plan, a limited provision of Rs. 450 lakhs — Rs. 300 lakhs and Rs. 150 lakhs as contributions from the State and the Central Governments respectively — was made. Besides, the entire usable portion of the internal resources was treated as funds available as part of the resources for the State Third Plan. This sum was estimated at about Rs. 400 lakhs and the Corporation was required to invest it at the direction of the State Government in the loans of the Housing Board, the Electricity Board, and such other State Government undertakings.

This policy of the State Government asking the Corporation to invest its funds compulsorily in other State Government undertakings seems to be queer as (a) it did not provide the Corporation with the required capital for capital expenditure as a result of which the Corporation was compelled...
(i) to curtail its programme of completion of nationalisation, and (ii) to restrict even its programme for expansion due to natural increase in traffic to 81% only, and (b) it was not allowed to make good the gap from its internal sources. May be this was one of the main reasons responsible for the Corporation making the biggest-ever loss of Rs. 104.97 lakhs in the subsequent year. This also leads one to believe that, though provided by the Act (Sec. 29(2)), the Corporation was not free to manage these Funds.

The Corporation has an Investment Committee whose function is to consider the proposals of investment. It is composed of the following members:---

Chairman : Chairman of the Corporation

Members : (i) Vice Chairman of the Corporation
          (ii) Dy. Secretary to the Govt. of Gujarat, Finance Department
          (iii) Financial Adviser & Chief Accounts Officer
          (iv) & Non-official Members of the Corporation
          (v) Secretary to the Corporation

Advisers : (i) Dy. General Manager (Gen.)
          (ii) Dy. General Manager (Adm.)
          (iii) Chief Accounts Officer
Looking to the provisions of the Act I feel that not much is left to be done by the Committee. The Committee during 13 years met only 39 times and considered and decided 129 items of investment. The Administration Reports of the Corporation invariably stated: "The balances available in various funds were invested suitably." The entire funds are invested in Government and semi-Government securities. One wonders if the 'Securities authorised by the Indian Trusts Act, 1882' consist only of the Government and semi-Government securities? Or, is the dominance of the official members on the Committee -- 8 out of 10 -- responsible for such decisions? Or, is it that the Committee did not want to take any risk and wanted to sail in the safe side? Be that as it may, the Committee does not seem to have followed a definite and calculated policy in regard to the investment of funds. Such a policy would envisage the arrangement of the investment portfolio in such a way as to ensure an easy and continuous flow of cash required by the Corporation and not requiring it to sell off the securities in the market under distress.

The Committee For Public Enterprises (CPE) also passed strictures against the investment policy of the Corporation in view of the loss amounting to nearly Rs. 16.39 lakhs which it had to bear on account of forced sales of securities before the maturity dates to meet the cash requirements. 70

The CPE also laid stress on the need for long term planning in view of the cash requirements of the Corporation every year and felt that the requirement should be met out of the funds available on the maturity of the securities. It was also observed that the investment by the Corporation in securities was to be done wisely, practically and on commercial principles so that even if the circumstances warranted their sale, the Corporation might not have to bear the loss. In addition, the Committee recommended the seeking of proper advice before taking investment decisions. 71

It has not been made clear by the CPE as to from whom the advice was to be sought. The Investment Committee consists of at least three members including an Adviser—(i) Dy. Secretary to the Govt. of Gujarat, Finance Department, (ii) Financial Adviser & Chief Accounts Officer (W. Rly.), and (iii) Chief Accounts Officer of the Corporation—who can be regarded as 'experts on financial matters'. Therefore, 'advice seeking' is totally out of consideration. The problem may be tackled successfully if the number of non-official members on the Committee is increased with a corresponding reduction in the strength of the official members.

Though the Corporation created an Investment Fluctuations

71. Ibid.
Fund to provide for loss on account of fluctuations in the prices of the securities from the year 1964-65, there has not been any regular contribution to it. Thus, no purpose seems to have been served by the fund when there were violent fluctuations in the prices and the Corporation had to bear a heavy loss as it happened in the year 1966-67. It is suggested that even when the Corporation followed a sound investment policy, a regular contribution should be made to this account every year.

Audit:

Audit is an important tool of financial control. While a budget lays down the limits of expenditure on various accounts, audit ensures its accuracy, authenticity and compliance with sound accounting procedures. The audit function has also gradually advanced with the improved techniques of accounting like the mechanised ones.

The importance of audit is all the more greater in the case of the public enterprises as colossal amounts of taxpayers' money are invested therein and audit is but one important instrument through which public opinion which is in perpetual ferment -- for the management is by bureaucratic machinery even when these enterprises are supposed to be autonomous -- can be satisfied. There is the traditional 'regulatory audit' conducted either by the Statutory Auditor or by Audit Officers from within the organisation,
who merely strive to see that the accounts presented represent a 'true and fair' picture of the financial position of an organisation. In addition to this audit, public enterprises are also subject to audit by the Comptroller & Auditor General who conducts "efficiency-cum propriety audit" with a view to "see whether the operations are being carried on with wisdom, effectiveness and economy." 72

The Administrative Reforms Commission has strongly recommended the introduction of Internal Audit in public enterprises. It has observed: "Internal Audit can play a role in the verification of transactions to check on proper authorisations and in the protection of the property of the undertaking against fraud, waste and pilferage." 73 The Commission also spelled out the tasks of internal audit as: (a) to review the soundness, adequacy and application of accounting, financial and operational controls; (b) to ascertain the extent of compliance with prescribed plans and procedures and accuracy of accounts and other data developed within the organisation; (c) to make constructive suggestions for improvement; and (d) to review and report the action taken by line authorities on the points brought out in previous audit reports of internal as well as external auditors. 74

74. Ibid.
The Committee on Public Undertakings in their 15th Report also laid stress on the introduction of an effective system of internal audit which should not merely look into the accounting work but also include in its work the task of a critical review of the systems, procedures and operations as a whole. The public undertakings were specially requested to introduce the system in accordance with the Office Memorandum No. 9(41)/67-F.I dated 1-9-67, issued by the Bureau of Public Enterprises in the Ministry of Finance, G.O.I.

Merely raising an Internal Audit Branch/Section in an organisation may not bring about the expected results. It is the status of the Branch and its Head vis-a-vis that of the other Branch/Sections/Departments that can accomplish it. If, for example, the Internal Audit Branch/Section is looked after by the Head of the Accounts Department, the audit reports on the Accounts Department itself may not be very fruitful. If the branch is headed by an independent officer, who is on par with the Heads of the other departments, internal audit might be able to contribute something to the jobs expected of it. It is perhaps for this reason that the C.P.U. advocated 'certain amount of independence within the administrative set up of the undertaking to the

76. Ibid.
Thus there exists a three-tier system of audit — internal, statutory and government — for public enterprises. Too many audits may require additional staff in the departments to look after the requirements of the auditors. It is, of course, contended that the management of the public enterprise need not be chary of the multiplicity of audits.

In regard to the Corporation, the Act and the Rules have made adequate provisions pertaining to the audit of the accounts. While Sec. 33(2) of the Act provides for the audit of the accounts by the auditor appointed by the State Government at such times and in such manners as may be prescribed, the Rules 31 and 32 prescribe the internal audit and outside audit.

In so far as the internal audit is concerned, it is conducted by the Corporation with the help of the Audit Officer and his staff. The Audit Section of the Accounts Department in the Central Office looks after (a) contingent audit, and (b) works audit. There is also an Inspection Section which is further divided into two: (a) Headquarter group, and (b) Touring teams. One touring team is known as Peripatetic Audit Party which goes round the Divisions and other units of the Corporation and carry out test check of the accounts. The second group consists of Stock Verifiers who go round the divisions to carry out a physical
verification of stores in the Divisions, Depots, etc.

Again, there exists a system of pre-audit. Rule 25, while laying down the procedure for payment, provides that 'subject to such limitations as the Corporation may lay down, payments other than those made from the permanent advance, shall be made after pre-audit by the Internal Auditor; provided that the Chief Accounts Officer, when circumstances justify it and no loss is anticipated to the Corporation, may make payments before audit; but vouchers in respect of all such payments shall be sent to the Internal Auditor for post-audit and a monthly statement of such payments together with the reasons thereof shall be submitted to the Corporation for approval.

The Corporation has adopted the system of pre-audit at all the levels -- Central Office, Divisions and Depots.

Again, Government Audit Parties visit the Corporation at intervals, conducts audit of the accounts and presents audit reports. Dy. Director of Commercial Audit also visits the units for audit purposes and he also prepares the audit reports. These queries and reports at the different levels are to be settled as far as possible by the Accounts Officer (Inspection).

The present audit system -- internal and outside -- seems to be an ideal and effective one; for, even when the organisation is so huge, judged from any angle -- finance
involved, men involved, material and stores involved, daily
collection — there has been no serious case of defalcation
or misappropriation excepting one. My observation, however,
is that the periodical government audit paralyses the work
of the Accounts Department and leads to a considerable
waste of time. Again, it affects adversely the initiative
of enterprising managers and they prefer to take a 'safe'
action. There is a tendency to stick to the bare principles
of accountancy without properly appreciating the commercial
nature of the transactions.

The Corporation should, therefore, think of creating an
independent department for Internal Audit with a more qua-
lified staff and it should be made responsible to look after
the queries raised by the Government Audit Parties.

To do away with some of the deficiencies of the Govern-
ment Audit, the ARC has recommended the setting up of the
Audit Boards on the lines of Commission of Verification of
Accounts of France.77 There may be four or five boards each
dealing with specified sectors of public enterprises. These
Audit Boards should also be entrusted with a systematic
appraisal of the performance of the public undertakings.
These boards should be manned with area-experts so that
expertise services may be available for both — the public

77. Public Sector Undertakings: Administrative Reforms
undertakings and the Boards themselves.

Public Accounts Committee:

The Audit Reports along with their Annual Accounts are to be placed before the Parliament/Legislative Assembly with a view to reviewing their working and to ensuring that the moneys granted to them have been spent wisely economically and for the purposes for which they were granted. Even when this is to be done, these bodies find it difficult to go into the details of the reports of a number of public undertakings impartially for want of time, and because of the technical nature of the reports and the party form of the government. For these very reasons, in most of the democratic countries, there obtains the usual practice of entrusting the examination of these reports to a special committee of the House designated as the Public Accounts Committee.

It is the duty of the Committee to ascertain that the money granted by Parliament/Legislative Assembly has been spent 'within the scope of the demand'. The Committee is also supposed to examine beyond the formality of the expenditure to its wisdom, faithfulness and economy'. The objective of this comprehensive review is to ascertain whether the management of the undertakings have observed the 'principles of prudent housekeeping' in regard to the expenditure.

Clarifications on various points raised in the Audit
Report of the Comptroller & Auditor General/Accountant General are sought from the members of the organisations concerned. The Committee, in particular, goes into the cases involving losses, unwise expenditure and financial irregularities. The Committee has powers to go beyond what has been contained in the Report of the C. & A.G. It has a right to intervene in matters of administration and also to examine the working of any department, if necessary. It is authorised to call for explanations from the Ministry or Department concerned, for any case of proved negligence resulting in loss or inefficiency and about the disciplinary or other steps taken by it to prevent a recurrence.

The Committee is generally criticised on the ground that its work is only of the nature of a post-mortem. The wrong decisions and actions taken cannot be avoided and the loss so incurred cannot be made good. While this is true, a post-mortem has its own utility. "The very fact of consciousness, that there is some one who will scrutinise what has been done is a great check on the slackness or negligence... of the executive. The examination by the Committee if it is properly carried out, thus leads to general efficiency of the administration. The examination by the Committee may be useful, as a guide for both future estimates and future policies." 78

Another criticism levelled against the Committee is that there is a considerable time-lag between the Report of the C. & A.G./Accountant General and its examination by the Committee. Most of its findings may lose relevance and may be rendered useless on account of substantial change in the conditions within this time.

Be that as it may, the PAC has brought out many financial irregularities concerning public enterprises. The greatest merit of it is that it has developed a non-party character. The meetings between the Committee members and the officers of a public enterprise facilitate a dialogue and remove doubts and suspicions of the former. On the basis of the information and experience gathered by the Committee members, they can act as 'Lord Protectors' for these enterprises and their officers and 'friends, philosophers and guides' for the Parliament/Legislative Assembly.

The constitution of the PAC differs at the Centre and the State levels. At the central level it consists of 22 Members of which 15 are from the Lok Sabha and 7 are from the Rajya Sabha. The Chairman of the Committee is an elected member of the Lok Sabha and is appointed by the Speaker from amongst the members of the Committee. If the Deputy Speaker is a member of the Committee, he has to be appointed as the Chairman.

At the State level the Committee consists of 11 members
including the Chairman. The members of the Committee are from among the elected Members of the Legislative Assembly. The members of the opposition parties are also included in this Committee.

While it is understood that the Audit Reports should contain the irregularities in the accounting procedure and unwise use of money, the PACs should not rest contented with the selection of only a few important items therefrom for further analyses. It should also accept as its task the bringing to the fore of the constraints under which these undertakings have been working. Again, it should not miss to spare a few words for appreciating their progress and performance if they so deserve. This would not only boost up the morale of the executives at the top but also of the workers at the operational level particularly when nothing good is said or heard about/for them. There is, thus, a scope for a very positive and fruitful role to be played by the PAC.

The PAC has covered a wide range of activities of the Corporation. From the problems of getting a refund of octroi amount paid to the Ahmedabad Municipal Corporation and the collection of the arrears on account of postal

charges, it has gone to the length of suggesting the undertaking of a comparative study of the expenditure ratio on Civil Engineering Department to works expenditure in the Corporation with that of its counterparts in a few other states with a view to assessing its efficiency and fixing up the normal workable ratio for the Corporation. It also examined the problems of obsolete stores, difference in the value of inventories in the financial budget balance and actual inventory balances, and reconditioning of the old buses and made valuable and practical suggestions.

Presentation and Publication of Annual Financial Accounts:

The annual financial statements of the Corporation consist of (a) Profit & Loss A/c., and (b) Balance Sheet. While no specific form in which these are to be prepared and presented by the Corporation has been statutorily prescribed, Rule 80 of the Act lays down that the annual accounts shall consist of:

(a) Statement of Capital Receipts -- showing the contribution due and the contributions received from the participating

Governments,

(b) Statement of Loan Capital — showing the amount of loans repaid, balance outstanding, etc.

(c) Statement of Capital Account — showing on the debit side, the account of capital expenditure incurred during the year on the different assets, sales disposals and write-offs, balance at the end of the year; and, on the credit side, the receipts on capital account.

(d) Revenue Account — showing the gross earnings, direct operational costs, administration expenses, other indirect charges and net revenue.

(e) Net Revenue Account — showing the interest paid on capital and loans, income-tax, etc., and the appropriation of the net revenue after meeting these charges to such of the funds as are not provided for under "Working Expenses",

(f) Statement of Depreciation Fund, Provident Fund, Reserve and other Funds — showing the opening balance, appropriation during the year, interest realised from investments, withdrawals from the fund and balance at the end of the year.

(g) Statement of Investments of Depreciation Fund, Provident Fund, Reserve and other Funds — showing the investments held at the beginning of the year, investments made
(i) General Balance Sheet.

(ii) Statement of Stores.

The Corporation follows the foregoing provisions and prepares and publishes its accounts accordingly. The Annual Accounts of the Corporation are separately published along with its Audit Report. An important portion of these Accounts, viz., (a) Profit and Loss A/c., (b) Net Revenue Appropriation A/c., and (c) Balance Sheet are also presented in the Annual Administration Reports of the Corporation every year. The present pattern of the Annual Accounts has been inherited from the erstwhile BSRTC.

The debit side of the Profit & Loss A/c covers the expenditure under two broad heads: (A) Operating, and (B) Non-Operating. Operating expenses are further divided into (a) Traffic, (b) Repairs and Maintenance, (c) Power, (d) Licences and Taxes, (e) Welfare and Superannuation, (f) General Administration Expenses, and (g) Depreciation. Non-operating expenses include (a) Debt charges, (b) Interest, (c) Other items, and (d) Income tax.

Similarly, the revenue earned by the Corporation is also divided into two classes — Operating and Non-Operating. All revenue earned on account of Passenger bus services (i.e. Traffic) is termed as 'Operating'; income received by way
of advertising charges, rent, sales of scrap, interest and profit from sale of fully depreciated vehicles, sales of Time Tables, excess receipts, miscellaneous receipts and excess found at the time of stock-taking of stores, building materials, etc., is included under the head 'non-operating'.


In addition to these, the Annual Accounts also present the following statements in detail:—

(a) Revenue Receipts.
(b) Revenue Expenditure.
(c) Position of different Funds — the opening balance, additions and withdrawals thereto and the net closing balance.
(d) Fixed Capital Expenditure.
(e) Loans Outstanding.
(f) Transactions of Internal Funds.
(g) Provisions.
(h) Summary of Investment.
(j) Deposits kept with the various Scheduled Banks.
(k) Building Materials.
(l) Stock of Stores.
(m) Expenditure on subsidised Industrial Housing Scheme.
(n) Comparison of expenditure with Budget Estimates.

The Annual Accounts as are presented by the Corporation are exhaustive. However, there is a further scope for bifurcating certain items and presenting them under separate heads so as to enable a reader to make some useful reading. The Chairman, for example, is paid an honorarium of Rs.1,000/-p.m. plus allowances for attending the meetings or for his touring. Similarly, the members of the Corporation Board and various Committees are also entitled to draw various allowances. Expenditures on this account are not shown under a separate head.
Again, in the General Charges, expenditure on Advertising and Publicity (including the Magazine 'Pravasi') is shown together. It is contended that the Advertising & Publicity relating to the Magazine Pravasi and the other advertising & publicity charges be shown separately. This would enable a reader to find out the cost on Pravasi as on a number of occasions, the MLAs showed concern over running such a magazine at a loss.

The Committee For Public Enterprises suggested that, in view of the general complaint about the misuse of the Staff Car by the non-official members of the Corporation Board for each of whom a separate car is maintained, an individual account for recording expenditure on each such car be kept and the total of it be shown against the concerned number separately in the Annual Accounts. 85

The Committee has also made two further observations: (1) The amount written off against the obsolete stores is not separately shown in the Balance Sheet. (2) The loss on account of prematures selling of securities is not separately shown in the Balance Sheet. In the opinion of the Committee, these should be shown separately. 86

In addition to the Annual Accounts and Audit Reports,

the Corporation is also required under Sec. 35(2) of the Act, to submit, as soon as possible after the end of each financial year, a report to the Central and the State Governments, on the exercise and performance by it of its powers and duties under the Act during that year, and on its policy and programme.

The provision of the Section is too far extended and the Corporation now brings out a sort of 'de luxe' edition of the Report which can very well stand in competition with the Annual Report of any first class private sector, industrial organisation. Not only has it undergone a wide change in its get-up but also have notable changes taken place in the style of presentation of the matter.

The Annual Administration Report began, in 1960-61, with the following nine chapters and twelve schedules:

**Chapters:**
1. Introduction.
3. Administration.
5. Auto Engineering & Stores.
6. Civil Works.
7. Finance.
8. Labour.
Appendices: 1. Employment of Members of Backward Classes.
2. Staff Position.
4. Fleet Utilisation.
5. Composition of Bus Fleet.
7. Revenue Analysis.
11. Fixed Capital Expenditure.

Details about the formation of different Committees and their respective functions were also presented in the first report.

The Second Report also contained the same information. In addition it contained (a) the Statement showing attendance in the meetings of the Corporation and various Committees by the members, and (b) Important details of Labour Settlement.

Two major changes were made beginning with the Third Report. The Corporation perhaps realised that it was not enough that the travelling public was provided with amenities, that it was also important to bring it to the notice of the public in general and the passengers, in particular. Therefore,
A new Chapter on 'Amenities for Passengers' was introduced in the Report. The second major change was the bifurcation of the Chapter on 'Auto Engineering and Stores' into two separate Chapters. Similarly, though a minor change, the Chapter on 'Labour' got promoted to serial number Four from the last but one Chapter as in the previous reports.

Again a few more schedules as under were added in the Report:

1. Composition of Committees.
2. Categorywise pay scale.
3. Rates of allowances.
4. Fare Structure.
5. Rates and Incidence of Taxes, Depreciation, Insurance and Interest.

The Appendix regarding Employment of Members of Backward Classes was now included in the text matter and did no longer appear as an Appendix.

No major change seems to have taken place in the presentation of the Report since then excepting that certain new schedules like (a) Type and Composition of Ad-hoc Committees, whenever they were formed, (b) List of Routes Still to be Nationalised, and (c) Important details about Labour Settlement, were added whenever necessary.

A notable change is witnessed in the presentation of certain information and statistics from the Fifth Report.
(1964-65) onwards, when (i) Amenities to Workers, and (ii) Amenities to Passengers were picturised in an effective manner. Also, the growth of (i) Capital, and (ii) Funds are being presented in Bar diagrams. Moreover, the incidence of taxes -- both of the Central and the State Governments -- is being shown in a Circular diagram.

A close view of these Reports leads one to believe that the Corporation has been well-set from the sixth year of its inception. This is reflected in the grandeur of the reports from that year on. The diagrams, charts, graphs, pictures, etc., are so very well presented that one gets impressed by it. A series of statistical tables makes it an interesting, instructive and easily intelligible reading.

In the absence of any specific time-limit for the submission of the Report, the Corporation seems to have taken advantage of the clause 'as soon as possible after the end of each financial year' of Sec. 35(2) of the Act, particularly during the first four years. However, there seems to be a visible improvement in the position since then and the time lag between the close of the financial year and the submission of the Reports to the Governments has gone on decreasing year by year as is evident from the Table IX.18.

These very well prepared and presented Reports are, however, restrictively used. A large part of the public does not get even an opportunity to glance through them and get
Table IX.18

<table>
<thead>
<tr>
<th>Report for the year</th>
<th>Date of Submission</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>1st September 1962</td>
</tr>
<tr>
<td>1961-62</td>
<td>30th September 1963</td>
</tr>
<tr>
<td>1962-63</td>
<td>30th June 1964</td>
</tr>
<tr>
<td>1963-64</td>
<td>1st April 1965</td>
</tr>
<tr>
<td>1964-65</td>
<td>22nd March 1966</td>
</tr>
<tr>
<td>1965-66</td>
<td>19th June 1967</td>
</tr>
<tr>
<td>1966-67</td>
<td>19th February 1968</td>
</tr>
<tr>
<td>1967-68</td>
<td>7th February 1969</td>
</tr>
<tr>
<td>1968-69</td>
<td>20th January 1970</td>
</tr>
<tr>
<td>1969-70</td>
<td>27th January 1971</td>
</tr>
<tr>
<td>1970-71</td>
<td>1st March 1972</td>
</tr>
<tr>
<td>1971-72</td>
<td>9th April 1973</td>
</tr>
<tr>
<td>1972-73</td>
<td>in the Press</td>
</tr>
</tbody>
</table>

acquainted with the problems and progress of the Corporation. It is, therefore, suggested that, even at the cost of reducing its grandeur, if necessary, these should be circulated as widely as possible at least within the State. The Corporation should think of including on its mailing list institutions/individuals like all the libraries in the State belonging to the Universities, Colleges and High Schools, members of the District Panchayats and the Taluka Panchayats. If cost is no consideration and if the Corporation can afford it, Village Panchayats -- selected ones --

87. AR(GSRTC) 1960-61 to 1972-73.
will be the best media to spread the information about the performance and progress of the services rendered by the Corporation. The Corporation may also come out of the 'steel-frame' and send the Reports to certain important and widely circulated, newspapers/journals for the purpose of review, which might act as an educative media for the vast masses who are actually the biggest consumers of the services of the Corporation and who do not have any reliable source of information about it.

The Public Relations Function has been considered as one of the most important functions for building up a Corporate Image of any business enterprise—much more so for a nationalised State Transport Undertaking. The spread of position information would act as a strong bull-work against undue and unbalanced criticisms in a democracy. Not that the enterprise should hoodwink the public at large or wear false masks on its inefficiencies. It should be alive to its shortcomings and, may be, can win public support through mentioning them, too, in a constructive manner in the Annual Report under the caption -- "And yet, we know, we have, to quote Poet Frost, 'We have miles to go ... and miles to go", -- along with the future growth-programmes. This is indeed one of the essential Social Responsibilities of Business. Hence, this suggestion is equally applicable to all the public enterprises which are supposed to act on 'business principles'.