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New Delhi
Dated:- 01.05.2000

Report of the Comptroller and Auditor General of India

for the year ended March 1999

Union Government (Commercial)

Public Sector Undertakings (PSUs)
Indian Airlines Limited & Air India Limited

No. 4 of 2000

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PREFACE

A reference is invited to the prefatory remarks in Report of the Comptroller and Auditor General of India – Union Government No. 1 (Commercial) 2000 where a mention was made that reviews of the performance of Companies/Corporations by the Comptroller and Auditor General of India are presented in separate Reports.

This Report contains four reviews, one on the Indian Airlines Limited, viz. Human Resource Management and three reviews on Air India Limited, viz. (i) Employees Remuneration, (ii) Wet-Lease of Aircraft during 1994–97, and (iii) Haj Charter Flights.

CHAPTER 1 : HUMAN RESOURCE MANAGEMENT IN INDIAN AIRLINES LIMITED

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OVERVIEW

- This review covers the policy and practices of Indian Airlines Limited (IA) regarding manpower planning, manpower utilisation and staff costs during the last five years ended 1998-99.

- The total staff costs of IA increased by 207 per cent and cost per employee increased by 209 per cent over the period from 1993-94 to 1998-99. The staff cost per unit of output i.e. Revenue Tonne Kilometre increased from Rs.4.11 lakh in 1993-94 to Rs.12.34 lakh in 1998-99. The growth in the staff costs was so high that their share in the total operational expenditure of IA increased from 15 per cent in 1993-94 to 28 per cent in 1998-99. In absolute terms, it meant an increase of Rs.590 crore over a period of 6 years.

  (Para 1.1)

- Impact of increase in staff cost on fare increases was substantial, being in the range of 9 to 36 per cent of the fare increases. Inefficient manpower planning and deployment coupled with abnormal increases in salaries and allowances accounted for the abnormal increases in staff costs.

  (Para 1.4.17)

- Creation of additional posts, both in executive and non-executive cadres, was done without proper basis and often without logic. Additional posts were created despite posts lying vacant, against the directive from the Government of India for reduction of sanctioned strength and abolition of vacant posts. During the period, altogether 543 posts were created; of these, 271 posts were created in the executive cadres and 272 in the non-executive cadres, while vacant posts increased from 2658 to 4443 during the same period.

  (Para 1.2.1 to 1.2.11)

- Absence of pragmatism characterised manpower planning of Indian Airlines. Posts at senior levels were created in an arbitrary and ad-hoc manner without any scientific and systematic analysis of the requirements. The number of Directors were increased from 18 to 30 during the period. The purpose of creation of many of these posts was not achieved ultimately. Six posts of Directors were created by upgrading the posts of General Managers; later these posts of General Managers were created afresh. Posts at senior levels like General Managers were created on purely temporary grounds.

  (Para 1.2.1 to 1.2.11)

- Personnel Manual of IA did not prescribe any eligibility criteria prescribing higher educational/professional/technical qualification for promotion to higher managerial posts. As a result, employees having limited educational qualifications like matriculation, intermediate, etc. were promoted up to positions of General Managers, Directors and Deputy Managing Directors. Even in the case of direct recruitment, educational/professional qualifications were not necessarily prescribed in all cases leaving scope for arbitrariness in recruitment.

  (Para 1.2.14, 1.2.15)

- Whereas the number of employees per aircraft in Indian Airlines was the highest among the airlines operating in the South East Asia (except for Pakistan International Airlines), the productivity measured in terms of Available Tonne Kilometres per employee of IA was the lowest among all these airlines. Despite this, the Company had been engaging additional staff on contract basis. It engaged 132 retired employees during 1995-96 to 1998-99 as consultants on contract basis for performing routine nature of work, in contravention of the guidelines of the Department of Public Enterprises (DPE).

(Para 1.3.1, 1.3.2 and 1.3.6)

- There existed a curious combination of under utilisation of manpower on the one hand and payment of heavy overtime allowance on the other hand. Payment of overtime allowance to the employees always exceeded the budget estimates during the last five years. Idle wages amounting to Rs.28.19 crore in Engineering Workshops and Rs.1.19 crore to the pilots were also paid during the period.

(Para 1.3.7 to 1.3.9)

- Rates of various items in the canteen were not revised during the last three decades, except for only one item during 1999. The rates were highly subsidised and the total outgo on account of canteen subsidy was Rs.52.08 crore during the four years from 1995-96 to 1998-99. There was no policy regarding canteen management and fixation of rates.

(Para 1.3.11)

- Without going for regular wage settlement, the Company signed various Productivity Linked Incentive (PLI) agreements with trade unions on irrational productivity parameters and in contravention of the directives of the DPE, resulting in huge financial outgo. The Company paid Rs.666.73 crore, apart from arrears of Rs.75.53 crore towards PLI during 1995-96 to 1998-99 whereas it incurred a total loss of Rs.64.18 crore during the same period. Whereas wages per employee increased by 207 per cent during the period 1993-94 to 1998-99, productivity per employee measured in terms of Available Tonne Kilometres increased by only 7.51 per cent over the same period.

(Para 1.4.1 to 1.4.6)

- PLI agreement signed with one of the unions in October 1997 was made effective when an earlier PLI agreement was still valid. This resulted in avoidable expenditure of Rs.37.60 crore. The Company paid Rs.4.76 crore to its executives during January 1996 to March 1999 as special productivity allowance without any justification and approval of the Board of Directors. The Company also paid Rs.25.27 crore towards fixed productivity allowance and Rs.72.95 crore towards productivity allowance during 1995-96 to 1998-99, without linking these allowances to the employees' performance levels.

(Para 1.4.9 to 1.4.11)

- Various allowances like Out-of-Pocket Expenses, Experience Allowance, Executive Allowance, Simulator Allowance etc. were paid without proper justification. The impact of these allowances per annum was Rs. 10.40 crore.

(Para 1.4.8, 1.4.12, 1.4.13)

- Due to the non-linking of regular wage agreements with these PLI agreements, the Company had to allow further increases in wages on account of regular wage settlements. Till October 1999, regular wage settlements were concluded with only two unions covering about 80% of the staff. Financial impact of these settlements was estimated at Rs.43 crore per annum.

(Para 1.4.14)

- Additional expenditure on various facilities to senior executives at their residences which included several benefits extended even after retirement like retention of company's car and room air-conditioners, furniture and household items etc., was estimated at Rs.1.15 crore, with a recurring expenditure of Rs.56.80 lakh per annum. Conferment of such perquisites violated the directives of DPE of July 1995.

(Para 1.4.15)

CHAPTER 1 : HUMAN RESOURCE MANAGEMENT IN INDIAN AIRLINES LIMITED

1.1 Introduction

Human Resource Management in any organisation requires that there are proper systems and procedures in existence for manpower planning, control and review. These must subserve the objectives of the organisation and should be in consonance with the financial realities confronting the organisation. In a public utility organisation like Indian Airlines (IA), it is essential that staff costs are regulated to ensure optimum productivity and efficiency for the organisation. It is also essential that staff costs do not affect the fare structure of IA disproportionately.

The records relating to human resources Management in IA for the years 1994-95 to 1998-99 were reviewed in audit.[1] The findings of the review are mentioned in the succeeding paragraphs.

The table below indicates the increase in staff costs in IA vis-à-vis the increase in its expenditure:

Year	Staff cost (Rs. in crore)	No. of employees	Per employee cost (Rs. in lakh)	Total expenditure (Rs. in crore)	Total Operational Expenditure (Rs. in crore)	Staff cost as percentage of total operational expenditure	Effective fleet size#
1993-94	285.45	22182	1.29	2074.83	1849.76	15%	54
1994-95	374.46 (31.18%) *	22683	1.65	2258.97	2008.73	19%	58
1995-96	571.37 (52.59%)	22582	2.53	2599.82	2310.30	25%	55
1996-97	710.48 (24.35%)	22153	3.21	2928.97	2713.23	26%	40
1997-98	817.25 (15.03%)	21990	3.72	3220.98	2984.57	27%	40
1998-99	875.45 (7.12%)	21922	3.99	3431.44	3129.33	28%	41

** Figures in brackets indicate increase over the previous year.*
 # Excludes 4 grounded aircraft during 1993-94 to 1995-96 as well as 12 aircraft leased to Airline Allied Services Ltd. during 1996-97 to 1998-99.

[1] For comparison purposes, data relating to 1993-94 have also been used at times.

We can see from this table that in IA, the total staff costs increased by 207 per cent and cost per employee increased by 209 per cent over the period from 1993-94 to 1998-99. The staff cost per unit of output i.e. per Revenue Tonne Kilometre (RTKm)[2] increased from Rs.4.11 lakh in 1993-94 to Rs.12.34 lakh in 1998-99. The growth in staff costs was so high that their share in the total operational expenditure of IA increased from 15 per cent in 1993-94 to 28 per cent in 1998-99 and has been increasing at the rate of one per cent every year during the last 4 years. In absolute terms, it meant an increase of Rs. 590 crore over a period of 6 years, i.e. by 206.7%. The abrupt increase during 1995-96 was due to various benefits in the form of Productivity Linked Incentives paid to the employees. While the fleet size decreased significantly, the number of employees reduced marginally during the period.

The abnormal increase in staff costs was primarily due to the inefficient manpower planning and unproductive deployment of manpower coupled with abnormal increase in salaries and wages of the employees as discussed in the following paragraphs of this review.

1.2 Manpower Planning

Manpower planning in any organisation should depend on the periodic and realistic assessment of the manpower needs, need-based recruitment, optimum utilisation of the recruited personnel and abolition of surplus and redundant posts. Identification of the qualifications appropriate to all the posts is a basic requirement of efficient human resource management. IA was found grossly deficient in all these aspects.

[2] RTKm: The actual traffic carried on which revenue is earned.

Creation of Posts

1.2.1 During the five year period from March 1994 to March 1999, there was a net increase of 543 employees in the standard force (sanctioned strength) as shown in Annexure I. As against this, the actual number of employees had decreased by 1242 (Annexure I) during the same period. The major increase in the standard force was made in executive cadre posts (271), cabin crew (40), non-technical staff (46) and helpers/peons etc. (347) in non-executive posts. Decrease in sanctioned strength was mainly in respect of 180 posts of Aircraft Engineers during the period. Creation of additional posts, both at executive as well as non-executive cadres, was done without proper basis and often belied all logic as brought out in the following paragraphs.

Executive Level Posts

1.2.2 The number of Directors in the Organisation was increased from 18 to 30 during the period 1994-1998. 6 new posts of Directors were created as shown below:

Name of the Post	Reasons for creation	When created
Director (Jet Engine Overhaul Complex-JEOC)	To develop JEOC as separate profit centre	April 1994
Executive Director (Short Haul Operation Department-SHOD)	To develop SHOD as separate profit centre	June 1994
Director (Auxiliary Power Unit-APU)	To develop the APU shop as a separate profit centre	January 1997
Director (HRD)	Functional efficiency	April 1998
Director (In-flight Services)	Functional efficiency	April 1998
Director (Marketing)	Functional efficiency	April 1998

The last three posts were created by dividing the functions of the existing Directors in charge of Personnel, Operations, Commercial, Engineering, Ground Support and Stores and Purchase Departments. Thus in place of 6 Directors in these departments prior to April 1998, there were now 9 Directors looking after the same activities.

In addition, the Board also approved (June 1996) the upgradation of 5 posts of GMs to the posts of Directors[3] for the purpose of providing uniform career opportunities to all the departmental heads. Subsequently, the Board also approved (January 1997) the upgradation of the post of GM (Information Technology-IT) to that of Director (IT).

[3] Medical, Civil Engineering, Public Relations, Audit and Ground Support Departments

1.2.3 It was seen in audit that IA revived all the 6 posts of GMs which had earlier been abolished in pursuance of the decision of the Board in June 1996 and January 1997 to upgrade these posts to those of Directors. The Management stated (September 1999) that if the posts of GMs were to be abolished in these departments, the posts of Directors, when falling vacant, could not have been filled up. They also stated that with the abolition of the posts of GMs, chain of hierarchy would have broken.

Reply of the Management is not tenable since by doing so, the Board's decision which was only for upgradation of posts of GMs was flouted. By their initial action of upgradation of six posts of GMs to Directors and their subsequent approval for creation of six posts of GMs for the same functions, the Board virtually created six posts of Directors. The creation of six posts of GMs was, therefore, unjustified. While upgrading the posts of GMs earlier, the Board was never informed about the break in the chain of hierarchy.

1.2.4 The posts of Director (JEOC), Executive Director (SHOD) and Director (APU) were created to develop these units as separate profit centres. In spite of this, the results in respect of these units had never been worked out separately. Thus, the purpose of creation of these posts was not achieved.

1.2.5 In the proposal submitted by the Management before the Board in April 1998, the creation of a post of Director (Marketing) was justified in view of the need for very aggressive and focussed marketing in the competitive environment. However, in March 1999, the Management submitted to the Board that there was a need to revert back to the earlier system of carrying out commercial operations through a single post of Director (Commercial), as IA was facing stiff competition in the market and it was necessary that commercial performance of the airline was improved through well co-ordinated and cohesive actions in the field. Thus the post of Director (Marketing) was created and then abolished within a year for the same reason, viz. competition. In the same meeting (March 1999), the Board approved the creation of a post of Director (Cargo) to head the cargo division which had been identified by the Board as a profit centre in February, 1997 and the incumbent who was relieved as Director (Marketing) was immediately appointed as Director (Cargo).

The Management replied (September 1999) that the post of Director (Cargo) was created in lieu of the post of Director (Marketing) which stood abolished from that very date. This only proves that posts of Directors were created without proper justification and analysis of requirements.

1.2.6 The CMD appointed (June 1993) a committee to study the standard force and also the career progression opportunities in each of the departments. On the basis of recommendations (February 1994) of the Committee, CMD approved (November 1994) creation of additional 6 posts of General Managers(GMs), 19 posts of Deputy General Managers (DGMs) and 29 posts of Senior Managers in respect of 12 Departments. Additional posts of 8 GMs (April 1997 - April 1998), 60 DGMs and 137 posts of Senior Managers (March 1995-March 1999) were further created in various departments including the 12 departments mentioned above.

1.2.7 It was found that posts at executive level were created without proper work study and in an arbitrary and ad-hoc manner without any scientific and systematic analysis of the requirements for new posts. There was no guidelines laying down the norms for creation of new posts. In 4 out of 14 new posts of GMs created during the period from 1994-95 to 1998-99, the proposals were not even routed through the personnel department for approval, instead approval was given only on the note of the Director of the concerned departments for creation of the post of GM. Posts of GMs were created on grounds such as providing assistance to the Director, and handling of work which were purely of temporary nature, like work related to the preparation and presentation of the report of Kelkar Committee, studies connected with selection of 50 seater aircraft, etc.

The Management stated (September 1999) that in respect of senior posts like GMs etc., the competent authority was the CMD, who had personal knowledge of the necessity for creation of the post.

The Management's reply only confirms that no scientific assessment of the actual requirements was made before creation of posts at senior levels in the organisation.

Non-Executive Level Posts

1.2.8 As per the policy of the Company, posts in non-executive cadres were to be created after assessment by the Manpower Assessment Committee. However, in the case of cabin crew, 40 posts were created (March 1998) in the Southern Region on ad-hoc basis, pending the assessment of their requirement by the Staff Assessment Committee. No such assessment had been made till date (September 1999) while the posts continued to be operated.

It was noticed that the average utilisation of cabin crew in Southern Region varied between 65.74 hours to 75.51 hours per month during 1997-98, which was much below the Flying Duty Time Limit (FDTL) of 100 hours fixed in respect of Cabin Crew in September 1995. The actual number of cabin crew in the Southern Region before the creation of these ad-hoc posts (February 1998) was 162 (against a sanctioned strength of 174). Even at the highest existing level of utilisation of 75.51 hours per month, there was a shortfall in utilisation by 3967 hours per month which is almost equivalent to the output of 40 cabin crews. Thus, the creation of 40 additional posts was not justified in view of under-utilisation of the existing staff.

1.2.9 The Management stated (September 1999) that it was convinced about the requirement of 40 posts of cabin crew pending a full assessment later and admitted that in view of the subsequent revised instructions for a total ban on direct recruitment effective September 1998, the Manpower Assessment Committee did not carry out any further assessment on the demand of the Operations Department for sanctioning of the additional posts.

Reply of the Management confirms that 40 posts of cabin crew created on ad-hoc basis were allowed to continue without any assessment of the actual requirement of IA.

1.2.10 The above posts in executive and non-executive categories were created despite the fact that the Government, from time to time, had stressed the need for reducing the sanctioned staff strength. As per decision of the Government of India (June 1997), staff strength in all the public sector undertakings under the Ministry of Civil Aviation was to be reviewed and the posts lying vacant as on 31 March 1996 were to be abolished. Secretary Civil Aviation also desired (June 1997) the need for undertaking a serious, sober, balanced, cadre-wise and time-bound review for reduction in the staff strength to the extent of 3 per cent per annum and abolition of vacant posts. However, no action in this regard had been taken so far (September 1999).

1.2.11 As on 31st March 1996, there were a total of 3529 vacant posts in IA. During the period 1994-99, in the executive cadres, the vacant posts increased from 65 to 69, despite this the standard force was increased by 271. In the non-executive cadres, the standard force was increased by 272, despite the fact that the number of vacant posts went up from 2593 to 4374 in these cadres during the same period. All this indicates, apart from violation of Government directives, a total absence of pragmatism and planning on the part of the Management.

1.2.12 The Management stated (September 1999) that in a meeting with the Ministry of Civil Aviation (May 1998) the matter was further discussed and the views of IA were accepted and recorded that the Company was operating with about 3000 personnel less than the standard force despite increase in the operational and related activities and was not willing to formally abolish the surplus posts.

The reply is not tenable, since as per the minutes of the meeting with the Secretary, Civil Aviation, IA had stated that they had frozen 3000 posts lying vacant and modalities were being worked out in respect of the voluntary retirement scheme. They had also stated that conscious efforts to abolish vacant posts in lowest cadres were being made. The Minutes of the meeting does not support the reply of the Management that the Ministry had allowed them not to abolish the surplus posts. No post has also been abolished so far (November 1999).

Filling up of posts

1.2.13 The posts in IA were categorized under Grades 1 to 19A (Annexure II). As per the recruitment rules of IA, posts up to Grade 14 were to be filled up by direct recruitment, promotion or selection, for which the respective proportions were prescribed under the recruitment rules. Managerial posts in Grade 15 and above could be filled up through direct recruitment, selection or deputation, but proportion of posts to be filled up through the respective channels of recruitment for these posts was not laid down, it was left entirely to the discretion of the Management.

1.2.14 As per the eligibility criteria provided in the Personnel Manual of IA, the minimum educational qualification for filling up of vacancies in the entry grade (grade 3/6) for Traffic Assistant, Accounts/Audit Assistant, Office Assistant was matriculation only. These employees were eligible for promotion up to Grade 13/14. Similarly, the minimum educational qualification for Aircraft Technicians was also matriculation and they were also considered for direct appointment as Aircraft Engineers (Grade 13/14) after passing the requisite examination conducted by the Director General Civil Aviation (DGCA) and acquiring the licenses issued by DGCA. The minimum educational qualification for pilots also was matriculation[4]. Pilots were initially appointed in Grade 13/14 after training. As the Personnel Manual had not prescribed any eligibility criteria prescribing higher educational/ professional/ technical qualifications for appointment to higher managerial posts, these officials without any higher educational/ technical qualifications were considered for such appointments. As a result, persons holding minimal educational qualifications like matriculation, intermediate etc. and persons who had joined IA as electricians, mechanics, junior assistants etc. occupied high managerial positions such as General Managers, Directors and Deputy Managing Directors.

The Management stated (September 1999) that a person holding limited educational qualification could occupy a managerial position by following the career progression through a process of acquiring the necessary job-related qualifications and experiences.

Reply of the Management is not tenable since the job requirements of senior executives like Directors, Deputy Managing Directors and GMs also included important managerial functions for which higher qualifications should have been prescribed.

1.2.15 Even in the case of direct recruitment, educational/ professional qualifications were not necessarily prescribed in all cases but were done on a case to case basis. For recruitment made in 1996 for the post of Company Secretary (Grade 17), Associate Membership of the Institute of Company Secretaries was prescribed as qualification, but no educational/professional qualifications were prescribed for the higher post of Director (Corporate Affairs), (Grade 19 A). Consequently, a simple graduate was recruited for the post of Director (Corporate Affairs).

The Management stated (September 1999) that in view of the fact that direct recruitment was resorted to on rare occasions, the eligibility criteria was decided in individual cases. Reply of the Management is not acceptable as the eligibility criteria for all posts should have been laid down specifically in the rules, in the absence of which there remains the scope for arbitrariness in recruitment.

[4] For pilots, the minimum qualification had been raised to graduation w.e.f. 17 April 1997.

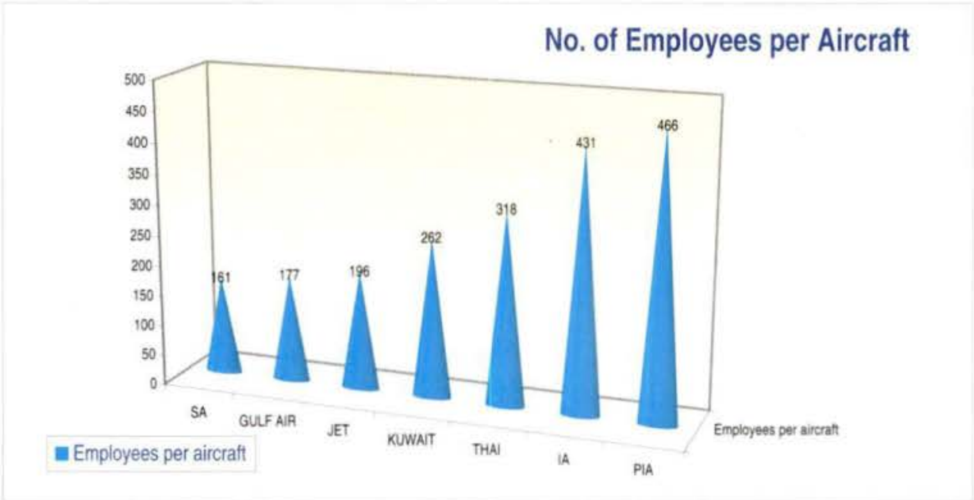
1.3 Manpower Utilisation

1.3.1 The table below shows the effective staff strength and number of aircraft operated by a few airlines operating in South East Asia including Indian Airlines as on 31 December 1997:

Sl. No.	Name of Airlines	Number of aircraft in fleet	No.of employees	Employees per aircraft
1	Singapore Airlines	84	13,549	161
2	Thai Airways International	76	24,186	318
3	Indian Airlines	51	21,990	431
4	Pakistan International Airlines	46	21,440	466
5	Gulf Air	30	5,308	177
6	Kuwait Airways	22	5,761	261
7	Jet Airways	19	3,722	196

Source: IATA-World Air Transport Statistics except in respect of IA for which figures as per Annual Report have been adopted. Figures for IA as on 31 March 1998.

It would be observed from the table that the number of employees per aircraft in respect of IA was the highest among all these airlines, except for Pakistan International Airlines.



The Management stated (September 1999) that staff to aircraft ratio in IA could not be compared with other airlines as IA was a Public Sector Undertaking (PSU) and had throughout been functioning as a model employer in a welfare state and that IA carried out many functions through its own human resource deployment, which in other airlines were generally outsourced. Some of these functions were overhauling and major maintenance of aircraft, ground handling, passenger handling, training of technical staff and catering. Many airlines had not set up any booking offices for direct selling of tickets and also did not have their in-house centralised computerised reservation system.

Reply of the Management is not tenable. Being a 'Public Sector Undertaking' and 'a model employer in a welfare state' cannot be the grounds for justifying gross underutilisation of manpower and unproductivity, especially in view of the increased competition from private airlines as well as the financial situation of IA. Nothing prevented the IA from outsourcing the operations which were uneconomic.

1.3.2 Productivity of IA measured in terms of Available Tonne Kilometres (ATKm[5]) was also the least in comparison to the other airlines in the region as per details given below for the year 1997-98.

Name of Airline	ATKm (in Million)	No. of Employees	ATKm per Employee
Singapore Airlines	14418.324	13549	1064161
Thai Airways	6546.627	24186	270678
Pakistan International Airlines	2581.752	21440	120417
Gulf Air	2113.671	5308	398204
Kuwait Airways	1416.235	5761	245831
Jet Airways	345.599	3722	92853
Indian Airlines	1094.132	21990	49756

Source: IATA-World Air Transport Statistics except in respect of IA for which figures as per Annual Report have been adopted. Figures for IA as on 31 March 1998. For the other Airlines, figures relate to December 1997.

1.3.3 The Management stated (September 1999) that the productivity of IA was low due to the large number of employees in IA. The Management also contended that ATKm produced by the Airline Allied Services Ltd. (AASL), which was a subsidiary of IA, should also be included for a fair and consistent comparison on a year to year basis.

The Management's reply is not tenable because the other Airlines operating in the region with similar strength of staff (e.g. Pakistan International Airlines and Thai Airways) had ATKms several times that of IA. It only confirms that IA had not carried out a proper analysis of the reasons for their low productivity. Besides, no action had been initiated

[5] ATKm: This is the product obtained by multiplying the capacity in tonnes available for passengers, mail and cargo by the distance in kilometres flown by the aircraft. It represents the maximum traffic that can be carried.

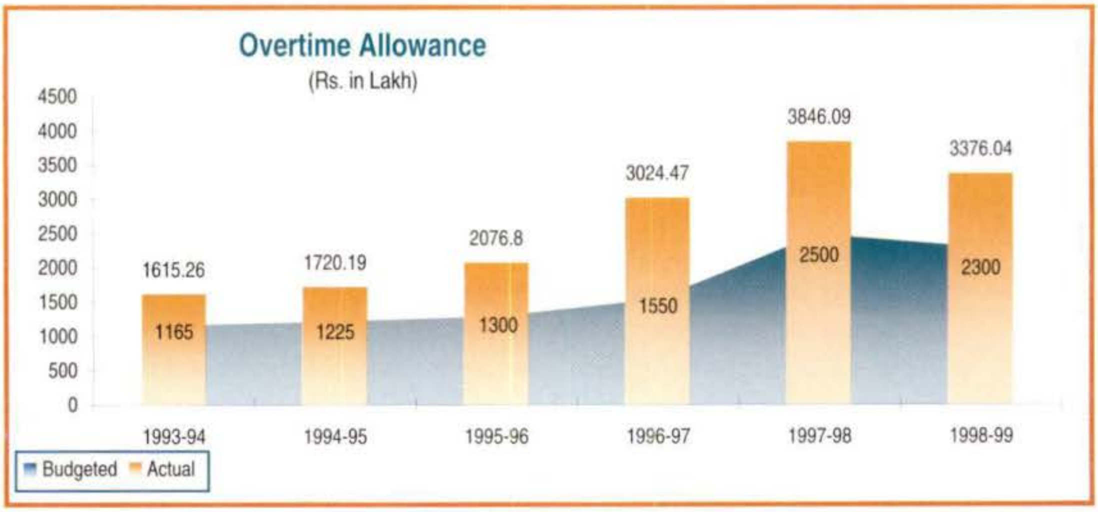
by IA to reduce the number of their unproductive staff. Regarding the inclusion of figures of AASL, it is stated that AASL is a separate company having its own manpower and the inclusion of figures of its productivity in IA was not justified.

Contractual Appointments

1.3.4 In spite of the large number of staff employed, IA resorted to the engagement of additional staff on contract basis from time to time. Under-utilisation of manpower also characterised certain categories and departments of IA. It was a curious combination of under-utilisation of manpower on the one hand and their over-utilisation as indicated by the heavy overtime allowances paid on the other, indicating total lack of control on the part of IA.

1.3.5 The Department of Public Enterprises (DPE) had clarified (October 1994) that appointment of consultants and advisors was usually to be done on contractual terms against payment of specific fees for specified jobs. It also stated that no other incidental benefit except providing transport facility for picking up and dropping at residence was allowed to them.

1.3.6 IA had engaged 132 retired employees as consultants during the period from 1995-96 to 1998-99 on contract basis. A test check of contractual appointments, however, revealed that appointments were not made for any specified jobs. The incumbents were appointed to specific posts instead, e.g., as Officer on Special Duty, Driver, Office Superintendent, Gymnastics Instructor, Simulator Instructor and Advisor to Managing Director. Besides payment of fixed monthly consideration instead of payment of fees for specific jobs, they were also allowed various other incidental benefits such as out of pocket expenses, transport expenses, entertainment expenses and telephone expenses, leasing of residential accommodation etc. In two cases sick leave and privilege leave (encashable on termination of the contract) as applicable to regular employees, were also allowed. Persons whose services on contractual appointment was found unsatisfactory during the contract period were re-appointed on contract basis.



Payment of Overtime Allowance and Holiday Pay

1.3.7 The payment of overtime allowance (OTA) including holiday pay to staff increased by 109 per cent over the period of six years from 1993-94 to 1998-99. The Management stated (September 1999) that the increase in OT hours (from 48.11 lakh in 1993-94 to 50.32 lakh in 1998-99) was a marginal increase. The Management also stated that to a certain extent, the OT hours had gone up due to increase in additional facilities provided to the passengers, viz., tele-checking, opening of additional check-in counters, increase in the ground handling activities for other operators and increase in engineering activities.

The reply of the Management is not tenable since the above activities were regular activities in the airlines business. Further, there had been a reduction in the activities of IA due to transfer of the Boeing fleet to Airline Allied Services Limited (AASL) since 1996-97. The fact that the payment of OTA always exceeded the budget provisions indicated lack of control by Management in this regard.

Idle Wages

1.3.8 IA had a system of recording and costing idle hours in respect of Engineering Workshops. Cost of such idle hours (12.39 lakh hours) for the period 1996-97 to 1998-99 worked out to Rs.28.19 crore.

Regarding payment of idle wages in Engineering Workshops, the Management stated (September 1999) that because of specialisation in various skilled trades in the Engineering Department, staff of one trade could not be allocated to other places where there was a shortage. The Management also contended that due to lack of work at certain activity centres, especially in the Eastern Region and at Hyderabad where the erstwhile aircraft F-27 and HS 748 had been phased out, there could be idle man hours, whereas at other activity centres there was need for overtime to meet the time target. The reply is not acceptable as idle wages could have been avoided by training staff for more than one skill and re-deployment of staff so as to meet the needs of all activity centres optimally.

Under-utilisation of SHOD employees and Payment of Idle Wages

1.3.9 Consequent upon the decision (May 1993) of the Government to merge Vayudoot Limited with IA, the Board of Directors decided (June 1994) to create a new department called Short Haul Operations Department (SHOD) to function as a separate profit centre into which 1050 employees of Vayudoot Limited were absorbed since 1994-95. No system of training the pilots who were thus absorbed in IA was, however, instituted by the Management, in the absence of which the pilots, who had experience only of flying Dornier Aircraft, could not be utilised by IA. In March 1998, it was decided that SHOD pilots who had experience only in Dornier aircraft would undergo training on IA aircraft and accordingly all fixed wing pilots (except two who were medically unfit) were given training from June 1998 for the A-300 technical endorsement course. The delay in taking a decision for deployment of SHOD pilots for training resulted in the payment of idle wages amounting to Rs.1.19 crore in respect of these pilots. No justification of training SHOD pilots on A-300 aircraft, which the Management expected to phase out by the year 2002 as intimated to Board in April 1998 was, however, available on records produced to audit. There were 20 fixed wing pilots, 2 helicopter pilots and 4 trainee pilots in SHOD (May 1999). It was also noticed that 4 trainee pilots were neither trained further nor utilised for any other job. As IA had no helicopters, the services of 2 helicopter pilots could also not be utilised internally but were loaned to outside parties on demand.

The Management confirmed (September 1999) the facts mentioned in the para regarding non-utilisation of pilots.

1.3.10 In the Eastern Region, infructuous expenditure of Rs.23.70 lakh was incurred till March 1999 towards salary of 10 Aircraft /Master technicians and 4 helpers who were identified as surplus in August 1997, as their transfers to Jet Engine Overhaul Complex (JEOC), New Delhi (September 1998) was kept in abeyance.

Canteen Subsidy

1.3.11 It was noticed in audit that IA provided canteen facilities to all its employees at highly subsidised rates. The rates of various items were fixed '*nearly 3 decades back*'[6] and had not been revised ever since, except for revision of the price of a bottle of cold drinks only in 1999 from Re 1.00 to Rs. 3.70. The total outgo on account of this was Rs. 52.08 crore during the four years from 1995-96 to 1998-99. There is no policy of the Management in regard to the administration of canteens, quantum of subsidy to be given etc. In view of the increasing subsidy (from Rs. 9.67 crore in 1995-96 to Rs. 16 crore in 1998-99), there is a strong case for a realistic revision of the prices of various items.

1.4 Staff Costs

1.4.1 The wages of employees in IA were revised through bilateral agreements with the unions/ associations and as per the policy guidelines issued by the Government from time to time in this regard. After expiry of the wage settlement which was valid up to 31 August 1990, Government of India set up (December 1990) a National Industrial Tribunal to give an award relating to pay and allowances of the employees of IA and Air India for a period of 5 years from September 1990. While the award of the Tribunal was awaited, the Government of India notified (April 1993) the new wage policy that authorised the Management to negotiate the wage structure with the various employee unions, keeping in view the generation of resources/profits.[7] The policy also provided that in case of certain PSUs, which were monopolies or near monopolies or had an

[6] Quoted from the reply of the Management.
[7] Details of agreements with various unions are given in Annexure III.

administered price structure, it was to be ensured that increase in wages after negotiation did not result in automatic increase in the administered prices of their goods or services and that there was to be no increase in labour cost per unit of the output.

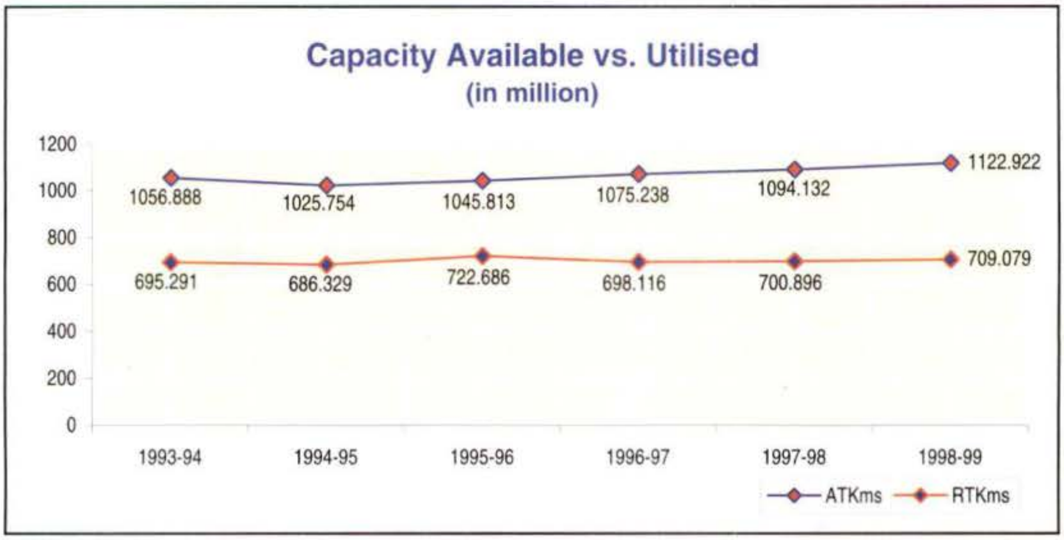
1.4.2 The policy guidelines stipulated that the regular wage agreements linked to productivity should be signed for a period of five years within the framework of the guidelines. But instead of revising the structure of pay and allowances and thereby drawing up a set of regular wage agreements, IA, however, signed (November 1993 to October 1997) various agreements with its unions on a piece-meal basis, adding 19 new allowances to the existing list of 44 allowances without any revision of the pay structure. This resulted in huge financial outgo as discussed in the succeeding paragraphs.

Productivity-Linked Incentive Schemes

1.4.3 During the period from November 1993 to May 1996, IA entered into Memoranda of Understanding (MOUs) with various employee trade unions for payment of various productivity-linked incentives in the form of new allowances as well as increase in certain existing allowances. However, no parameters to evaluate the productivity of staff were defined except in the case of staff deployed for flying duties viz. pilots, cabin crew and flight engineers for whom FDTL (Flying Duty Time Limit) was increased. In the case of MOUs signed (May to August, 1994) with the staff covered 3 unions[8], it was agreed that a Comprehensive Productivity Scheme would be finalised within three months and pending that, the payment of various allowances mentioned in the agreement was to be made as an interim measure. IA did not assess the total financial outgo resulting from these agreements. IA signed another set of MOUs with all its unions during the period from January 1996 to October 1997 in which certain additional productivity linked incentives in the form of further new fixed allowances, enhancement of certain existing allowances and payments based on certain parameters regarding productivity were agreed to. IA assessed annual financial outgo of Rs.172.25 crore on these allowances.

1.4.4 These MOUs not only contravened Government guidelines but were also not properly formulated inasmuch as the PLI were not in consonance with the actual increase in productivity. Guidelines (October 1988) of the Bureau of Public Enterprises (BPE) regarding payment of PLI stipulated that the total of bonus and incentive should not exceed 35 per cent of wages. It was, however, observed that the benefits of PLI ranged from 61 per cent to 1165 per cent of average wages even though capacity utilisation in terms of Revenue Tonne Kilometres (RTKm) was much below the available capacity measured in terms of Available Tonne Kilometres (ATKm) as shown in the chart.

[8] Air Corporation Employees Union (ACEU), All India Aircraft Engineers Association (AIAEA) and Indian Aircraft Technicians Association (IATA)



1.4.5 A standard yardstick for measuring employees' productivity in an airline is 'Available Tonne Kilometre' (ATKm) per employee. The ATKm per employee of IA for the last 6 years was as follows:

Year	No. of employees	ATKms (in millions)	ATKm per employee	Per cent increase over 1993-94
1993-94	22182	1056.888	47646	-
1994-95	22683	1025.754	45221	(-)5.09
1995-96	22582	1045.813	46312	(-)2.80
1996-97	22153	1075.238	48537	1.87
1997-98	21990	1094.132	49756	4.43
1998-99	21922	1122.922	51224	7.51

It may be observed that increase in the productivity per employee over the six-year period was nominal at 7.51 per cent in comparison to the increase in the wages per employee at 207 per cent over the same period.

1.4.6 The productivity parameters were formulated based on the performance of the employees represented by particular unions without reference to the profitability of IA. Even though IA incurred losses during 1995-96 and 1996-97 and marginal profits during 1997-98 and 1998-99, heavy payments were made on account of PLI as shown in the table below :

(Rs. in crore)

Year	Profit (+)/Loss (-)	PLI
1995-96	(-) 109.98	31.78
1996-97	(-) 14.59	163.63
1997-98	(+) 47.27	219.06
1998-99	(+) 13.12	252.26
Total	**(-) 64.18**	**666.73***

It can be seen from the table that as against a net loss of Rs. 64.18 crore during the period 1995-1999, the PLI payments amounting to Rs. 666.73 crore were made during the same period.

The Management stated (September 1999) that with the advent of the open sky policy of the Government, the private operators lured trained and skilled manpower of IA offering emoluments much higher than what they were getting in the IA, which resulted in mass exodus of pilots and engineers to the private operators. The Management further stated that initially it had agreed for payment of PLI to the trade unions representing pilots and engineers with a view to check their exodus. PLI agreement with the other unions/associations were signed subsequently as the aspirations of the remaining employees could not be ignored. It also stated that as a result of signing of the PLI settlements, there was an all round improvement in the performance of the Company. Justifying the payment of PLI, the Management further stated that the financial implication of all the productivity linked agreements was approximately Rs.150 crore per annum whereas the Company estimated generation of an additional revenue of over Rs.200 crore per annum.

The fact, however, was that it was not the threat of exodus but the pressures brought upon IA by the pilots through agitation etc. which forced the Management to yield to the unjustified demands of the pilots for further increase in remuneration. Between 1991-92 and 1995-96, the increase in pay and allowances of the executive pilots was 842% and that of non-executive pilots was 134%. In a note given to the Board members on 10th February 1993 prior to the 235th Meeting of the Board on 11th February 1993, the CMD had admitted as much:

* excluding payment of arrears amounting to Rs.75.53 crore.

"The history of the Airline is replete with strikes, directives, go-slows etc. which.. ....resulted in the Management caving in. The worst sufferers, of course, were the helpless public." [9]

During the period from November 1989 to June 1992, there were 13 cases of strikes, go-slows, mass casual leave etc. by various categories of employees in the Airline including the pilots. During December-January 1993, there was a strike by the pilots for 46 days, which almost crippled the Airlines. These strikes, as described in the same note of the CMD to the Board,

"......are apart from a whole host of work practices and "understandings" which have come in the way of better utilisation of assets and infrastructure of the Corporation.

"And more debilitating than everything else, have been the tenets of "relativity" (of pay between various sections of the organisation) and "parity" with Air India, regardless of market forces at play and the capacity of the organisation to pay."

So far as exodus is concerned, the only major exodus was in respect of B 737 aircraft as the private airlines were operating mainly with B 737. Pilots come under 2 categories, P1 (Commanders) and P2 (Co-Pilots). The figures for exodus during the 4-year period from April 1992- March 1996 were as below:

Type of Aircraft	No. of Commanders (P1) resigned	No. of Co-pilots (P2) resigned	Total no. of pilots resigned	Total Existing Strength of Pilots as on 31st March 1995
A 320	25	18	43	234
A 300	2	10	12	70
B 737	77	34	111	121

The year-wise requirement and availability of pilots for B 737 aircraft were as under:

Year	No. of commanders (P1)		No. of co-pilots (P2)		Fleet Size for B 737
	Required	*Actual*	*Required*	*Actual*	
1992-93	90	50	90	199 (57)#	23
1993-94	78	40	78	142 (25)#	20
1994-95	70	35	70	86 (15)#	18*
1995-96	58	35	58	64 (04)#	15*

** Excluding two aircraft which were grounded being more than 20 years old.*
 # These pilots were under training and included in the B 737 P2 strength.

[9] The policy of appeasement of the pilots followed by the IA is corroborated by one instance found in audit where income tax payable by the pilots on compensatory allowance paid to them amounting to Rs. 72.86 lakh for the period from January 1995 to September 1995 was paid by IA statedly "to sort out the problem faced by the pilots". Details about this can be found in the Report (No. 3) of the Comptroller and Auditor General of India (Public Sector Undertakings) for the year 2000.

It can be seen that even though there was a shortage of P1 level pilots, the number of P2 level pilots was always far in excess of the requirement. Even for P1 level pilots, the decrease in strength after 1992-93 was marginal. Thus the contention of the Management that the remuneration benefits were hiked for the pilots due to the threat of their exodus is not tenable, as the exodus which was appreciable only in case of pilots of B 737, and that too at the P1 level, was effectively contained after 1992-93 while the benefits under PLI were given from 1993-94 to 1996-97.

Further, it was also noticed that on the one hand IA claimed that there was exodus of pilots and on the other hand, the pilots were grossly under-utilised. As against a norm of 80 flying hours per month, the actual utilisation of pilots during the calendar years 1994 to 1996 was as follows:

Utilisation of Pilots(Average number of hours per month)						
Year	**A 300**		**A 320**		**B 737**	
	P1	**P2**	**P1**	**P2**	**P1**	**P2**
1994	68	43	60	53	71	19
1995	71	36	70	54	67	31
1996	69	40	67	50	58	30

Besides, the reply of the Management regarding increase in the emolument of pilots and aircraft engineers to check their exodus does not explain the abnormal wage hikes in the case of other categories of employees through PLI which was not justified in view of the fact that there was no constraint in their availability and it was done as a sequel to the payment of PLI to pilots and engineers. The net financial outgo on account of PLI agreements with pilots and engineers worked out to Rs.50 crore in 1998-99 against the total financial outgo of Rs.252.26 crore on account of PLI payments to all employees in the same year. The estimate of the Company regarding generation of additional revenue of over Rs.200 crore as a result of the productivity agreements was also not correct as it was based on an estimated increase in aircraft utilisation in terms of hours which ignored important parameters like load factor, distance etc. The revenue generation depended on RTKms performed and based on the increase in RTKms, the increase in revenue in the post-PLI period worked out to much less than the estimated Rs.200 crore as shown below:

Year	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**
RTKm (in millions)	686.329	722.686	698.116	700.896	709.079
Percentage increase over 1994-95		5.30	1.72	2.12	3.31
Traffic revenue (Rs. in crore)	1962.19	2355.48	2714.06	3082.91	3234.74
Incremental revenue over 1994-95 due to increase in RTKm (in Rs. crore)		104	33.75	41.60	64.95
Total outgo on a/c of PLI payments (Rs. crore)		31.78	163.63	219.06	252.26

The financial implication of all PLI payments stated by the Company to be Rs.150 crore was also not correct as the financial impact of the second set of PLI agreements (January 1996 to October 1997) alone was estimated at Rs.172 crore annually. The actual impact of PLI was Rs.742.26 crore during the 4 year period from 1995-96 to 1998-99 as already discussed in the para. As can be seen from the table above, the total additional revenue earned during the 4 years from 1995-96 due to increase in RTKm which could be attributed to productivity was a small percentage of the total outgo on account of PLI payments.

1.4.7 The base level at which PLI was introduced was lower than the existing performance levels as shown below:

Parameters	Base performance level for PLI	Average performance during	
		1994-95	1995-96
Average number of passengers carried	19001	20865	21139
On time performance	60%	65.92%	64.72%
Average annual flying hours	2000	2255	2156
Technical Despatch Regularity	96.5%	96.44%	96.93%

The Management accepted (September 1999) that the performance levels for PLI payments were fixed lower than what was already achieved and stated that it was done keeping in view the fact that the actual growth in traffic was far less than the projected growth. The reply of the Management is not tenable as the performance levels should have been fixed on the basis of projected growth. The basic purpose of introduction of PLI was to achieve improved performance. If it was not intended to be so, the introduction of PLI schemes would be meaningless and expenditure incurred on it infructuous.

1.4.8 In the PLI scheme for the staff affiliated to the Indian Airlines Officers Association (IAOA) and Airlines Radio Officers and Flight Operations Officers Associations (ARO & FOOA) which was approved by the Board in February 1997, besides the payment of PLI, the payment of the following allowances was also agreed to:

Allowance	Technical Officer/ Plant Engineer/ Civil Engineer	Assistant Manager	Deputy Manager	Manager
Out Of Pocket Expenses for each day of attendance	Rs.60	Rs.70	Rs.80	Rs.90
Experience allowance per month	Nil	Nil	Rs.1000	Rs.1500

As attending the office regularly on working days was the duty of each employee as per the service conditions, the payment of 'Out Of Pocket Expenses' for each day of attendance was not justified at all. Besides, employees were also allowed Leave Encashment which itself was a motivating factor for attending office regularly. Thus employees were given double benefits in the form of Out Of Pocket Expenses as well as Leave Encashment for not availing leave. The payment of Experience Allowance to Deputy Managers and Managers under the PLI scheme, which was also subsequently extended to Senior Managers and above, also defied all logic and no justification for this was given in the note submitted by IA to the Board.

The Management stated (September 1999) that the Out Of Pocket Expenses was definitely an incentive for attending office regularly and experience allowance to the Deputy Managers and above was given to the officers concerned in recognition of the experience gained in the organisation.

Reply of the Management regarding grant of Out Of Pocket Expenses shows the disregard of the Management to financial interests of the organisation. If at all the allowance was to be paid, it should have been linked to productivity and not to attendance of the employees. As regards payment of Experience Allowance, it may be stated that in recognition of the experience gained by the officers, they were given annual increments and promotions to higher posts and thus the contention of the Management was based on unsound logic. IA paid a total sum of Rs. 4.15 crore during the period 1998-99 on account of these two allowances.

1.4.9 IA introduced (February 1997) a lump sum payment of 'Special Productivity Allowance' at the rate of Rs.4500 per month with effect from January 1996 to executives at the level of Senior Managers and above, which was in addition to the other productivity linked allowances paid to them. The approval of the competent authority i.e. the Board was also not obtained for payment of this allowance, the financial impact of which worked out to Rs.4.76 crore for the period from January 1996 to March 1999. The justification for this allowance and its relation to productivity was not made known to Audit.

The Management stated (September 1999) that PLI to executives at the level of Senior Managers and above was extended only after it was approved (January 1997) by the Board at its 25th meeting. Reply of the Management is not correct as the payment of Special Productivity Allowance at the rate of Rs.4500 per month was not included in the PLI scheme approved by the Board in its 25th meeting.

1.4.10 In the first set of PLI agreements (March 1994 – May 1995), a fixed amount in the name of Productivity Allowance was allowed to employees affiliated to 7 unions.[10] Subsequently, in the second set of PLI agreements (March 1996 – February 1997), the Productivity Allowance was withdrawn in the case of 2 of these unions (AIAEA and IATA) and another allowance by the name of Fixed Productivity Allowance was introduced in stead. The Fixed Productivity Allowance was also introduced in respect of

[10] All India Aircraft Engineers Association (AIAEA), Indian Airlines Technical Association (IATA), Air Corporations Employees' Union (ACEU), Indian Airlines Officers' Association (IAOA), Airline Ground Instructions Association (AGIA), Airlines Radio Officers' and Flight Operations Officers' Association (ARO and FOOA)

the employees of 3 other unions (ICPA, ACEU (Cabin Crew) and IFEA). These allowances were in the nature of graded fixed payments and had no linkage to the employees' performance levels. The Company paid an amount of Rs.25.27 crore towards fixed productivity allowance and Rs.72.95 crore towards productivity allowance during 1995-96 to 1998-99.

1.4.11 The PLI agreement signed (September 1995) with the ACEU (cabin crew) was effective upto 30 September 1997. However, another agreement signed (October 1997) with the same union was made effective retrospectively from 1 May 1996, which period was already covered by the first agreement, resulting in additional expenditure of Rs.37.60 crore.

The Management stated (September 1999) that the PLI scheme for cockpit crew was worked out effective from January 1996. It was, therefore, imperative that a scheme for cabin crew was also evolved on similar lines. The Management's reply is not acceptable as any revision in the scheme in respect of cabin crew should have been done after the validity of the previous agreement was over.

Payment of Executive Allowance to Non-Technical Executives

1.4.12 IA approved (July 1995) a proposal to pay an incentive with effect from August 1995 in the form of Executive Flying Allowance/Executive Allowance to its executive pilots and engineering executives, as they had to attend to 'office work', besides flying/certifying the aircraft. The financial impact of the above incentives was estimated at Rs.4.90 crore per annum. Subsequently, IA approved (March 1997) another proposal for payment of Executive Allowance also to its Non-Technical Executives retrospectively with effect from August, 1995. The financial impact of executive allowance to non-technical executives worked out to Rs.1.20 crore per annum.

The Management stated (September 1999) that the Board had approved the payment of executive allowance to non-technical executives in recognition of their contribution towards increasing the utilisation and availability of aircraft.

The reply is not correct as the executive pilots and engineers were allowed executive allowance to compensate them for their office work in addition to their responsibilities of flying/aircraft certification, whereas in the case of non-technical executives, there was no such case. It was therefore given to non-technical executives only to bring them at par with the pilots and engineers and was unjustified.

Payment of Simulator Allowance to Flight Simulator Maintenance Engineers

1.4.13 The Managing Committee of the CTE decided (November 1997) to pay hourly simulator allowance to all flight simulators and maintenance engineers with effect from November 1996 to keep the simulators in working condition. As it was the normal duty of a Simulator Maintenance Engineer to keep the simulators in working condition, the payment of simulator allowance was not justified and resulted in infructuous expenditure of Rs.37.81 lakh (up to March, 1999).

Regular Wage Settlements in IA

1.4.14 Due to non-linking of regular wage agreements with PLI agreements, IA had to negotiate and allow further increases in emoluments to employees while signing regular wage agreements. Regular wage agreements had so far (October 1999) been finalised with two trade unions only i.e. ACEU (April 1996) and IATA (December 1997) for the periods from September 1990 to August 1995 and September 1990 to December 1996 respectively, which had already expired. In the agreements, new allowances as well as increases in the existing allowances were given, besides revision in the pay scales. IA estimated an annual financial impact of Rs.43 crore per annum at the time of finalisation of these settlements. Agreements with other categories of staff were yet (October 1999) to be finalised.

Expenditure on provision of amenities/facilities to Senior Executives

1.4.15 The Board approved (February 1995) additional amenities/ facilities to the senior executives with effect from 1 March 1995. These included facilities to be provided at the residence of the executives like the provision of furniture/ furnishings, reimbursement of purchase of crockery, cutlery, tableware, reimbursement of electricity charges, provision of orderlies, retention of the Company's car, room air conditioners, furniture and household items even after retirement/ demitting office, reimbursement of miscellaneous expenditure, reimbursement of expenditure on spouses accompanying the officials on tours and membership of clubs. IA estimated initial expenditure of Rs.1.15 crore with annual recurring expenditure of Rs.56.80 lakh on these accounts. The conferment of these perquisites were being continued even after issue (July 1995) of a notification by DPE that perquisites to executives should be frozen and liberalisation allowed by the PSUs on unilateral basis after 1 April 1994 were to be rolled back.

1.4.16 The Management stated (September 1999) that with the advent of the open sky policy, private operators were poaching on the manpower from IA including senior executives at the level of General Managers and above who had proven experience in the aviation sector and it was imperative that they were also provided with facilities and amenities to improve their performance as well as to enhance their status and prestige. Reply of the Management is not tenable as no exodus of senior executives other than pilots was reported and the perquisites were continued in disregard of the directive of DPE.

Impact on Fare Increase

1.4.17 During the five year period from 1994-95 to 1998-99, IA increased its fares on five occasions due to the increase in various cost inputs. An analysis of the increase in the various cost elements, which necessitated increases in the fares, revealed that increases in staff costs constituted a substantial portion of the fare increase as detailed below:

Date of fare increase	Impact of staff cost hike in fare increase (%)
25.7.94	16.22
1.10.95	25.00
22.9.96	36.00
15.10.97	13.44
1.10.98	8.80

Thus, the policy guidelines (April 1993) of the Government stating that increase in wages should not result in increase in the prices of goods or services was also violated. Besides, as shown in the foregoing discussion, a substantial portion of the higher amount of money charged to the public as fares was also subsidising the unusually high cost of salary of an extremely privileged group of employees, justification for which was absolutely missing, given the level of performance, profitability and productivity existing in the airlines.

1.4.18 This review was issued to the Ministry in November 1999; their reply was awaited (December 1999).

Annexure-I
(Referred to in paragraph 1.2.1 and 1.2.11)
Standard Force(SF), Actual Strength(AS) and Vacant Posts(VP) in Indian Airlines Limited

Grade	Category	As on 31.3.1994			As on 31.3.1999			Increase/ Decrease in Standard Force (1-4) (7)	Increase/ Decrease in Actual Strength (2-5) (8)
		SF (1)	AS (2)	VP (3)	SF (4)	AS (5)	VP (6)		
I-Executives									
	Managing Director	1	1	0	1	1	0	0	0
	Dy. Managing Director	3	0	3	3	3	0	0	3
19A	Director	16	11	5	28	28	0	12	17
ON DEP	Director, Security and Vigilance	2	2	0	2	2	0	0	0
18	General Manager	45	37	8	59	55	4	14	18
17	Deputy General Manager	117	79	38	196	194	2	79	115
16	Senior Manager	256	245	11	422	359	66	166	114
	Sub-Total-I	440	375	65	711	642	69	271	267
II-Non-Executive									
13A/ 14A	Line pilot	807	421	386	807	310	497	0	(-)111
13/14 &15	Flight Engineer	49	30	19	45	35	10	(-)4	5
13/14	Ground Instructor	36	27	9	31	27	4	(-)5	0
	Cabin Crew	1081	1057	24	1121	955	166	40	(-)102
13/14 & 15A	Aircraft Engineer	887	813	74	707	679	28	180	(-)134
10/15	General Category Officers	1758	1398	360	1769	1347	422	11	(-)51
3/6 to 13/14	Technicians	3928	3237	711	3945	3044	901	17	(-)193
3/9	Non-technical staff	8632	8269	363	8678	7581	1097	46	(-)688
1\2	Grade 1\2 Staff	7223	6556	667	7570	6321	349	347	(-)235
	Sub-Total-II	24401	21808	2593	24673	20299	4374	272	(-)1509
	Grand Total	**24841**	**22183**	**2658**	**25384**	**20941**	**4443**	**543**	**1242**

Annexure-II
(Referred to in paragraph 1.2.13)
Categories of various posts and their grades

Grade	Categories post(s)	Pay Scale Rs.
	Managing Director	9000-10000*
	Deputy Managing Director	11500-13500
19A	Director	9500-11500
18	General Manager	8500-10300
17	Deputy General Manager	7775-10000
16A	Commander	3275-4480*
16A	Chief Manager	7550-9675
16	Senior Manager	7350-9400
15A	Dy.Chief Aircraft Engineer	3155-4235*
15	Manager/Sr.aircraft Engr/Manager(Ops.Perf.Trg/ Ops.Trg/Ops.Tech.Trg/Syn.F lt.Trg.	2965-4115*
	Sr. Flight Engineer	2965-3995*
14A	Captain	2825-3875*
13/14	Dy.Manager(Tech./Engg Trg/IE/Civil Engg/Aircraft Engr/Computer Sys.& Maint.	2765-3875*
	Senior Inspector(QC)/Senior Foreman	6750-8575
13/14	Dy.Manager(General Cadre)	2225-3755*
13/14	Dy.Manager(Ops Perf.Trg./Ops.Tech.Trg/Met. Trg	2585-3875
13A	First Officer	2545-3265*
10/12	Asstt Manager(Tech/Engg Trg/IE/Civil Engg/Plant Engg/Computer Sys.& Maint	2285-3395*
	Sr. Inspector (QC) /Sr.Foreman	6750-8575
10/12	Inspector 'A'/Foreman 'A'	2005-2965*

10/12	Asstt.Manager (General Cadre)	
10/12	Foreman 'A'/Inspector 'A'	5675-8025
9	Technical Officer/Plant Engr/Civil Engr.	2005-2965*
9	Inspector/Foreman	4975-7550
7/8	Superintendent(S.G)	4180-6270
	Cabin Crew(Senior Category)	4380-6720
7/8	Sr. Master Technician/Master Technician/Leading Hand(MT)/Junior Engr(Civil)	4280-6750
7/8	Superintendent/Sr. Operator etc.	3980-5820
7/8	Cabin Crew	3980-5970
3/6	Sr. Technician/Sr.MT Mechanic	4180-6375
3/6	Technician/MT Mechanic	3620-5850
3/6	Carpenter/Tailor/Plumber/Mason etc.	3440-5850
3/6	Assistant(Senior Category)	3740-5520
3/6	Operator	3420-5520
3/6	Senior Head Category/Junior Operator/Senior Driver	3360-4680
3/6	Assistant	2940-4380
1\2	Head Category	2940-4280
1\2	Senior Category	2940-3980
1\2	Peon/Helper/Safaiwala/ Canteen Helper etc.	2660-3500

* pre revised

Annexure-III
(Referred to in para 1.4.1)

Name of the Union/ Association	Date of Ist PLI agreement	Effective from	Financial impact as given in Board note (Rs. in crore)	Date of IInd PLI agreement	Effective from	Financial impact as given in Board note (Rs. in crore)	Financial impact given for Executives who were extended the PLI (Rs. in crore)
ACEU	12.8.1994	1.4.1994		30.3.1996	1.1.1995	27.00	
IATA	7.6.1994	1.4.1994	3.40	16.11.1995 9.11.1996	1.1.1995 1.7.1996	20.00 21.00	
ICPA	11.11.1993	1.11.1993	-	26.1.1996	1.1.1996	30.00	
AIAEA	25.5.1994	20.5.1994	2.70	22.5.1996	1.1.1996	20.00	12.40
ARO & FOOA	12.5.1995	1.4.1994	0.36	7.2.1997	1.1.1996	2.00	
IAOA	19.1.1995	1.4.1994	3.43	20.1.1997	1.1.1996	18.00	
AGIA	19.4.1995	1.4.1994	0.07	27.3.1997	1.1.1996	0.60	
IFEA	20.6.1994	1.4.1994	-	6.6.1996	1.2.1996	2.25	
ACEU (Cabin Crew)	21.9.1995	-		7.10.1997	1.5.1996 to 1.12.1996	18.50	
ACEU (Tech. Category)				25.5.1996	January 1995	0.50	
Total						**159.85**	**12.40**

Total = Rs.172.25 crore

CHAPTER 2 : EMPLOYEE REMUNERATION IN AIR INDIA LIMITED

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OVERVIEW

- Staff Costs have risen steeply from 16.34% to 23.34% of the total operational expenditure of Air India during the years 1994-95 to 1998-99.

(Para 2.4)

- Delayed normal wage settlements with trade unions led to employee unrest, disruption of operations, and net loss of revenue to the tune of Rs.143.62 crore during May 1991 to March 1996. Meanwhile, the Management instituted allowances and payments to employees in an irregular and improper manner leading to huge payouts on remuneration, at a time when employee productivity was the lowest in the industry, aircraft utilisation was poor, and the airline was making unprecedented losses.

(Para 2.7-2.10)

- The Management instituted a scheme of hourly payment and shortfall allowance to pilots in October 1994 in an arbitrary manner without proper examination of the cost and propriety implications. Till March 1999, AI spent over Rs.64 crore on the unproductive element of shortfall in the scheme. The Management continued with shortfall payment with added adverse implications, despite their earlier assurance to terminate the scheme. The Management team negotiating with the trade unions on the scheme consisted of some of direct beneficiaries who received the payment to the tune of Rs.73.53 lakh under the scheme.

(Para 2.11-2.16)

- AI paid out over Rs. 355 crore on Performance Linked Incentive (PLI) Scheme in three years (1996-97 to 1998-99), exceeding the original projections by over Rs.119 crore. Performance benchmarks set out by the Management were lower than the average performance levels prevailing before the introduction of the scheme, which itself was developed unevenly for Engineering and Non-Engineering segment of employees.

(Para 2.17-2.23)

- Aircraft utilisation generally dipped during the period of PLI payouts made relative to the performance criterion of increased 'Aircraft Availability'. Payments on account of PLI, Productivity Allowance and Bonus together exceeded the ceiling suggested by DPE guidelines, involving an extra expenditure of over Rs.161 crore during May 1996 to March 1999.

(Para 2.24-2.25)

- AI paid over Rs. 93 crore in Productivity Allowance to a section of employees on fixed monthly payment basis, without any measurable linkage to the improvement in employee performance level. This excluded over Rs. 10 crore as retrospective payments of an allowance with prospective intentions. Sanctioning authority did not get financial and proprietary implications of Productivity Allowance examined by Finance Department before according sanction.

(Para 2.26-2.28)

- AI paid over Rs.11 crore as Special Compensatory Allowance to its general category employees as a normal wage increase, without any special reason calling for special compensation, in violation of DPE guidelines.

(Para 2.29-2.33)

- AI instituted "education allowance" in February 1995, applicable retrospectively since April 1993, apparently to make up employees' contribution to their pension scheme, in violation of the conditions of schemes as approved by the Government. Total payments between September 1996 to September 1998 on this account amounted to over Rs.17 crore.

(Para 2.34-2.37)

- AI incurred huge costs amounting to Rs. 1.39 crore on conveyance allowance to officers, who were also separately reimbursed fuel expenses, in violation of its own rules.

(Para 2.38-2.40)

CHAPTER 2 : EMPLOYEE REMUNERATION IN AIR INDIA LIMITED

Introduction

2.1 Remuneration Policy in an organisation should necessarily be an integral part of Human Resource Policy and Planning and must subserve the objectives of the organisation. In a commercial organisation like Air India Limited (AI), remuneration policy has to be alive to the financial realities confronting the organisation, and must be in consonance with the long and short-term financial interests of the organisation.

2.2 As intimated by the Management, the main features of the Company's Remuneration Policy are:

(i) wages to the different sections of employees would be, as far as possible, related to the average market wages prevalent in India;

(ii) allowance will be made for the specialized skills/licensed categories, which should be offered certain percentage more than the Indian market wages;

(iii) wage increase would, by and large, be related to productivity/performance of the Company; and

(iv) the Management must retain its right to manage.

Scope of audit

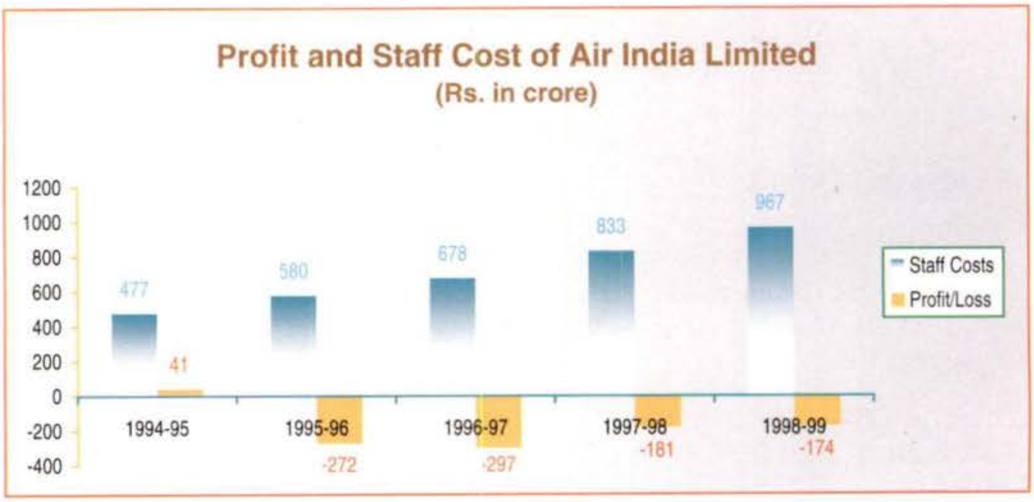
2.3 The review covers the formulation and processing of major components of employee remuneration by Air India over the period of last five years from 1994-95 to 1998-99.

Remuneration costs

2.4 The table below shows the growth pattern of number and cost of employees together with total costs (expenditure) over a period of the above five years:

Year	Staff cost (Rs. in crore)	No. of employees	Cost per employee (Rs.)	Total expenditure (Rs. in crore)	Total Operational Expenditure (Rs. in crore)	Staff cost as percentage of total operational expenditure	Effective fleet Size
1994-95	477.27	18189	2,62,395	3089.46	2920.07	16.34	26
1995-96	580.14 (21.6%)	18591	3,12,054 (19%)	3804.45	3647.56	15.90	26
1996-97	677.74 (16.8%)	18250	3,71,364 (19%)	4114.72	3945.82	17.17	28
1997-98	832.89 (22.9%)	18751	4,44,184 (19.6%)	4355.17	4029.84	20.66	26
1998-99	966.60 (16.1%)	18658	5,18,061 (16.63%)	4429.41	4139.84	23.34	26

(Figures in brackets denote % change over the previous year)



2.5 The above table would reveal that during the period 1994-95 to 1998-98, the number of employees remained almost constant, but employees cost, both per capita and total, increased sharply. The employee costs as a percentage of total operational expenditure increased progressively from 16.34% in 1994-95 to 23.34% in 1998-99. During this period of five years, employee costs increased by Rs. 489.33 crore, resulting in more than doubling of this cost.

2.6 While employee costs had progressively shot up, the employee productivity levels in Air India are the lowest in the industry, as shown by the following table (Figures relate to 1996-97):

Airline	Employee per Aircraft	('000) RTKM per Employee	Passenger per Employee
Air India	664	90	153
United Airlines	174	120	953
British Airways	227	220	573
Air France	277	280	426
Lufthansa	185	250	714
Emirates	267	340	703
Singapore Airlines	341	350	441
Japan Airlines	146	580	1589
Industry Average	162	284	986

Source: Data presented by the Company to the Secretary, Civil Aviation in June 1998.

Wage settlement with Trade Unions

2.7 According to the Management, their decision making as regards remuneration and wage settlements were generally based on 'instructions' received from the Department of Public Enterprises (DPE), Government of India. DPE letter of 12 April 1993 enabled the Management to negotiate freely their wage-structure, keeping in view and consistent with the generation of resources/profits. Further, DPE letter of 4 March 1994 authorised the Management to negotiate wage settlements with employee unions for a period of 5 years, and exempted them from seeking approval of the Administrative Ministry for such settlement.

2.8 The Management reached wage settlements with employee unions for the period from September 1990 to December 1996 during December 1995 to March 1998 as indicated below:

Name of the union/association	Date of settlement
1. Air India Employees' Guild (AIEG)	31.12.1995 and 05.05.1996
2. Air India Aircraft Engineers Association (AIAEA)	02.05.1996
3. Air India Officers Association (AIOA)	10.05.1996
4. Air India Engineering Association (AIEA)	01.11.1996
5. Air India Cabin Crew Association (AICCA)	05.06.1997
6. Indian Pilots Guild (IPG)	03.01.1998
7. Indian Flight Despatcher's Association (IFDA)	20.03.1998

2.9 According to the Management (January 1999), delay in finalisation of the wage revision occurred on account of late receipt of guidelines from DPE. The Management was also of the view that the wage-revision pending since 1990 was a principal cause for industrial unrest in AI. Between May 1991 to March 1996, there were 12 agitations resulting in cancellations and frequent delays to flights. The Management intimated (January 1999) that AI incurred a loss of Rs. 143.62 crore on account of those agitations, besides loss of reputation and image.

2.10 While wage settlements were pending, the Management agreed to pay out a miscellany of allowances to its employees in 1994 and 1995; such as, 'hourly payment', 'shortfall allowance', 'productivity allowance', etc., outside the five-yearly wage settlement. Presently, AI gives out a total number of 77 different allowances to its employee, 58 of those allowances are through regular pay-roll payments, and 19 allowances are in the form of voucher payments, i.e. reimbursement of allowances (Annexure-I). The following paragraphs would show the irregularities in the institution of those allowances and payments, resulting in rapid rise in the Company's wage bill over the past few years.

Scheme of hourly payment and shortfall allowance

2.11 In September 1994, the Management signed Memoranda of Settlement (MOS) with Indian Pilots Guild (IPG) on a Scheme of Hourly Payment and Shortfall Allowance. The scheme provided for an hourly payment to the pilots for the actual number of hours flown and shortfall payment to the senior pilots when they flew less than their juniors. The salient features of the new scheme were as follows:

(a) Hourly payment replaced the allowances, which AI had been paying to the pilots with reference to their flight duties, and which were based on the time spent by the pilots out of station. This system was not found suitable as the pilots tended to spend more time away from their base stations which resulted in avoidable expenditure on account of hotel allowances, layover allowances etc. The new system was to be based on the actual time spent in flying.

(b) The line earnings of a senior pilot would not be less than those of a junior pilot.

(c) If the line earning of a junior pilot were more than those of a senior pilot, then the shortfall would be made up to the senior pilot, provided the senior pilot was available for active flight duties during the month.

(d) Shortfall in senior's earnings would be made good by paying a senior his hourly rate multiplied by the difference between his flying hours and the flying hours of any junior flying the highest number of hours in that month.

2.12 AI has paid a total sum of Rs. 307.20 crore under the scheme (Rs. 242.52 crore on Hourly Payment and Rs. 64.68 crore on Shortfall Allowance) from the inception of the new scheme (October 1994) till March 1999.

As per the estimate of the Management, the additional outgo on account of these allowances (over and above the allowances which were replaced by this Scheme) was to the tune of Rs.16.66 crore per annum.

Procedural irregularity and impropriety

2.13 According to the Management, the MOS required the approval of Board of Directors prior to its implementation. The scheme was, however, implemented on 15th October 1994 onward without the approval of the Board. The copies of the settlement/agreements were only submitted to the Board of Directors 'for information' in November 1994, which was merely 'noted' by them. The agenda note for the Board meeting did not give details of financial projections of expected costs and benefits of the scheme. The Management team, which negotiated the MOS, consisted of two executives who stood to gain directly from the implementation of the scheme. The shortfall allowance and hourly payment received by these two members of the negotiating team was to the tune of Rs.56.40 lakh (till April 1996) and Rs. 17.13 lakh (till March 1995) respectively. The administrative approval of the Managing Director (MD) was also not available on record and on a specific query in this regard the Management stated (February, 1999) that (i) the then Managing Director was associated while negotiations were being held on this issue with the Indian Pilots Guild (IPG) and, (ii) as the same was placed before the AI Board, formal approval of the MD was not obtained. The institution of the scheme leading to payouts totaling Rs. 307.20 crore up to March 1999 was, therefore, both irregular and improper.

Conflicting objectives of shortfall scheme and hourly payment

2.14 The shortfall scheme formulated as a part of the hourly payment scheme defeats the very objective of the hourly payment scheme. According to the Management, the hourly payment scheme sought to encourage the productivity of the pilots, and yet it provided for payment of shortfall to a senior pilot when he flew lesser hours than his junior. As the senior pilot was paid shortfall at hourly rates applicable to his grade, a senior pilot earned more for not flying than the junior pilot did for flying. The Management stated (January 1999) that *"in order to be eligible for this shortfall payment, a Pilot has to be available to the Company to be utilised for flying duties for 25 days in a month. Hence, the element of productivity due to higher utilisation existed."* This reply has to be viewed in the light of the fact that the 'availability for flying' does not tantamount to 'actual flying' and consequently cannot be construed as leading to higher utilisation and increased productivity.

2.15 While admitting that "*the agreement has an in-built unproductive character of shortfall payment, which needs to be done away with*", the Management informed the Board (September 1995) that a notice had been issued on the IPG about termination of the scheme and that the scheme would stand terminated in two months i.e. November 1995. The Management, however, continued with the scheme and rather expanded its scope. A team consisting mainly of the direct beneficiaries of the scheme discussed

(December 1995) with IPG the terms and conditions of the appointment of retired pilots on contract basis. The terms and conditions which were approved by the MD mainly provided that: "*in order to assure the IPG that the intention is not to make the re-employed pilots fly at the expense of regular service pilots, it was clarified that in case the re-employed contract pilots fly more than the regular service pilots on their respective fleet, the regular service pilots would be compensated for the number of hours for the purpose of shortfall*". The Management thus extended the adverse impact of the shortfall scheme by reckoning the flying hours of the contract pilots for payment of shortfall to the serving pilots. The concurrence of Finance Division of the Company for extending the scope of scheme vis-à-vis contract pilots was not available on record. The Management also did not inform the Board of the new development.

2.16 In the new agreement signed with IPG (January 1998), AI continued with the shortfall payment clause, with only a slight change in the method of shortfall computation in that the comparison with the junior was to be made on a six-monthly basis instead of on monthly basis as provided earlier. The Management claimed (January 1999) that the latest agreement concluded in January 1998 with IPG would reduce payment of shortfall considerably, as it provided for computation of the said allowance on half-yearly rather than monthly basis. This reply has to be viewed in the light of the fact that the Management had made only partial reparation in regard to their original assurance to do away with the scheme altogether.

Performance Linked Incentive Scheme

2.17 In May 1996, the Management introduced the Performance Linked Incentive scheme (PLI), which it believed would improve the performance of airline, link emoluments to the performance and help to attain industrial harmony. The scheme in its present form covers 16153 employees (over 86% of the total) and the total outgo on payment of PLI in three years alone since its inception (i.e. during 1996 –97 to 1998-99), was Rs. 355.69 crore.

2.18 The PLI scheme was formulated in piecemeal, separately for the Engineering and non-Engineering Departments. Engineering Department formulated its own PLI while Human Resource Development Department did it for employees of the rest of the Departments. The two schemes were not based on uniform parameters. The Engineering Department considered three years' average performance for fixing the base levels for despatch reliability and aircraft availability. HRD Department considered the performance during January 1995 to December 1995 in fixing the base levels for non-Engineering employees.

PLI payment on uncapped parameters and flawed benchmarks

2.19 AI pays the PLI targeted employees on the basis of the achievement of predetermined performance levels under the performance parameters applicable to their respective categories. The parameters of On-Time Performance, Aircraft Availability, Despatch Reliability, PAX per employee and Revenue Per ATKm are uncapped parameters, i.e. PLI payments on these parameters continue beyond 100% payment level as envisaged in the scheme as illustrated in para 20 *infra*. Only in case of Equipment Serviceability, the Management has capped the PLI at 93% performance level. The table below shows PLI payment pattern relative to various identified performance levels.

Parameter	Base Performance Level for PLI payment	Performance Level for 100% PLI payment
1. Despatch Reliability	96.01%	97.5%
2. On-time performance	56%	80%
3. Revenue/ATKm (in Rs.)	10.93	11.69
4. Aircraft Availability (in numbers)	17.01	20.50
5. Equipment Serviceability	84.25%	89.50%
6. PAX per employee (in numbers)	22.9	26.4

2.20. A perusal of the above table would reveal that for a parameter like despatch reliability in relation to which an amount of Rs. 14000 was fixed for the officers of the level of Dy. Chief Aircraft Engineers(CAE), the payment of the incentive would be nil at 96% despatch reliability and would increase to Rs. 14000 at the level of 97.5% reliability. Any further improvement in despatch reliability would increase the amount of incentive beyond Rs.14000. In this case, the amount would continue to increase @ 12% of the amount of incentive i.e. Rs.1680 for every 0.25% increase in despatch reliability. In effect, at 100% despatch reliability the amount payable to a Dy. CAE would be Rs.30800 (Rs. 14000 Plus Rs.16800) per month. The uncapped parameters contributed to AI paying Rs. 355.69 crore as PLI in three years. PLI payments overshot original projection (of Rs.78.85 crore p.a. made before the Board in June 1996), by Rs 119.14 crore. In reply the Management stated (December 1998) that "*...there was a view that performance parameters should not be capped as otherwise, it may indicate that the organisation is not interested to enhance the performance levels beyond a particular level. Therefore, all the PLI schemes involving the above parameters do not have any capping*". In a report on PLI submitted (November 1998) to the Board of Directors it was, however, admitted that *"there is significant increase in PLI payment due to failure to provide 'a cap' on ceiling on payment.*" The decision to keep the parameters uncapped was thus flawed.

2.21 A comparison of the average performance level achieved by the Company prior to the introduction of the PLI as indicated in the table below also reveals that the performance levels set out for PLI were lower than average performance levels.

Parameter	*Average performance level prior to PLI	Base performance level for payment under PLI
1. On time performance	66%	56%
2. Revenue/ATKm	11.17	10.93
3. PAX per employee	24.13	22.9
4. Equipment Serviceability	87.28 %	84.25 %
5. Despatch reliability	96.63 %	96.01%
6. Aircraft availability	73.36 % (19.07 out of 26 aircraft)	65.47% (17.01 out of 26 aircraft)

2.22 By definition, incentive should be a motivation to the employees to perform better, i.e. above the average. Pegging of the base for the incentive below the average performance level tentamounts to rewarding the employees for achieving average performance itself. AI incurred extra expenditure of Rs. 158.69 crore approximately on PLI payments between May 1996 and March 1999 on account of fixing of lower base levels. The Management justified the benchmarks by saying (January 1999) that "*...another objective of the introduction of PLI was that it was in lieu of introduction of new /additional allowances listed in the Charter of Demands*", and that "*Therefore, the benchmark zero level of PLI at an average or a higher/ lower value is a matter of interpretation/ formulation of any scheme*".

2.23 The Management, however, admitted (January 1999) that '*there was a need, of course, to review and rework the formulation of the PLI schemes*'. In a report on PLI submitted (November 1998) to the Board of Directors it was also admitted that *"the baselines for payment of full PLI have been set low."* On being asked the basis on which the slabs of payment and baseline for full payment had been determined, the Management stated (December 1998), that *"the PLI payment at 100% level was decided by the then Managing Director during the formulation of the PLI schemes."*

Lower aircraft utilisation during PLI period

2.24 The performance on the 'aircraft availability' parameter taken for PLI could be translated into revenue only if it resulted in the higher aircraft utilisation. According to Management's statistics, the aircraft availability went up from 17.74 in May 1996 to 23.60 in April 1998, the fleet strength remaining the same at 26. However, the aircraft

*3 years average for Engg. Deptt, and one year for non-Engg Deptt.

utilisation in respect of Boeing 747-200 and Boeing 747-300, declined during that period relative to 1995-96, as seen from the following table:

Aircraft utilisation per day (in hours)

Aircraft type	1995-96	1996-97	1997-98	1998-99
1. Boeing 747-200	5.49	5.54	4.27	4.89
2. Airbus A 300 B4	6.93	6.57	6.99	7.92
3. Airbus A 310	8.40	8.32	9.11	9.67
4. Boeing 747-300	8.95	7.35	6.39	7.21
5. Boeing 747-400	11.04	9.97	10.33	11.55

Source: Air India's Annual Reports

The selection of parameters was thus not adequately broad-based to represent the productivity in totality.

Incentive and bonus payments in excess of DPE ceiling

2.25 DPE guidelines to PSUs conveyed in January 1994 stipulated that payments on incentive together with bonus should not exceed 35% of the wages. PLI payments in Air India, along with payments of other productivity allowances and bonus, formed 42% of the gross salary and exceeded the 35% limit by Rs. 161.56 crore between May 1996 and March 1999. The Management justified (January 1999) that *"The 35% criteria was in relation to the payment of annual bonus/ex-gratia payment which was a prevalent practice some years ago and was in the form of a lump-sum payment which was generally made once a year. However, the present scheme for payment of PLI is a real-time Performance Linked Incentive Plan payable on a monthly basis on the performance level achieved for the month"*. The Management's reply is not acceptable as the DPE guidelines clearly stipulate that incentive scheme can be evolved *"subject to the condition that the total of bonus and incentive shall not exceed 35% of the wages"*.

Productivity Allowance

2.26 AI introduced (February 1995) a 'Productivity Allowance' for General Cadre Officers and staff, with retrospective effect from September 1993, with the stated objectives of enhancement in performance and revenue earnings. There was, however, no measurable linkage of Productivity Allowance payable to employees with their performance levels, as the allowance was in the nature of graded fixed payments. Further, the Management made Productivity Allowance payable retrospectively from September 1993, even though its stated purpose was to ensure prospective performance. AI paid out a total sum of Rs. 10.71 crore on payment of arrears from September 1993 to February 1995.

2.27 The Management stated (January 1999) that *"In the working of Air India there existed restrictive and archaic trade practices that were followed prior to the induction of jet aircraft in the Company. In order to eliminate the restrictive and unproductive work practices, Management entered into a settlement with Unions/Associations/Guilds for buying back the restrictive and unproductive work practices by paying them Productivity Allowance."* The Management further stated that as a result of these agreements, work procedures were simplified and productivity increased. While the Management's reply tentamounts to an admission that it bought its 'right to manage' from the employees, the Management's claim that productivity increased on this account bears no verification in the absence of any quantifying mechanism in the payment of this allowance. Moreover, the profit per employee (being the difference between the revenue and cost per employee) which was Rs. 2.17 lakh in 1995-96 fell by Rs. 3.16 lakh and became a loss of Rs. 0.99 lakh per employee in 1998-99. The other performance indicator like Available Tonne Kilometers (ATKm) and Revenue Tonne Kilometer (RTKm) also declined from 2615 million and 1620 million in 1995–96 to 2541 million and 1520 million respectively in 1998-99. Besides, the arrears payments mentioned above, AI has so far paid a total sum of over Rs. 93.09 crore on Productivity Allowance during the four years from 1995-96 till 1998-99.

2.28 In May 1996, the Management extended the PLI scheme to General Cadre Officers and employees as incentive for improvement of the performance levels for which it had already instituted Productivity Allowance only in February 1995. The payment of Productivity Allowance to General Cadre Employees, involving an expenditure of Rs. 70.85 crore, along with PLI payments during 1996-97 to 1998-99 further compounded the irregularity of PLI payments described in the foregoing paragraphs. As in the case of other schemes, the concurrence, if any, of Finance in the proposal was not available on record.

Irregular payment of Special Compensatory Allowance

2.29 AI began to pay Special Compensatory Allowance (SCA) to its general category officers initially at the first three grades from below, with effect from April 1974. The Management had, however, not specified the occupational situation of those employees, which they sought to compensate by payment of SCA. From April 1978, payment of SCA was gradually extended to all grades of general category officers.

2.30 Special Compensatory Allowance (SCA) is normally allowed to compensate employees for hardships related to specific occupational situations. The guidelines of Department of Public Enterprises, Government of India, circulated in June 1990 also enjoined upon Public Sector Enterprises that they should satisfy themselves that the conditions for grant of SCA to their employees were on the same basis as applicable to Central Government employees. Illustrative cases of SCA enumerated in the guidelines are Border Area Allowance, Remote Locality Allowance and Difficult Area Allowance.

2.31 Payment of SCA by Air India to its general category officers without any justification due to the specific occupational situation of employees, therefore, violated propriety and was irregular. During the period between 1990-91 to 1998-99, Air India paid a total sum of Rs. 11.09 crore to its general category officers as SCA.

2.32 The Management stated (August 1997 and January 1999) that payment of SCA to all general category officers was normal wage increase which was paid by way of allowance under various headings in accordance with the settlement reached with Unions/Associations/Guilds in the matter from time to time and that these settlements were generally approved by the Ministry. The Management further sought to justify the unjustifiable by saying, "*the Special Compensatory Allowance is granted to employees working in remote localities, border area and difficult areas. A similar situation is in Air India whereby the Officers have to work in difficult areas such as on the tarmac in the burning hot sun in summer and in the cold whilst in winter. Further, the Officers are also required to work beyond normal working hours and on holidays when others avail their holidays.*"

2.33 The reply of Management is not tenable because:

(a) The normal wage increase in emoluments is required to be built in the structure of basic pay. The increases in other components of emoluments such as general or specific allowances, loaded over the basic pay, have to follow pre-determined guiding principles governing the grant of such allowances. Therefore, SCA has to be for compensation of a well-defined occupational situation and cannot be deemed as normal increase.

(b) Settlements reached with Unions/Associations/Guilds cannot supersede procedural proprieties, which are required to be observed in such important matters as fixation of emoluments.

(c) The approval of the Ministry to grant SCA to Air India's general category officers, without reference to the occupational situation sought to be compensated, violated the guidelines of the Department of Public Enterprise and was therefore not in order.

(d) The Management's contention should be viewed in the light of the fact that Air India variously pays its officers incidental expenses, compensation for working on weekly off days/holidays and meal allowance for working beyond their normal working hours and on holidays.

Institution of an irregular perquisite

2.34 Air India employees' Self-contributory Superannuation Pension Scheme was approved by the Ministry of Civil Aviation & Tourism in March 1995, *inter-alia* subject to the condition that "*the entire contribution to the self-contributory superannuation pension scheme would be made by the employees from their salary. Diversion of the funds from the perquisites would not be allowed under any circumstances*". The contribution in this respect was Rs. 350 plus the applicable percentage depending on age, basic pay and DA of the employees.

2.35 Meanwhile Air India decided (February 1995) to pay a new perquisite in the form of 'education allowance' with retrospective effect from 1st April 1993, at a uniform rate of Rs. 350 per month to all its employees.

2.36 Though the stated objective of instituting this allowance was to help employees to upgrade their own educational and technological knowledge and skill and of their children in this regard, Air India had apparently made payment of education allowance only to compensate its employees towards their outgoes on account of employees contribution to Air India Self-contributory Superannuation Pension Scheme. It may be mentioned that AI also allows separate 'study grants to children' and 'assistance to staff acquiring higher technical education' every year. Air India paid a total sum of Rs. 17.07 crore to its employees for the period from September 1996 to March 1999. It had also incurred a liability to pay arrears of Rs. 20.44 crore approximately from April 1993 to August 1996 on this account, besides recurring payment liability for future.

2.37 On the above being pointed out, the Ministry of Civil Aviation directed Air India to withdraw the education allowance. Consequently, Air India advised all unions about the withdrawal of this allowance w.e.f. 1st June 1999. In response, the Air India Employees Guild filed (June 1999) a writ petition in Bombay High Court against the Management's decision to withdraw this allowance.

Irregular payment of conveyance allowance

2.38 Rules of AI allowed payment of conveyance allowance to certain categories of its employees. Further, AI allowed (August 1993) the reimbursement of petrol expenses to its executives and officers (DGM, AGM and Senior Managers) who owned cars, above a certain pay level. In July 1994, AI clarified through a circular that officers claiming reimbursement of petrol expenditure would not be entitled to conveyance allowance.

2.39 Audit check of petrol reimbursement registers at Mumbai and other major stations of the Company in India revealed that Air India had been making petrol reimbursement up to the full fuel limits to its officers, who were also being paid the conveyance allowance. In Mumbai and other major domestic stations, Air India paid a total amount of Rs. 1.39 crore as conveyance allowance to such officers from June 1996 to March 1999. It was observed that there were no control procedures in place to cross check eligibility of recipients of conveyance allowance when pay bills were prepared and payments were made. The irregularity also remained undetected by AI's internal audit even at the seat of its corporate office. Neither at the field level nor at the corporate level, there was any mechanism in place to ensure that the payments were made after checking of the eligibility criteria of employees for these allowances.

2.40 The Management stated (January 1999) that conveyance allowance was a part of the wages of the employee, while only certain categories of the officers and executives were eligible for petrol reimbursement and that the accounts department checks the limits and entitlements on the officers. The reply is evasive and does not address the objection raised by audit.

2.41 The review was issued to the Ministry (March 1999); their reply was awaited (December 1999).

Annexure I
(Referred to in paragraph 2.10)

A. Pay Roll Allowance

Sl. No.	Name of Allowance	Entitled Cadre	Date of Commencement	Description
1	Dearness Allowance	All category	N.A.	-
2	House Rent Allowance	All category	N.A.	
3	City Compensatory Allowance	All category	N.A.	
4	Washing Allowance	AIEG[11] Unskilled AIEG Semi-skilled AIEG Skilled Non – Technical AIEG Skilled Technical	N.A.	Paid for the maintenance of uniform
5	Machine/Dup Allowance	AIEG Unskilled	N.A	Paid to the staff for operating Photocopying machine
6	Reimbursement of shoes	AIEG Unskilled	N.A	Given once in year to the staff for purchase of shoes which is part of their uniform
7	Shift Allowance	AIEG Unskilled AIEG Semi skilled AIEG Skilled Technical AIAEA[12] AIEA[13]	N.A	Paid to only to those staff who are required to work in shift
8	'Driving Allowance	AIEG Unskilled AIEG Skilled Non Technical AIEG Skilled Technical	N.A	Paid to staff who are required to carry out driving duties apart from their regular duties.
9	B.R.S. Allowance	AIEG Unskilled	N.A	Paid for jobs carried out in connection with baggage reconciliation
10	Milk Allowance	AIEG Unskilled AIEG Skilled Technical	N.A	Paid to those staff who are working in hazardous area in workshop
11	Bad Environment Allowance	AIEG Unskilled AIEG Skilled Technical	N.A	Paid to those staff who are working in hazardous area in workshop
12	Education Allowance	AIEG Unskilled AIEG Semi skilled AIEG Skilled Non-Technical AIEG Skilled Technical AIAEA AIEA AIOA[14] IFEA[15]	February 1995	

[11] Air India Employee Guild
[12] Air India Aircraft Engineers Association
[13] Air India Engineers Association
[14] Air India Officers Association
[15] Indian Flight Engineers Association

13	Conveyance Allowance	AIEG Semi skilled AIEG Skilled Non-Technical AIEG Skilled Technical AIAEA AICCA[16] AIEA IFDU[17] & AIOA	N.A.	
14	Productivity Allowance	AIEG Unskilled AIEG Semi-skilled AIEG Skilled Non-Technical AIEG Skilled Technical AICCA IFDU & AIOA	February 1995	
15	Performance Linked Incentive	All categories except IPG[18] & IFEA	May 1996	
16	Computer Allowance	AIEG Skilled Non- technical AIEA IFDU	N.A.	Paid to staff for operating computer
17	Duty Allowance	AIEG Skilled Non- Technical	N.A.	Paid to clerical staff who are performing workshop timing
18	Technical Pay	AIEG Skilled Technical AIAEA AIEA & IFDU	N.A.	-
19	Additional Productivity Allowance	AIEG Skilled Technical AIEA	N.A.	
20	Kit Maintenance Allowance	AIEG Skilled Technical AIAEA, AICCA,AIEA, IFDU, IPG, & IFEA	N.A	Paid for the maintenance of kit
21	Diet Allowance	AIEG Skilled Technical	N.A.	Paid for the staff who are working in hazardous environment
22	Flying Allowance	AIEG Skilled Technical	N.A.	Paid to those staff who are required to carry out flying duties for assisting in any technical problem.
23	Radio Tel. Allowance	AIEG Skilled Technical, AIAEA & IPG	N.A.	Paid to those staff who are holding Radio and Tele. Operating Licence
24	Enhanced Productivity Allowance	AIAEA	N.A.	
25	Certification Allowance	AIAEA	N.A.	
26	Efficiency Bonus	AIAEA	N.A.	
27	Telephone Allowance	AIAEA, AICCA, AIEA & IPG	N.A.	Given for the maintenance of Telephone at residence
28	Quality Productivity Allowance	AIAEA	N.A.	Paid on acquiring approved licence

[16] Air India Cabin Crew Association
[17] Indian Flight Despatchers Union
[18] Indian Pilots Guild

29	Updation Technical Knowledge	AIAEA	N.A.	Paid to all for updating technical knowledge with the help of different sources.
30	Lecture Allowance	AIAEA and AIEA	August 1994	Paid only to those who are imparting training.
31	Remote Reading/Compass Swinging Allowance	AIAEA	N.A.	Allowance is paid to those who are holding the licence.
32	Direct Reading/Compass Swing Allowance	AIAEA	N.A.	Paid to those who are holding the licence
33	Compensatory Allowance	AIAEA	N.A.	Paid to Engineers who are working at foreign station during inconvenient hours
34	Additional Compensatory Allowance	AIAEA	N.A.	Paid to Engineers posted abroad and required to work in shift.
35	Overseas Operations Allowance	AICCA, IPG & IFEA	N.A.	
36	Jet Allowance	AICCA	N.A.	
37	Check Allowance	AICCA & IFEA	N.A.	Paid to Sr. Check flight purser to check the performance of the flight purser/Sr. flight purser on board
38	Hourly Payment	AICCA & IPG	September 1994	
39	Shortfall Allowance	IPG	September 1994	
40	Layover/Meal Allowance	AICCA	N.A.	Paid to all flying crew as and when they operate the flight
41	Supplementary Layover/Meal Allowance	AICCA	N.A.	Paid for operating flights
42	Out-of-Pocket expenses	AIEA, IFDU & AIOA	June 1996	
43	Special pay	AIEA	N.A.	
44	Technical Support Allowance	AIEA	N.A.	
45	Special pay II	AIEA	N.A.	
46	Flight Commun. Allowance	IFDU	N.A.	
47	Aircraft Allowance	IFDU	N.A.	
48	Special Parity Allowance	IPG	N.A.	
49	Type Allowance	IPG & IFEA	N.A.	
50	Annuity	IPG	N.A.	
51	Bypass Allowance	IPG	January 1998	
52	Command Pay	IPG	N.A.	
53	Special Compensatory Allowance	AIOA	April 1978	
54	Additional Pay	IFEA	N.A.	
55	Reimbursement of Telephone maintenance Allowance	IFEA	N.A.	
56	Support Allowance	IFEA	N.A.	
57	Excess Flying Allowance	IFEA	N.A.	
58	Surveillance Allowance	AIEG Skilled Technical	N.A.	

B. Voucher Allowances

Sr.	Name of Allowance	Entitled Cadre	Date of commencement	Description
1	Reimbursement of Incidental/Meal (for working on Sat/Sun)	AI Category except IPG	27/05/77 30/07/94	Paid for working on Weekly off/lunch break
2.	Stitching Charges	AIEG skilled Non-Tech.	N.A	Paid to Ladies staff for stitching their uniforms
3.	Reimbursement of Chappals (Ladies Staff)	AIEG skilled Non-Tech.	N.A	Reimbursement of Chappals for Ladies Staff as it is a part of uniform
4.	Hindi Typing Allow	AIEG skilled Non-Tech.	N.A	Paid to those staff who are trained in Hindi Typing & performing Hindi Typing work
5.	Hindi Translation Allowance	AIEG skilled Non-Tech.	August 1988	Paid to those staff who are trained in Hindi Translation & performing Hindi Translation work.
6.	Flying allowance	AIAEA	N.A	Paid to those staff who are required to attend flight coverage
7.	Car Maint. Allowance	AIAEA	N.A	Is given to Dy. Chief A/C Engineers & above for maint. of Car
8.	Reimbursement of Tel. Bill/Rental	AIAEA AIEA IFDU AIOA	June 1996	Paid for utilisation of telephone for company purpose
9.	Sky Bazar Incentive	AICCA	May 1994	Is given to the cabin crews who are handling sale in the aircraft of Liquor, cigarettes etc.
10.	Bar Loss Compensation	AICCA	May 1994	Paid to the cabin crew to handle the cash in foreign currency
11	Short Crew payment	AICCA	N.A	is a compensation given to other cabin crew in absence of the crew scheduled for the flights
12.	Reimbursement towards sales Prom/ Entertainment Expenses	IFDU AIOA	July 1994	Paid for expenditure on entertainment for official contact at personal level of the officer
13.	News paper/Business periodical	IFDU AIOA	July 1994	Is given to the officers for the purchase of same
14.	Petrol Expenses	IFDU AIOA	N.A	Is given to Sr. Managers and above who are having Car in their name
15.	Layover allowance	IPG, IFEA	N.A	
16.	Main. of Uniform allowance	AIOA	July 1994	Is given to all the officers for the purchase of cloth
17.	Maintenance of drawing/Dinning room & other furniture at residence of officers	AIOA	July 1994	Is given to officers for maintaining the same
18.	Reimbursement of Membership fees for Professional bodies/institution etc.	AIOA	July 1994	Is given to officers for updation of knowledge and to be touch with current development in the respective field
19.	Hourly payment	IFEA	N.A	

CHAPTER 3 :
WET LEASE OF AIRCRAFT BY AIR INDIA LIMITED

INDEX

OVERVIEW

- Air India Limited (AI) concluded two wet leasing agreements between December 1994 and December 1997. The total loss incurred by Air India from its wet lease operations during the period December 1994 to December 1997 amounted to Rs. 321.92 crore. Wet lease operations accounted for 45.4% of total losses of Air India between 1994-95 to 1997-98.

(Para 3.1, 3.2)

- Air India approved additional charges to lessor for aircraft certification by licensed ground engineers resulting in additional payment of Rs. 3.35 crore to Caribjet, without informing the Board who had approved the original contract. AI Management also did not follow up reports that such certification was not always being obtained by the lessor even after enhanced payment.

(Para 3.3-3.8)

- Wet Lease Contract was awarded in such a manner as to entail the highest loss for AI among the available options. Award of wet lease contract for the period from December 1995 to December 1997 to the highest loss option was not based on transparent reasons.

(Para 3.10-3.12)

- AI awarded softer contract terms to one of the lessors as compared to the other lessor, without apparent reasons.

(Para 3.13-3.14)

- AI made extra payment of Rs. 1.32 crore to Caribjet due to insertion of two special clauses in their contract agreement without any apparent compulsion.

(Para 3.15-3.16)

- AI lost Rs. 96.25 lakh by not claiming liquidated damages for 24 cancelled flights and 7 delayed flights from the lessors.

(Para 3.17)

- Premature termination of wet lease contract with Caribjet, resulted in AI's incurring of legal expenditure of over Rs. 7 crore, and possible liability of huge damage payment resulting from arbitration.

(Para 3.18)

CHAPTER 3 : WET LEASE OF AIRCRAFT BY AIR INDIA LIMITED

Introduction

3.1 In its 8th Board meeting held on 24th November 1994, Air India Limited (AI) approved a proposal of wet leasing[19] two A 310 – 300 aircraft for a period of six months to be extended to one year, with a view to achieve growth and profitability in future. The Management told its Board while submitting the proposal that the conservative approach of maintaining profits at the cost of growth had marginalised the airline even in its home market, where its market share had dropped from 33 per cent in 1991 to 20 per cent in 1994. Accordingly, the Board approved the wet leasing of aircraft even though these operations were expected to incur cash losses. AI entered into two wet leasing agreements between December 1994 and December 1997. The first agreement was for the period from December 1994 to December 1995, when AI wet leased two aircraft from M/s Caribjet Inc. of Antigua and Barbuda (West Indies) and the second covered the period from December 1995 to December 1997 when five aircraft were wet leased from M/s Caribjet Inc. and Air Club International of Canada.

Losses due to wet lease operations

3.2 AI incurred a total loss of nearly Rs. 322 crore in the wet lease operations which constituted 45.40 % of the total loss incurred by AI during the period from 1994-95 to 1997-98 as detailed below:

Profit (+)/Loss (-)Rs. in crore

Year	Caribjet A310	Caribjet L1011	Airclub A310	Total Loss on wet lease	Total Profit /Loss	Percentage of loss due to wet lease to total loss
1994-95	-18.66	-	-	-18.66	+40.80	-
1995-96	-65.27	-52.75	-19.89	-137.91	-271.84	50.73%
1996-97	-20.57	-78.82	-46.48	-145.87	-296.94	49.12%
1997-98	-	-	*-19.48	*-19.48	-181.01	10.76%
Total	**-104.50**	**-131.57**	**-85.85**	**-321.92**	**-708.99**	**45.40%**

* Revised budget estimate figures.

[19] Wet leasing: Leasing of the aircraft along with flying crew

Wet lease from December 1994 to December 1995

3.3 The proposal for wet leasing of aircraft from Caribjet was approved (24 November 1994) by the Board of Directors of AI subject to the approval of the Government. The agreement with Caribjet was, however, executed on the 16 November 1994, before obtaining the formal approval of the Board of Directors as well as the approval of the Ministry which was accorded a month later on 15 December 1994. The wet lease commenced with leasing of one A310 aircraft with effect from 15 December 1994 followed by a second A310 leased with effect from 1 January 1995 each for an initial period of six months, *inter alia,* on the following payment terms:

(a) fixed rental of US$ 467500 per aircraft per month; and

(b) variable rental per aircraft @ US$ 3285 per block hour[20] subject to a minimum rental for 350 hours per aircraft per month.

3.4 The wet lease agreement also provided that Caribjet was responsible for scrupulous compliance of maintenance standards/ procedures for maintenance/inspection and to comply with the applicable requirements of DGCA. But within three months of the commencement of wet lease operations by Caribjet, AI's Engineering Department reported (March 1995) that:

a) Caribjet were flying with vital systems unserviceable on a regular basis. Major defects were occurring repeatedly without adequate rectification works being carried out.

b) The flying crew, and not qualified aircraft engineers as per the prevalent practice of AI, did the ground certification of aircraft at transit stations.

[20] Block hour: Hour or part thereof elapsing from the moment the aircraft moves under its own power from a parked position for the purpose of taking off until the moment it comes to rest at the end of the flight in a parked position.

c) Caribjet was subcontracting all activities including quality control functions to various agencies rendering monitoring to detect violations impossible.

d) Caribjet did not have regular technical staff. It hired staff available in the market, resulting in frequent changes, which made it impossible to monitor their work.

3.5 As a follow up of the above, AI insisted that the transit checks must be undertaken by appropriately licensed aircraft engineers as was also the practice in AI. For this AI approved additional payment of US$ 157 extra per block hour to Caribjet for hiring licensed aircraft engineers to do the ground certification at transit stations. The decision resulted in extra-contractual payment of Rs. 83.74 lakh to Caribjet between 20 April 1995 to 30 June 1995. AI also included additional payment of US$ 157 for hiring licensed aircraft engineers to do the ground certification at transit stations in the contract for extended period of wet lease from July 1995 to December 1995. The total additional expenditure on account of hiring licensed aircraft engineers to do the ground certification at transit stations during April 1995 to December 1995 was Rs. 3.35 crore. The exclusion of additional charges also resulted in an uneven bid advantage to Caribjet. Due to extra payment of US$157 per block hour, the guaranteed payment[21] made by AI to Caribjet became US$1672200 per aircraft per month which was more than the guaranteed payment rate of US$ 1627500 per aircraft per month quoted by another bidder, *viz*. Air Club and this amount included the provision for such certification by licensed engineers without any additional charge. The Board was not informed of this revision in the original payment terms of Caribjet.

3.6 The Management stated (June 1996) that they considered ground certification at transit stations by licensed engineers necessary even though DGCA requirements did not specifically provide for that. Therefore, they felt that the ground certification at transit stations by licensed engineers would be *"an additional requirement – not a part of the originally negotiated Agreement"*

3.7 The Management's reply is not tenable, as the contract could not have expected the lessor to fly the aircraft with anything but the best security requirements. The perceived additionality of the condition as stated by the Management, would only show that they were less than careful in drawing up bid conditions and agreement and did not include the safety requirements that were already being followed in AI. Further, it cannot be open to Management to allow additional charges at their level once the arrangement had been approved at the level of the Board and the Ministry, especially since it resulted in enhanced payments to the contractor (Caribjet) and vitiated the rationale of competitive bidding.

3.8 AI's Engineering Department (Quality Control Section) reported (August 1995) that the lessor (Caribjet) continued to violate safety requirements and did not get the aircraft certified by approved engineers at some line stations. Commercial Department, however, did not take any follow up action in the matter.

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[21] Guaranteed Payment: = Fixed rental + (variable rental × 350 hours) per aircraft per month. This was the minimum payment, which was to be made irrespective of the actual use of the aircraft.

3.9 AI had budgeted for a loss of Rs. 38.57 crore on the wet lease operation conducted between December 1994 and December 1995. The actual cash loss of Rs. 53.30 crore was far in excess of the budgeted loss. Of the difference of Rs. 14.73 crore, Rs. 3.35 crore was due to the additional charge of US$ 157 per block hour as discussed above. Another Rs.3.74 crore was due to the devaluation of INR vis-à-vis US$ over the period of lease. But for the rest, AI Management did not carry out any detailed analysis of variations in actuals relative to projections and stated (January 1999) that "*the difference/variance between project(ed) and actual figures for all years cannot be quantified item-wise as there might have been multiple reasons for the same. The difference between the projected and actual figures is mainly due to the difference in exchange rates, change in fuel prices/route patterns, handling and landing rates*". The reply shows the indifference of the Management to conduct proper analysis of the reasons, which had led to the additional loss to AI to the tune of Rs.14.73 crore.

Wet lease from December 1995 to December 1997

3.10 Though the first wet lease operations had resulted in losses far in excess of the projections, the Management contemplated a second wet lease operation in the later half of 1995 with a view to expand its operations. Managing Director constituted (10 April 1995) a Special Purpose Team (SPT) under the convenorship of Director (Planning & International Relations) to consider wet lease requirements of AI for the purpose of growth, rollover of older aircraft and ad-hoc requirements. Based on the technical and financial evaluation of wet lease proposals received, SPT in its report (27 September 1995) to MD identified four alternatives (Annexure I) entailing wet lease of seven aircraft, and recommended one of the alternatives viz. leasing of 2 numbers of L1011 and 2 numbers of A-310 aircraft from Caribjet and 3 numbers of A-310 aircraft from Air Club, even though the alternative projected a loss of Rs.71.56 crore per annum to AI. Incidentally, of the four available options, this was the one, which entailed the highest amount of loss.

3.11 Next day, SPT submitted (28 September 1995) a further report to Managing Director (MD) in continuation of its first report. This additional report was signed by 4 out of the 6 members of SPT but was not signed by the convenor, *viz*. Director (Planning & International Relations). It presented the four additional alternatives (Annexure-II) on exclusive consideration of growth, and again recommended the highest loss option, *viz*. Leasing of 2 numbers of L1011 and 1 number of A-310 aircraft from Caribjet and 2 numbers of A-310 aircraft from Airclub at a loss of Rs. 100.53 crore per annum to AI. This option was costlier than the earlier option by Rs.28.97 crore per annum even though the number of aircraft (5) as per this alternative was lesser than that in the earlier alternative (7) recommended by the SPT. Board of Directors of AI, however, approved (29 September 1995) this highest loss option of Rs. 100.53 crore based on the further addendum report of SPT dated 28th September 1999.

3.12 Director (Planning & International Relations) and convenor of SPT, in whose absence SPT sent the second (addendum) report to MD, dissociated herself (12 October 1995) from that report stating that it was prepared without her knowledge and consent.

She expressed surprise that SPT had considered and recommended an aircraft combination "*which was not included in the main report as it would run counter to the first of the guidelines set out on page 9 of the report - a lessor must provide a minimum of two units of aircraft of the same type, as there would otherwise be insufficient backup and flexibility.*" There was also no recorded reason to counter SPT convenor's reservations on the second (addendum) set of recommendations. The Management's proposal and Board's approval to the proposal of awarding wet lease contract to the highest loss option (higher than the earlier proposal by Rs. 28.97 crore per annum) was therefore, not supported by transparent reasons.

Undue favour to Caribjet in the second wet lease agreement

3.13 Air India signed agreements with Caribjet for two L1011 & one A310, and with Air Club for two A310 aircraft on 22 October 1995 and 31 October 1995 respectively. A comparative analysis of the two agreements signed at about the same time brings out the following dissimilarities:

Caribjet	Air Club
a) Caribjet would not pay liquidated damages for cancellation of the first six flights due to their fault during the lease period, while it would pay liquidated damages of $ 10,000 from the seventh flight onwards cancelled due to their fault. There was no provision for payment of damages on account of flights delayed beyond 10 hours. There was also no clause reducing the scheduled hours of the cancelled flight from the total guaranteed hours.	a) Air Club would pay liquidated damages of $ 10,000 for every flight cancelled (without any condition, unlike in the case of Caribjet) and $ 5,000 per flight delayed beyond 10 hours due to their fault. In case of cancellation of flight, the number of hours the flight was scheduled to fly would be reduced from the guaranteed hours.
b) Caribjet was to pool the minimum guaranteed hours (i.e. 333) only for a month, i.e. shortages, if any, cannot be adjusted against any surplus beyond a month.	b) Airclub was to pool their minimum guaranteed hours (333) over a period of 3 calendar months, i.e. shortages and surpluses can be adjusted within a period of 3 months.
c) Caribjet agreement contained block hour cycle ratio and extra station clause which were invoked and led to extra payment of Rs. 1.32 crore by Air India as pointed out in para 3.15 and 3.16 *infra*.	c) The Air Club agreement contained no such clause.

3.14 There was no explanation on record to show why the Management accorded undue favour to Caribjet on the above accounts.

Extra payment due to special clauses in the agreement with Caribjet

3.15 Agreement with Caribjet had the following special provisions:

(a) For any calendar month where the 'block hour: cycle ratio'[22] was below 4:1 for A310-300 aircraft and 6:1 for L1011–500 aircraft (hereinafter referred to as the contractual block hour : cycle ratio), the rates per block hour would be determined by multiplying the applicable rate by the contractual block hour:cycle ratio and dividing the product by the actual block hour : cycle ratio (Clause 2.1.5). In effect, this would mean that AI would be paying a higher rate per block hour if the block hour: cycle ratio fell below the contractual block hour : cycle ratio.

(b) The two L1011 aircraft would together be scheduled to operate up to a maximum of eight stations in any one month and the A310-300 aircraft would be scheduled to operate up to a maximum of four stations in any one month. For any extra station touched by L1011 and A310, there would be extra billing of US$ 54,400 per station and US$ 46,000 per station respectively (Clause 2.1.6).

(c) It may be mentioned that both these clauses were absent in the earlier agreement (November 1994) with Caribjet. Besides, none of the other five tenderers who had submitted their offers for the period from December 1995 to December 1997 also imposed any such provision. The Management has not replied (September 1999) if there was any reason or compulsion on its part for inclusion of these two unusual clauses in the agreement.

3.16 The report of the Marketing Research Officer of Commercial Department associated with the wet lease operations brought out (February 1996) that these clauses individually and jointly posed severe restrictions to the planning of the schedules with Caribjet aircraft, and restricted the ability of AI to deploy any spare capacity in meeting any seasonal or ad-hoc demands due to the high incremental costs that were associated with such an operation. The report further pointed out that the effect of these two clauses were so closely interwined that any additional operation using Caribjet aircraft would result in incremental billing due to violating the proviso of one or both the clauses. The financial evaluation of the options by AI at the time of evaluation by SPT also included the provision of loss arising out of payment on account of Block Hour Cycle Ratio clause. The Management stated (June 1996) that the clauses regarding the Block Hour: Cycle Ratio was not restrictive and provided AI with the needed flexibility to formulate schedules as per market requirement. The reply is, however, not testified by the subsequent operational experience, because Air India made an extra payment of Rs. 1.32 crore on account of the above mentioned clauses between December 1995 and February 1996 (Rs. 1.08 crore on account of additional station clause and Rs. 23.78 lakh on account of block hour cycle ratio clause).[23]

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[22] Block Hour : Cycle Ratio: Average number of Block hours flown per landing.

[23] The dues from March 1996 to August 1996 are under arbitration.

Loss due to failure to claim damages for cancelled and delayed flights

3.17 As mentioned in the comparative analysis of the two agreements (Para 3.13 *supra*), Air India's agreement with both Caribjet and Air Club provided for payment of liquidated damages of US$ 10,000 to Air India in the event of cancellation of a flight for reasons solely attributable to Caribjet (after 6 flights) and Air Club respectively. The agreement with Air Club further provided for payment of liquidated damages of US$ 5,000 by Air Club for flight delayed beyond 10 hours for reasons attributable to Air Club. During the lease period the Management failed to claim liquidated damages for 24 cancelled flights and 7 delayed flights from the lessors. The total loss on account of Management's failure to claim liquidated damages was Rs. 96.25 lakh. The Management has not stated any reason for not claiming the liquidated damages.

3.18 Further, as stated in para 3.13 *supra*, in the agreement with Caribjet, there was no provision for liquidated damages for delay beyond 10 hours. AI lost Rs. 14 lakh on account of this.

Termination of Caribjet agreement

3.19 The Management terminated (4 September 1996) the wet lease agreement with Caribjet due to "*several serious violations of established technical and operating procedures by Caribjet*". The Board in its 24th Meeting held on 24 September 1996 endorsed the Management's decision. Following termination, Caribjet Inc. instituted (January 1997) arbitration proceedings at London and claimed a total amount of US$ 72.69 million (approximately Rs. 302 crore) towards damages excluding interest. The Arbitration Tribunal decided (19 January 1999) the case in favour of Caribjet and held that Air India wrongfully terminated the Wet Lease. Meanwhile AI had already incurred expenses to the tune of Rs.7.40 crore on arbitration proceedings up to November 1998. Air India Board decided (6 February 1999) to go into appeal against the award of the Tribunal in London High Court, which was still pending (May 1999).

Conclusion

3.20 As stated by Air India Management to its Board (November 1994), the losses envisaged in the wet lease operations was to be viewed as 'market development cost'. However, the move lacked any economic rationality, as the decision to go ahead with such high budgeted loss was not a sound and prudent commercial decision. The actual cash losses suffered by AI amounting to Rs. 321.92 crore was also significantly higher than the budgeted loss of Rs. 139.10 crore.

3.21 This review was issued to the Ministry (April 1999); their reply was awaited (September 1999).

Annexure-I
(Referred to in paragraph 3.10)

Alternative	Lessor	Aircraft type	Loss Per Annum (Rs. in crore)
A	Caribjet	2 L1011 5 A310	67.98
B	Caribjet Air Club	2 L1011 5 A310	68.08
C	Caribjet Air Club	2 L1011 3 A310 2 A310	70.42
D	Caribjet Caribjet Air Club	2 L1011 2 A310 3 A 310	71.56

Annexure-II
(Referred to in paragraph 3.11)

Alternative	Lessor	Aircraft type	Loss Per Annum (Rs. in crore)
A	Caribjet	2 L1011	95.32
	Airclub	3 A310	
B	Caribjet	2 L1011	98.25
	Caribjet	3 A310	
C	Caribjet	2 L1011	99.33
	Caribjet	2 A310	
	Airclub	1 A310	
D	Caribjet	2 L1011	100.53
	Caribjet	1 A310	
	Airclub	2 A310	

CHAPTER 4 : LOSS ON HAJ CHARTER FLIGHTS

INDEX

OVERVIEW

- Air India Limited (AI) incurred an avoidable loss of over Rs. 66.55 crore on operation of Haj Charter Flights for the period from 1993 to 1997 which were supposed to have been on no-profit-no-loss basis.

(Paras 4.1 and 4.2)

- AI incurred an avoidable loss of Rs. 1.98 crore on account of gifts and giveaways to passengers.

(Para 4.3)

- AI deprived itself the reimbursement of claims of Rs. 9.72 crore from the Government on account of ground handing costs of wet leased aircraft.

(Para 4.4)

- AI lost Rs. 19.46 crore due to the non-reimbursement of 60% of the indirect fixed costs in respect of 1997 Haj Operations.

(Para 4.6)

- As in January 1999, dues owed by the Government of India and the Central Haj Committee to AI amounted to Rs. 565 crore and 496 crore respectively. Some of these dues pertained to year as early as 1995. The loss of interest to AI on this account is estimated to be Rs. 28.56 crore.

(Para 4.9 and 4.10)

- AI allowed a discount of Rs. 1 crore from the dues owed by the Central Haj Committee for its 1995 operations as a goodwill gesture, which was unjustified.

(Para 4.11)

CHAPTER 4 : LOSS ON HAJ CHARTER FLIGHTS

Introduction

4.1 According to Air India Limited (AI), it was required by Government of India to undertake the Haj Charter flights on a no-profit-no-loss basis, although there was no specific written directive from the Government in this regard. During 1993 and 1994, Government fixed Rs. 11,000 and Rs. 12,000 respectively per pilgrim per round trip as the pilgrims' share to be recovered from them. No specific fare levels were, however, prescribed during the period 1995 to 1998, but the AI continued to recover Rs. 12,000 per pilgrim per round trip fare. The recovery was made through the Central Haj Committee (CHC) which collected from the pilgrims their share of the fare and the balance of AI's cost were to be reimbursed by the Ministry. The Ministry stated (October 1999) that its endeavour has been to keep the cost of Haj operations to the barest minimum in order to keep the subsidy amount as low as possible.

4.2 Audit scrutiny of Haj operations of Air India for the period from 1993 to 1998, however revealed that even though the operations were supposed to be conducted on no–profit–no loss basis, substantial expenditure on these operations was absorbed by AI itself. The table below gives the details of the costs incurred by AI and the amounts that could not be recovered by it thereagainst:

Cost of Operation of Haj Charter Flights

Particulars/Year	1993	1994	1995	1996	*1997	1998	Total
1. Total No. of pilgrims	20621	21017	30503	50347	53766	63648	239902
2. Gratis passengers	206	600	600	--	--	--	1406
3. Cost of operation (Rs. in crore)	37.27	34.80	53.42	97.69	144.13	187.59	554.90

Source: Final cost sheet of Haj operations.

* Operated through own Aircraft.

Costs Absorbed by Air India

(Rs. in lakh)

	1993	1994	1995	1996	1997	Total
1. Giveaways to Pilgrims.	20.00	@	36.60	60.42	80.65	197.67
2. Catering on ground	19.00	@	61.01	95.95	120.97	296.93
3. Ground handling of leased aircraft in Indian stations	181.88	219.59	213.24	357.19	#	971.90
4. Costs of carrying passengers on gratis basis	22.66	72.00	72.00	0	0	166.66
5. Variable cost/indirect fixed cost not charged (60%) on own operation	0	0	0	0	1945.80	1945.80
6. Discount offered by the Chairman, AIL	0	0	100.00	0	0	100.00
7. Loss of Interest on delayed payments-						
Government	##	241.32	340.93	202.78	801.98	1587.01
CHC	##	65.95	565.74	26.28	610.69	1268.66
8. Govt. dues waived by the Company.	*38.54	0.05	--	0.02	--	38.61
9. Loss of pool revenue	*50.17	13.23	NA	18.41	NA	81.81
Total	**332.25**	**612.14**	**1389.52**	**761.05**	**3560.09**	**6655.05**

Giveaways to pilgrims

4.3 AI gave gifts to the passengers on Haj flights in the form of umbrellas and sling bags. While examining the claims of AI towards Haj operations, the Ministry questioned (September 1993); the necessity of the gifts and the authority under which AI gave those gifts. The Ministry's question, however, remained unanswered and AI continued to give gifts. AI incurred total expenditure of Rs. 1.98 crore on these 'giveaways' to pilgrims during the period from 1993 to 1997, with the sanction of MD from time to time. Though there was nothing on record, the Management stated (December 1998) that the CHC had asked AI to absorb these costs as goodwill gesture to the pilgrims. The rationale offered by the Management for the 'giveaways' is not tenable because a

@ Reimbursed by the Government

\# Included in the cost of operation

\## Details *of dates of receipt not furnished by the Company. Interest (Simple) for the remaining years worked out @ 18% p.a. upto 31 December 1998*

* For 1992 and 1993.

goodwill gesture is commercially justifiable only in respect of the segment of passengers whose travel generates a net profit for AI. The costs amounting to Rs. 1.98 crore incurred on giveaways to pilgrims during 1993-97 was thus an avoidable loss to AI.

The Ministry, subsequently (October 1998) agreed to AI's request for reimbursement of the expenditure during 1998 operations on the grounds of AI's difficult financial position. This decision of the Ministry is inconsistent with their stated objective of keeping the cost of Haj operations to the barest minimum.

Ground handling of leased aircraft in Indian stations

4.4 During the period 1993-1998, except 1997 AI operated Haj flights through wet leased aircraft[@], from Mumbai, New Delhi, Calcutta, Chennai and Bangalore. Haj aircraft were self-handled by Air India at Indian stations. AI deprived itself reimbursement of claim totalling to Rs. 9.72 crore by not preferring any claim from Government towards ground handling costs of wet leased aircraft for the period from 1993 to 1996 at Indian stations except Bangalore where handling was got done through Indian Airlines and the costs were billed to the Government. For the Haj 1998 operations, however, AI did claim (November 1998) and also received reimbursement of the cost from the Government on this account.

The Ministry stated (October 1999) that charges for handling of Haj operations by AI's own staff on regular duties were not reimbursed till 1997 since AI had not deployed extra manpower at these stations and added that for 1998 such reimbursement was allowed in view of AI's difficult financial position. This reply is not tenable because reimbursement by the Ministry should be dictated not by the state of financial health of AI but the fairness of reimbursing AI for the services rendered by it.

Free seats to passengers on *gratis* basis

4.5 AI had allowed free seats to some pilgrims on the advice of the CHC (identity not disclosed by the CHC) during the period 1992–1995. Government had approved ***ex-post -facto*** (January 1998) the provision of free seats till 1995, but disallowed such provision thereafter since substantial subsidy was given for the Haj operations. AI had not billed (September 1999) the amount of Rs. 1.67 crore incurred on the provision of free seats to CHC members.

The Management/Ministry stated that the cost of free seats given to the Haj Committee was included in the costing of Haj operation and AI had not lost any revenue on this account. This reply was not found factually correct because scrutiny in audit indicated that AI had absorbed this cost.

[@] Wet lease is the leasing of aircraft along with flying crews

Absorption of Rs. 19.46 crore in Indirect Fixed Costs incurred for 1997 operations

4.6 For the Haj 1997 operations, AI used its own aircraft, under the Ministry's instructions. The Ministry, however, allowed only 40% of indirect fixed cost,* and AI had to absorb Rs. 19.46 crore being the remaining 60%. The Management stated that they themselves had revised their claim to a lesser level on informal advice of the Ministry.

Loss on account of royalty payable to Saudi Arabian authorities on Haj operations

4.7 As per Saudi Haj Regulations, royalty amounting to Rs. 81.81 lakh was payable to Saudi Arabian Airlines (SAA) in respect of Haj pilgrims for the year 1992 to 1994 and 1996. In lieu of this royalty, SAA operated extra section flights over and above their normal entitlement. But for Haj operation, these flights would have generated revenue of Rs. 81.81 lakh for Air India. As Haj operations were supposed to be on no-profit-no-loss basis, Air India ought to have sought reimbursement of this amount from the Government, but it did not do so. The Management, while accepting the facts, replied (March 1999) that pool revenue earning** from pool partners was based on bilateral agreements between the two airlines and hence no element of loss was provided in the cost for the Haj operations. The reply is not tenable because had there been no Haj flights, AI could have earned revenue of Rs. 81.81 lakh.

Government dues waived off

4.8 The Government dues amounting to Rs. 38.61 lakh from 1992 to 1996 were waived by AI. The Management stated (March 1999) that Ministry, while effecting payment in respect of recent years, intimated that they had closed their files in respect of the previous years. The fact, however, remains that the dues amounting to Rs. 38. 61 lakh up to 1996 had not been realised and had been waived.

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* Salaries other than crew, engg., stores and ASD, depreciation of assets other than aircraft, overheads and publicity

** **Revenue earned by pool partners from passenger traffic between points in the respective countries.**

Belated receipt of dues from Government and CHC and consequential interest loss to the Company

4.9 Though both the government and CHC were requested by AI to pay the dues in advance, there were abnormal delays in receiving the amount due to the Company arising out of the Haj operations, both from CHC as well as the Government. As in January 1999, the following amounts were pending realisation from CHC and Government.

Year	Due from CHC	Due from Govt.	Total
	(Rs. in lakh)		
1995	--	36.64	36.64
1997	407.78	241.95	649.73
1998	88.23	286.43	374.66
Total	**496.01**	**565.02**	**1061.03**

4.10 There were no provision for payment of interest on delayed payments in the MOU signed by the Company with CHC, which collected the portion of fare payable in respect of the pilgrims in advance and did not honour its financial commitment to the Company in time. With reference to delay taken in settling the claims by both CHC and Government, the interest loss suffered by the Company during the years 1994 and 1997 worked out to Rs. 28.56 crore till December 1998 calculated at the rate of 18 per cent simple interest per annum. The Management stated (March 1999) that it had not been a practice to charge interest on dues pertaining to Haj operations from the Government. As regards CHC, the Management stated that CHC did not agree to the payment of interest for delayed payments.

The Ministry stated (October 1999) that though it had requested CHC from time to time for making payment to Air India expeditiously, there were some delays as CHC was insisting for gratis seats. The Ministry, however, stated that it paid without any delay the subsidy to AI on receipt of details of actual expenditure. This implied that delay in receipt of subsidy from the Ministry was attributable to the delay in submission of claims to the Ministry.

Discount to CHC

4.11 Apart from above, AI allowed a discount of Rs. 1.00 crore from the dues payable by CHC for Haj 1995 operations. The Management stated (December 1998) that this was done at the request of the Chairman of CHC as the total cost of Haj operations 1995 was felt by the CHC to be on the higher side and that the then Chairman, AI, offered the reduction as a goodwill gesture which was subsequently approved by the Board. The reply did not specify why the total cost was considered to be on the higher side. Besides, the cost data as furnished in para 4.2 *supra* also showed that the cost increase in 1995 over the previous year was only normal.

4.12 The sum total of various costs incurred and absorbed by AI on Haj operations, outside the reimbursable costs, as brought out in the foregoing paragraphs, was Rs. 66.55 crore. This was a direct avoidable loss to the company, which went against the principle of operation on no-profit-no-loss basis.

(A.K.CHAKRABARTI)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
Dated : 14 मार्च MAR 2000

Countersigned

V.K. Shunglu

(V.K. SHUNGLU)
Comptroller and Auditor General of India

New Delhi
Dated : 14 मार्च MAR 2000

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