

Chapter 4: Management of Catering Contracts

Audit Objective 3: Whether management of catering contracts for various static and mobile units ensured provision of good quality catering services?

Catering Policy 2010 laid down detailed guidelines for management of licensees who were awarded the work of mobile and/or static catering units.

4.1 Comparison of reserve price fixed and license fee offered

Para 18.1 of the Catering Policy 2010 stipulated that license fee should be fixed realistically, equitably in order to have a fair, just and equitable fixation of license fees without adversely affecting the quality of service. Subsequently, Railway Board reduced (2012) the percentage of license fee from 12 to 10 *per cent* of sales turnover, so as to ensure that the quality of catering services was not adversely affected. Sale in the pantry cars of Mail/Express trains and Superfast trains comprises of three components viz. (a) a-la-carte sale¹ (b) sale of breakfast, lunch/dinner and (c) PAD² sales. As per Clause 26 of the Catering Policy 2010, the sale turnover of mobile catering unit was required to be considered for purpose of making assessment of volume of business and for fixing of minimum of reserve price. Based on the joint sales assessment report per trip submitted by the representatives of Commercial and Accounts departments, annual sales turnover was to be calculated.

Audit checked the 124 contracts awarded by eight Zonal Railways (SER-12, SECR-5, SCR-14, SR-37, ER-10, ECoR-24 and NFR-20, WCR-2) and observed as follows:

- As against the prescribed percentage of 10 *per cent*, the percentage of license fee to sales turn over for one year was more than 10 *per cent* in all the trains checked, except Train no.22805/06 Bhubaneswar New Delhi Express (ECoR) where it was 10 *per cent*. The percentage ranged from 10.12 *per cent* to 20 *per cent* in respect of 29 trains and 21 *per cent* to 50 *per cent* in respect of 69 trains. In the remaining 25 trains, the percentage was more than 50 *per cent* and ranged up to 90 *per cent* (NFR- Train no. 15653/54- Amarnath Express).
- In the Annexure A/5 of SBD, Railway Board had prescribed (January 2013) that 'Tender Committee would make efforts that only workable bids are accepted i.e. too high bids which seem unworkable need to be deliberated by the Tender Committee'. In this regard, CCM, SER communicated (May 2013) to Railway Board that complaints would arise if the higher bids are by-passed. While

¹ These are diversified popular food items served through static units and decided by market/customer, the rates for which are fixed by Zonal Railways.

²Propriety Article Depot Items - All packaged and branded items being sold on railway premises

deliberating³ on the issue of workability, the committee recognised that private operators bid unusually high amount as license fees in order to get contracts. As they have invested such high amounts, they try to recover the same from the railway passengers by charging higher prices, as evident from the high number of complaints on overcharging. However, Railway Board was yet to prescribe a methodology to review and not accept unworkable tenders.

Thus, it was observed that a major portion is paid as license fee to Zonal Railways, leaving a small margin of the contract value for the licensee for providing catering services. It may not be workable for the licensees to cater to the needs of passengers within the available margin and may result in compromising the quality, quantity and prices etc.

Annexure 7

During Exit Conference, SR and SECR Administrations stated that since 2012 the tariff rates of food items have not been revised which is to be done at Railway Board level. They stated that this was one of main reasons that contractors compromised on quality and quantity and were overcharging the passengers.

During, Exit Conference, Railway Board stated (February 2017) that criteria are being developed for assessing the workability of rate quoted in catering tenders. Audit suggested that the entire process of licensing needs to be revisited and reasonability of the quoted rates may be assessed and fixed within a reasonable range. Any rates much below or much above this range may not be considered as reasonable and workable. For tariff revision, Railway Board informed that they are going to form a committee to work on the issues related to tariff revision.

In the new Catering Policy 2017, the technical eligibility criteria for licensees has been prescribed in terms of turnover and experience. Criteria for license fee has been retained at 12 *per cent* of annual sales turnover of the unit. The fixation of license fee has to be done by Zonal Railway. The formula for fixing the license fee is to be devised by each Zonal Railway. Till the above activities are streamlined, all tenders for allotment where Letter of Acceptance has not been issued have been directed to be cancelled. However, railways need to frame guidelines for assessing the workability of rates in catering contracts so that the quality of the services is not compromised.

4.2 Ceiling limits on holding of catering licenses

In the Catering Policy 2010, Railway Board prescribed ceiling limits for holding of catering licenses to be awarded to private contractors as follows:

³Railway Board had appointed (October 2015) a Committee to consider the recommendation of Dr. Sreedharan Committee Report to examine the feasibility of transfer of catering services to IRCTC

Table 4.1 - Ceiling limits for holding catering licenses

Minor Units	An individual/firm/company would be allowed to hold maximum two minor catering units at a station and a maximum of ten units per Zonal Railways. In case of suburban section, ceiling limit of two units per division would be applicable.
Major Units	<p>a) <i>Food Plaza, Food Courts and Fast Food Units</i>: An individual/firm/company would be allowed to hold maximum two units per division and a maximum 10per cent of all the units over IR.</p> <p>b) <i>Refreshment Rooms</i>: An individual/firm/company would be allowed to hold maximum two units per division and a maximum 10per cent of all the units over IR.</p> <p>c) <i>Mobile Units</i>: An individual/firm/company would be allowed to hold maximum 10per cent of similar category units over IR.</p>

As per Para 19.1 of the Catering Policy, Zonal Railways shall maintain a data base of the various catering establishments to ensure that the prescribed ceilings on holding of catering licenses were complied with. Railway Board reviewed the position of holding of license by contractors beyond the ceiling limit in 2013 and at various levels i.e. Zonal, Station and Divisional levels and found that 2530 units⁴ were held by licensees beyond prescribed ceiling limits. Railway Board opined that the above position reflected heavy monopolization of units by a few people.

Audit test checked the present status of adherence to ceiling limits for award of static and mobile catering units and observed that

- At the end of December 2015⁵, mobile catering contracts were awarded for 254 trains. Out of these 254 mobile units, 33 contracts (i.e. more than 25 contracts - 10 per cent of 254) were awarded to M/s R.K Associates and M/s Hoteliers Pvt. Ltd over Zonal Railways. M/s Brandavan Food Products has also been awarded 25 contracts across Zonal Railways.
- In ECoR, five contractors were awarded more than two minor units in a station as detailed below:
 - M/s A.S. Sales Corporation-3 units at Cuttack, 4 in Bhubaneswar and 4 in Puri.
 - Sri. M. V. Appa Rao-3 units at Vishakhapatnam
 - M/s GCOMMFL- 3 units at Cuttack, 3 units at Khurda Road,

⁴ Zonal - 368, Station - 2066 and Division - 96

⁵ As per RB's letter No.2010/TG-III/645/13/Pt. dated: 11/12/2015

- M/s Vishakha Dairy 4 units at Vishakhapatnam
- Sri B.M.Singh-3 units at Vishakhapatnam, 3 units at Vizianagaram
- In NCR, eight contractors were awarded more than two minor units in a station as detailed below:
 - M/s. R.K. Associates at Agra Cantt -16 units
 - M/s Chaturvedi and sons at Agra Cantt -5 units
 - M/s Pranveer Singh at Agra Fort -3 units
 - M/s H.D. and sons at Mathura Jn.-10 units
 - M/s Rajkumar at Mathura Jn.- 05 units
 - M/s Tirupati Associates at Allahabad-03
 - M/s Kanchan Restaurant & Caterers at Allahabad-05 units
 - M/s R.D. Sharma at Gwalior-17 units
- In SWR, M/s Relish Caterers⁶ was allotted contracts for 10 Catering Stalls in Bangalore City Station and two stalls in Yeshwantpur Station. Further, even after taking over the units from IRCTC by SWR, the same Licensee continued services and the irregularity was not rectified till date.

Railway Board prescribed maintaining a database of catering establishments, updating the same regularly and upload the same on websites of the Zonal Railways, so as to restrict the award of contracts within the prescribed ceiling limits. However, the mechanism was not used effectively and only a clause on holding of maximum units was included in the SBD.

Railway Board reviewed the position of holding of licenses for catering units and observed (2013) that a large number of units were being held by a few contractors, which reflected heavy monopolization of units by few people. Audit review also showed that a small number of licensees hold a large number of contracts across Zonal Railways. Some of these licensees were also awarded contracts for various units by IRCTC. The list of contractors/licensees holding large number of static and mobile catering units during the period of review is given below:

Name of the contractor	Number of contracts awarded for static units by ZR	Number of contracts awarded for mobile units by ZR	Number of contracts awarded by IRCTC
<i>Express Food Services</i>	25	11	14
<i>Tirupati Associates</i>	15	-	12
<i>Brindavan Food Products</i>	14	25	11
<i>Arenco Catering</i>	29	15	7
<i>R.K. Associates & Hoteliers Pvt. Ltd.</i>	21	33	6

⁶C.79/Catg Stall/SBC/Bangalore City (SBC-9)/Relish/11

A S Sales Corporation	11	6	4
Doon Caterers	8	22	0
Satyam caterers	12	25	4

During Exit Conference, NCR Administration stated that though ceiling limit was being ensured at the time of award of contract, it was not done in case of renewal of old licenses since old licenses were for multiple vending units with a consolidated license fees.

By not following the ceiling limit prescribed for award of contracts to contractors, Railways promoted monopolization by few firms. Monopolization leads to compromise in quality and services being provided to the passengers.

In their reply, Railway Board stated (February 2017) that a transparent contract awarding and management system has been defined in the Catering Policy 2010 and SBDs have been prepared with stringent eligibility criteria, financial capabilities, penalty clause and effective monitoring mechanism. Regarding awarding contract beyond the ceiling limits, Railway Board during Exit Conference stated (February 2017) that there is a flaw in their tendering conditions which needs to be corrected. They stated that the tender conditions require experience of the tenderer in 'railway catering', which restricts the competition. They stated that instead of experience in railway catering, experience in catering should be sufficient for assessing the eligibility of railway catering tenders. It was seen in Audit that Railways could not enforce the ceiling limit of holding share of catering contracts due to limited number of vendors with experience in railway catering.

Revised criteria for ceiling limit on holding of catering licenses by private contractors has also been prescribed in the new Catering Policy 2017. The instructions regarding maintaining of database of various catering establishment also remain the same. As such, there is a need to devise a mechanism to enforce the above mentioned ceiling limits.

4.3 Loss due to irregular licensing for vending at Jhansi Station

IRCTC had assigned (July 2012) license for running of Food Plaza to a vendor at Jhansi station at a license fee of ₹ 54 lakh per annum. In addition, to the Food Plaza, Jhansi Division permitted, on a nomination basis, the same vendor for vending at all platforms of Jhansi station (August 2012) involving eight personnel at every platform at a provisional license fee of ₹ 6.48 lakh subject to an undertaking from the vendor that actual amount of license fee as subsequently assessed by the Railway Administration would be deposited by the vendor on demand. It was seen that the contractor M/s Sunshine Caterers was allotted 25 catering units in Jhansi Division. Subsequently, the revised license fee was assessed by the Jhansi Division at ₹ 10.65 lakh per annum, but this was not approved by the competent authority,

and the license fee remains to be assessed for the vendor. The license for platform vending to the vendor was withdrawn in October 2013. It was further seen that the basis of fixation of license fees at ₹ 6.48 lakh was not reasonable. Also, during inspection of Jhansi Division by railway officials (March 2013 and May 2013) vendors in excess of permitted eight vendors were seen deployed by the licensee. No action was taken by railways for the same.

Thus, the vending permission was not granted in a transparent manner, the license fee was not determined by the competent authority, the license fee was unreasonably lower and the licensee exceeded the scope of authorization available to him, but no action for exceeding the authorization was found to have been taken by the NCR Administration. For a similar unit in Agra Fort, where license was allotted through tender, the license fee was ₹ 15 lakh per annum. The licensee at Jhansi station was permitted for 24 vendors at three pair of platform, which equals to 24 vending units i.e. a corresponding annual license fee of ₹ 360 lakh.

In their reply, Railway Board stated (February 2017) that instructions were issued to NCR that division did not have power to grant permission to Food Plaza for platform vending. Also, the case was being dealt with by the vigilance department.

4.4 Non-recovery of various charges and penalties from the catering unit licensee operators

4.4.1 License fee

As per Clause 4.3 of License Agreement, any delay in payment of license fee by the defaulting contractors attracts interest at the rate of 14 *per cent* per annum calculated for the number of days of default. Audit found that license fee of ₹ 11.60 crore was due to be recovered from the licensees of IR during the year 2013-14 to 2015-16. Interest of 14 *per cent* per annum was also not calculated and recovered.

As per Para 4.2 (b) of License agreement, the license fee for the entire duration of the license is payable by the licensee on 2+2+1 yearly basis in advance. The first instalment shall be payable 15 days in advance of commencement of License. Thereafter, second instalment is payable within 15 days after completion of 2nd year and third instalment within 15 days after completion of 4th year. Further, Para 4.3 prescribes levy of interest @14 *per cent* per annum for any delayed payments. Review of records in WR revealed that an amount of ₹ 7.74 crore on account of license fee along with interest as prescribed is outstanding from seven pantry car licensees as on 10 October 2016 due to non-receipt of license fee in advance as prescribed. The delay in receipt of payment ranged between 3 to 12 months. Against these contracts, Security Deposit of only ₹ 4.10 crore was available with Railway Administration.

4.4.2 Water and electricity charges

As per Para 18.4 of the catering policy, water charges and electricity charges should be recovered from the licensees based on actual consumption. The position of recovery of water charges was checked at 74 selected stations during the period of review and the following was observed:

- Water Bill Register was not maintained in proper manner with complete details and there was no periodical updating in the details of contracts of catering licensee.
- The Commercial department officials had no proper records or information as to the payment or otherwise of the water charges by the parties.
- Arrears of water charges due to be recovered from licensees of four Zonal Railways (ECoR, SCR, SR and WCR) was ₹ 0.66 crore.
- Arrears of water charges due to be recovered from licensees of IRCTC in respect of two Zonal Railways (SCR and WCR) was ₹ 0.01 crore.
- Revision of water charges recoverable was not done periodically.
- Arrears of electrical energy charges due to be recovered from licensees of eight Zonal Railways (ECoR, NCR, NFR, NR, NWR, SCR, SER and WCR) was ₹ 1.20 crore.
- Arrears of Electrical Energy charges due to be recovered from licensees of IRCTC in respect of five Zonal Railways (ECoR, NCR, NFR, NR and NWR) was ₹ 0.11 crore.

Thus, monitoring for correct billing, accounting and watching recovery of license fee as well as water and electricity charges payable by licensees in Zonal Railways needed strengthening.

4.4.3 Fines imposed against catering contractors

A test check of 43 license agreements during the period of review showed that the penalty amount was not recovered fully from the defaulting contractors in 12⁷ Zonal Railways as given below:

- Fines of ₹ 10.01 crore were imposed by all 16 Zonal Railways during 2011-12 to 2015-16 on the defaulting licensees of which ₹ 7.29 crore was recovered and ₹ 2.72 crore was outstanding. Of this ₹ 54 lakh was outstanding in SR against M/s Arenco. In ECoR, an amount of ₹ 1.65 lakh was outstanding against M/s R K Associates and an amount of ₹ 6.45 lakh was outstanding against M/s Sunshine Caterers at the end of September 2016.

⁷CR, ECoR, ECR, ER, NCR, NFR, NWR, SCR, SR, SWR, WCR and WR

- Similarly, IRCTC imposed a fine of ₹ 1.44 crore on the defaulting licensees during 2011-12 to 2015-16 of which ₹1.25 crore was recovered and ₹ 0.17 crore was outstanding.
- Despite a clause in the agreement stating that contracts of defaulting licensees should be terminated, the defaulting contractors, were awarded new/fresh contracts by Zonal Railways, not taking into account their previous failures. In SR, M/s Arenco caterer was fined ₹ 0.62 crore for bad services of which ₹ 0.54 crore was yet to paid by them. However, the firm was awarded 11 contracts over SR and seven contracts by IRCTC over CR (3) and SR (4).

4.4.4 Payments for testing of food samples

As per the Clause 7.3 (a) of the agreement of the catering license executed by Zonal Railways, Railway reserve the right to get the food samples/raw materials collected and tested at approved laboratories at the cost of the licensee.

Audit noticed that Zonal Railway and IRCTC collected food samples from various licensees and paid for their testing, instead of recovering the same from the licensees. An amount of ₹ 1.53 crore (ECoR, NFR, SCR, SR and WCR) towards testing charges recoverable from licensees were yet to be recovered during 2013-14 to 2015-16.

Thus, monitoring for correct billing, accounting and watching recovery of license fee, water and electricity charges and penalty payable by licensees in Zonal Railways needed strengthening. A significant amount of license fee was outstanding against the contractors and Zonal Railways did not levy interest of 14 per cent on late payments as required under the provisions. Payment towards testing of food samples was also not recovered from the licensees in five Zonal Railways.

In their reply, Railway Board stated (February 2017) that Zonal Railways have been advised to take corrective action on the issue immediately.

